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大眾金融控股有限公司 * PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

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

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 December | |
|--|-------|------------------------|-----------|
| | | 2012 | 2011 |
| | | HK\$'000 | HK\$'000 |
| | | (Restated) | |
| Interest income | 8 | 1,642,874 | 1,589,621 |
| Interest expense | 8 | (404,986) | (377,220) |
| NET INTEREST INCOME | | 1,237,888 | 1,212,401 |
| Other operating income | 9 | 218,132 | 276,759 |
| OPERATING INCOME | | 1,456,020 | 1,489,160 |
| Operating expenses | 10 | (744,098) | (734,176) |
| Changes in fair value of investment properties | | 59,993 | 6,644 |
| OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES | | 771,915 | 761,628 |
| Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased | | – | 34,157 |
| | | 771,915 | 795,785 |
| Impairment allowances for loans and advances and receivables | 11 | (316,136) | (327,574) |

* For identification purpose only

| | | Year ended 31 December | |
|----------------------------------|--------------|-------------------------------|-----------------|
| | | 2012 | 2011 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | | (Restated) |
| PROFIT BEFORE TAX | | 455,779 | 468,211 |
| Tax | 12 | (74,208) | (92,246) |
| PROFIT FOR THE YEAR | | 381,571 | 375,965 |
| ATTRIBUTABLE TO: | | | |
| Owners of the Company | | 381,571 | 375,965 |
| EARNINGS PER SHARE (HK\$) | 14 | | |
| Basic | | 0.348 | 0.342 |
| Diluted | | 0.348 | 0.342 |

Details of dividends paid/payable are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|---|------------------------|--------------------------------|
| | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
| PROFIT FOR THE YEAR | 381,571 | 375,965 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | | |
| Exchange gain on translating foreign operations, net of tax | 5,646 | 17,240 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 387,217 | 393,205 |
| ATTRIBUTABLE TO: | | |
| Owners of the Company | 387,217 | 393,205 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 31/12/2012 HK\$'000 | 31/12/2011 HK\$'000 (Restated) | 1/1/2011 HK\$'000 (Restated) |
|---|-------|------------------------|--------------------------------------|------------------------------------|
| ASSETS | | | | |
| Cash and short term placements | | 3,951,468 | 4,575,282 | 6,021,365 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | | 873,951 | 513,527 | 723,715 |
| Derivative financial instruments | | 317 | 3,220 | 10,167 |
| Loans and advances and receivables | 15 | 27,169,503 | 27,575,499 | 26,817,872 |
| Available-for-sale financial assets | | 6,804 | 6,804 | 6,804 |
| Held-to-maturity investments | 16 | 4,556,217 | 3,421,503 | 2,709,776 |
| Inventories of taxi licences | | 2,676 | 2,676 | 15,084 |
| Investment properties | | 245,718 | 195,309 | 188,665 |
| Property and equipment | | 112,481 | 111,517 | 119,615 |
| Land held under finance leases | | 659,524 | 657,900 | 665,400 |
| Interest in a jointly-controlled entity | | 1,513 | 1,513 | 1,513 |
| Deferred tax assets | | 36,611 | 21,610 | 10,810 |
| Tax recoverable | | 12,607 | 15,723 | 901 |
| Goodwill | 17 | 2,774,403 | 2,774,403 | 2,774,403 |
| Intangible assets | | 718 | 718 | 718 |
| Other assets | | 131,331 | 90,161 | 262,830 |
| TOTAL ASSETS | | 40,535,842 | 39,967,365 | 40,329,638 |
| EQUITY AND LIABILITIES | | | | |
| LIABILITIES | | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | | 538,296 | 1,246,092 | 680,382 |
| Derivative financial instruments | | 135 | 2,051 | 5,435 |
| Customer deposits at amortised cost | | 29,374,122 | 28,334,785 | 29,670,825 |
| Certificates of deposit issued at amortised cost | | 649,833 | 513,315 | 200,000 |
| Dividends payable | | 98,812 | 120,771 | 175,667 |
| Unsecured bank loans at amortised cost | | 2,960,437 | 2,960,734 | 3,038,991 |
| Current tax payable | | 23,615 | 33,832 | 40,907 |
| Deferred tax liabilities | | 24,555 | 19,599 | 14,276 |
| Other liabilities | | 340,744 | 444,402 | 428,909 |
| TOTAL LIABILITIES | | 34,010,549 | 33,675,581 | 34,255,392 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | |
| Issued capital | | 109,792 | 109,792 | 109,792 |
| Reserves | 18 | 6,415,501 | 6,181,992 | 5,964,454 |
| TOTAL EQUITY | | 6,525,293 | 6,291,784 | 6,074,246 |
| TOTAL EQUITY AND LIABILITIES | | 40,535,842 | 39,967,365 | 40,329,638 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Year ended 31 December | |
|---|--------------------------------|--|
| | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
| TOTAL EQUITY | | |
| Balance at the beginning of the year as previously reported | 6,281,799 | 6,065,357 |
| Impact of change in accounting policy (<i>Note 5</i>) | 9,985 | 8,889 |
| Balance at the beginning of the year (Restated) | 6,291,784 | 6,074,246 |
| Profit for the year (Restated) | 381,571 | 375,965 |
| Other comprehensive income | 5,646 | 17,240 |
| Total comprehensive income for the year (Restated) | 387,217 | 393,205 |
| Dividends declared on shares | (153,708) | (175,667) |
| Balance at the end of the year | 6,525,293 | 6,291,784 |

NOTES TO FINANCIAL STATEMENTS

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 2012. Certain financial information in this announcement is extracted from the statutory financial statements for the year ended 31 December 2012, which will be available in the websites of The Stock Exchange of Hong Kong Limited and the Company.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual 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. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and make reference to the Guideline on the Application of the Banking (Disclosure) Rules.

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.

3. 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 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 are 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.

4. 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 Hong Kong Monetary Authority (“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.

5. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2012. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2012 which are pertinent to its operations and relevant to these financial statements.

| | |
|----------------------|--|
| • HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> |
| • HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> |
| • HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> |

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

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. As the Group is not a first time adopter of HKFRSs, the amendments have no financial impact on the Group.

HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transfers the assets. As the Group does not have continuing involvement in the derecognised assets, the amendments have no financial impact on the Group.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and 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 Hong Kong (Standing Interpretations Committee) Interpretation (“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 effect of the above changes is summarised below:

Previously, the Group measured deferred tax on the fair value gains from its investment properties assuming that the carrying amount of these properties would be recovered through use. The change in accounting policy has been applied retrospectively. It reduced the deferred tax liability and increased the retained earnings of the Group by HK\$8.9 million and by HK\$10.0 million as at 1 January 2011 and as at 31 December 2011 respectively.

The effect on the consolidated statement of comprehensive income was that it reduced the tax expense and increased profit for the current year by HK\$9.9 million (2011: HK\$1.1 million). In addition, the basic and diluted earnings per share for the current year increased by HK\$0.009 (2011: HK\$0.001).

Impact of issued but not yet effective HKFRSs

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 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ² |
| • HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ² |
| • HKFRS 9 | <i>Financial Instruments</i> ⁴ |
| • HKFRS 10 | <i>Consolidated Financial Statements</i> ² |
| • HKFRS 11 | <i>Joint Arrangements</i> ² |
| • HKFRS 12 | <i>Disclosure of Interests in Other Entities</i> ² |
| • HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> ² |
| • HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> ³ |
| • HKFRS 13 | <i>Fair Value Measurement</i> ² |
| • HKAS 1 Amendments | Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹ |
| • HKAS 19 (2011) | <i>Employee Benefits</i> ² |
| • HKAS 27 (2011) | <i>Separate Financial Statements</i> ² |
| • HKAS 28 (2011) | <i>Investments in Associates and Joint Ventures</i> ² |
| • HKAS 32 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³ |
| • HK(IFRIC)-Int 20 | <i>Stripping Costs in the Production Phase of a Surface Mine</i> ² |
| • Annual Improvements 2009-2011 Cycle | Amendments to a number of HKFRSs issued in June 2012 ² |

¹ effective for annual periods beginning on or after 1 July 2012

² effective for annual periods beginning on or after 1 January 2013

³ effective for annual periods beginning on or after 1 January 2014

⁴ effective for annual periods beginning on or after 1 January 2015

HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS

32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. 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") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to 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. 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 and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of 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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10, provide further relief from full retrospective application of these standards, and limit the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9, rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). For the Group, the amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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 meaning of “currently has a legally enforceable right to set-off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group:

- (a) *HKAS 1 Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) HKAS 16 *Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.
- (c) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

6. 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 2012 and 2011 was HK\$2,774,403,000, of which HK\$832,321,000 was attributed to Public Bank (Hong Kong) and HK\$1,942,082,000 was attributed to Public Finance. Further details are set out in note 17 to the financial statements.

7. SEGMENT INFORMATION

Operating 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 resources allocation to the segments and assess their performance. A summary of the operating segments is as follows:

- the retail and commercial banking businesses 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 securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and
- other businesses segments comprises 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 table represents revenue and profit information for operating segments for the years ended 31 December 2012 and 2011.

| | Retail and commercial banking businesses | | Wealth management services, stockbroking and securities management | | Other businesses | | Eliminated on consolidation | | Total | |
|---|--|-----------|--|----------|------------------|----------|-----------------------------|----------|-----------|-----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | 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 | 1,237,915 | 1,212,342 | (27) | 59 | - | - | - | - | 1,237,888 | 1,212,401 |
| Other operating income: | | | | | | | | | | |
| Fees and commission income | 147,287 | 150,736 | 44,212 | 93,783 | 848 | 437 | - | - | 192,347 | 244,956 |
| Others | 11,374 | 11,917 | (11) | - | 14,422 | 19,886 | - | - | 25,785 | 31,803 |
| Inter-segment transactions: | | | | | | | | | | |
| Fees and commission income | - | - | - | - | 259 | 336 | (259) | (336) | - | - |
| Operating income | 1,396,576 | 1,374,995 | 44,174 | 93,842 | 15,529 | 20,659 | (259) | (336) | 1,456,020 | 1,489,160 |
| Profit before tax | 378,239 | 421,746 | 12,510 | 21,621 | 65,030 | 24,844 | - | - | 455,779 | 468,211 |
| Tax | | | | | | | | | (74,208) | (92,246) |
| Profit for the year | | | | | | | | | 381,571 | 375,965 |
| Other segment information | | | | | | | | | | |
| Depreciation of property and equipment and land held under finance leases | (31,246) | (32,014) | - | - | - | - | - | - | (31,246) | (32,014) |
| Changes in fair value of investment properties | - | - | - | - | 59,993 | 6,644 | - | - | 59,993 | 6,644 |
| Impairment allowances for loans and advances and receivables | (316,136) | (327,574) | - | - | - | - | - | - | (316,136) | (327,574) |
| Net losses on disposal of property and equipment | (106) | (199) | - | - | - | - | - | - | (106) | (199) |

The following table represents certain asset and liability information regarding operating segments as at 31 December 2012 and 2011.

| | Retail and commercial banking businesses | | Wealth management services, stockbroking and securities management | | Other businesses | | Eliminated on consolidation | | Total | |
|---|--|------------|--|----------|------------------|----------|-----------------------------|----------|-------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets other than interest in a jointly-controlled entity, intangible assets and goodwill | 37,167,712 | 36,718,085 | 292,462 | 236,279 | 249,816 | 199,034 | - | - | 37,709,990 | 37,153,398 |
| 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 |
| | 39,943,628 | 39,494,001 | 293,180 | 236,997 | 249,816 | 199,034 | - | - | 40,486,624 | 39,930,032 |
| Unallocated assets: | | | | | | | | | | |
| Deferred tax assets and tax recoverable | | | | | | | | | 49,218 | 37,333 |
| Total assets | | | | | | | | | 40,535,842 | 39,967,365 |
| Segment liabilities | 33,743,197 | 33,429,739 | 113,085 | 64,984 | 7,285 | 6,656 | - | - | 33,863,567 | 33,501,379 |
| Unallocated liabilities: | | | | | | | | | | |
| Deferred tax liabilities and tax payable | | | | | | | | | 48,170 | 53,431 |
| Dividends payable | | | | | | | | | 98,812 | 120,771 |
| Total liabilities | | | | | | | | | 34,010,549 | 33,675,581 |
| Other segment information | | | | | | | | | | |
| Additions to non-current assets - capital expenditure | 24,399 | 16,668 | - | - | - | - | - | - | 24,399 | 16,668 |

Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets.

The following table represents segment revenue information for geographical segments for the years ended 31 December 2012 and 2011.

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Segment revenue from external customers: | | |
| Hong Kong | 1,387,598 | 1,429,862 |
| Mainland China | 68,422 | 59,298 |
| | 1,456,020 | 1,489,160 |

Segment revenue is allocated to the reportable segments with reference to interest and fees and commission income generated by these segments.

The following table represents non-current assets information for geographical segments as at 31 December 2012 and 2011.

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---------------------|------------------|------------------|
| Non-current assets: | | |
| Hong Kong | 3,775,719 | 3,722,387 |
| Mainland China | 18,638 | 18,973 |
| | 3,794,357 | 3,741,360 |

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interest in a jointly-controlled entity, goodwill and intangible assets.

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.

8. INTEREST INCOME AND EXPENSE

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------------------|------------------|
| Interest income from: | | |
| Loans and advances and receivables | 1,533,106 | 1,483,273 |
| Short term placements and placements with banks | 58,779 | 46,682 |
| Held-to-maturity investments | 50,989 | 59,666 |
| | 1,642,874 | 1,589,621 |
| Interest expense on: | | |
| Deposits from banks and financial institutions | 30,693 | 27,654 |
| Deposits from customers | 340,512 | 318,103 |
| Bank loans | 33,781 | 31,463 |
| | 404,986 | 377,220 |

Interest income and interest expense for the year ended 31 December 2012, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK\$1,642,874,000 and HK\$404,986,000 (2011: HK\$1,589,621,000 and HK\$377,220,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2012 amounted to HK\$5,382,000 (2011: HK\$5,256,000).

9. OTHER OPERATING INCOME

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Fees and commission income: | | |
| Retail and commercial banking | 149,708 | 152,307 |
| Wealth management services, stockbroking and securities management | 44,212 | 93,783 |
| | 193,920 | 246,090 |
| Less: Fees and commission expenses | (1,573) | (1,134) |
| Net fees and commission income | 192,347 | 244,956 |
| Gross rental income | 13,879 | 12,514 |
| Less: Direct operating expenses | (85) | (79) |
| Net rental income | 13,794 | 12,435 |
| Gains less losses arising from dealing in foreign currencies | 7,071 | 6,129 |
| Net losses on disposal of property and equipment | (106) | (199) |
| Dividend income from listed investments | 23 | 13 |
| Dividend income from unlisted investments | 1,000 | 500 |
| Net gain on derivative financial instruments | 182 | 1,169 |
| Others | 3,821 | 11,756 |
| | 218,132 | 276,759 |

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 2012 and 2011.

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.

10. OPERATING EXPENSES

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Staff costs: | | |
| Salaries and other staff costs | 399,516 | 396,105 |
| Pension contributions | 18,977 | 18,264 |
| Less: Forfeited contributions | (24) | (18) |
| Net retirement benefit schemes | 18,953 | 18,246 |
| | 418,469 | 414,351 |
| Other operating expenses: | | |
| Operating lease rentals on leasehold buildings | 58,000 | 54,412 |
| Depreciation of property and equipment and land held under finance leases | 31,246 | 32,014 |
| Auditors' remuneration | 3,677 | 3,580 |
| Administrative and general expenses | 67,320 | 69,122 |
| Others | 165,386 | 160,697 |
| Operating expenses before changes in fair value of investment properties | 744,098 | 734,176 |

As at 31 December 2012 and 2011, 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.

11. IMPAIRMENT ALLOWANCES

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------------------|--------------------------------|
| Net charge for/(write-back of) impairment losses and allowances: | | |
| – loans and advances | 316,141 | 329,965 |
| – trade bills, accrued interest and receivables | (5) | (2,391) |
| | 316,136 | 327,574 |
| Net charge for/(write-back of) impairment losses and allowances: | | |
| – individually assessed | 318,545 | 330,672 |
| – collectively assessed | (2,409) | (3,098) |
| | 316,136 | 327,574 |
| Of which: | | |
| – new impairment losses and allowances (including any amount directly written off during the year) | 496,207 | 490,897 |
| – releases and recoveries | (180,071) | (163,323) |
| Net charge to the consolidated income statement | 316,136 | 327,574 |
| There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2012 and 2011. | | |
| 12. TAX | | |
| | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
| Current tax charge: | | |
| Hong Kong | 59,056 | 71,674 |
| Elsewhere | 13,770 | 18,892 |
| Underprovisions in prior years | 11,427 | 7,157 |
| Deferred tax credit, net | (10,045) | (5,477) |
| | 74,208 | 92,246 |

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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:

| | Hong Kong | | Mainland China | | Total | |
|--|------------------------|-------------|------------------------|-------------|------------------------|-------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | 401,662 | | 54,117 | | 455,779 | |
| Tax at the applicable tax rate | 66,274 | 16.5 | 13,530 | 25.0 | 79,804 | 17.5 |
| Estimated tax losses from previous periods utilised | (4) | – | – | – | (4) | – |
| Estimated tax effect of net (income)/expenses that is not (taxable)/deductible | (4,141) | (1.0) | 52 | 0.1 | (4,089) | (0.9) |
| Adjustments in respect of deferred tax of previous periods | (13,447) | (3.3) | 517 | 1.0 | (12,930) | (2.8) |
| Adjustments in respect of current tax of previous periods | 11,427 | 2.8 | – | – | 11,427 | 2.5 |
| Tax charge at the Group's effective rate | 60,109 | 15.0 | 14,099 | 26.1 | 74,208 | 16.3 |
| | Hong Kong | | Mainland China | | Total | |
| | HK\$'000 (Restated) | % | HK\$'000 (Restated) | % | HK\$'000 (Restated) | % |
| 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 losses from previous periods utilised | (5) | – | – | – | (5) | – |
| Estimated tax effect of net expenses that is not deductible | 4,166 | 0.9 | – | – | 4,166 | 0.9 |
| 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 | 90,528 | 19.6 | 1,718 | 30.8 | 92,246 | 19.7 |

13. DIVIDENDS

| | 2012 HK\$ per ordinary share | 2011 HK\$ per ordinary share | 2012 HK\$'000 | 2011 HK\$'000 |
|----------|------------------------------------|------------------------------------|------------------|------------------|
| Interim: | | | | |
| First | 0.05 | 0.05 | 54,896 | 54,896 |
| Second | 0.09 | 0.11 | 98,812 | 120,771 |
| | 0.14 | 0.16 | 153,708 | 175,667 |

14. 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\$381,571,000 (2011 (Restated): HK\$375,965,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2012 and 2011 had no dilutive effect on the basic earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2012 was based on the profit for the year of HK\$381,571,000 (2011 (Restated): HK\$375,965,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2011: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the year as used in the basic earnings per share calculation.

15. LOANS AND ADVANCES AND RECEIVABLES

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|-------------------|------------------|
| Loans and advances to customers | 27,100,271 | 27,621,506 |
| Trade bills | 82,066 | 7,264 |
| | <hr/> | <hr/> |
| Loans and advances, and trade bills | 27,182,337 | 27,628,770 |
| Accrued interest | 90,896 | 90,602 |
| | <hr/> | <hr/> |
| Other receivables | 27,273,233 | 27,719,372 |
| | 48,092 | 52,098 |
| | <hr/> | <hr/> |
| Gross loans and advances and receivables | 27,321,325 | 27,771,470 |
| | <hr/> | <hr/> |
| Less: Impairment allowances for loans and advances and receivables | | |
| – individually assessed | (124,367) | (166,162) |
| – collectively assessed | (27,455) | (29,809) |
| | <hr/> | <hr/> |
| | (151,822) | (195,971) |
| | <hr/> | <hr/> |
| Loans and advances and receivables | 27,169,503 | 27,575,499 |
| | <hr/> | <hr/> |

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 customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|-------------------|------------------|
| Neither past due nor impaired loans and advances and receivables | 26,629,959 | 27,071,390 |
| Past due but not impaired loans and advances and receivables | 447,883 | 410,608 |
| Individually impaired loans and advances | 227,588 | 276,090 |
| Individually impaired receivables | 15,895 | 13,382 |
| Total loans and advances and receivables | 27,321,325 | 27,771,470 |

About 66% of “Neither past due nor impaired loans and advances and receivables” of the Group were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

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

| | 2012 Gross amount HK\$'000 | Percentage of total loans and advances % | 2011 Gross amount HK\$'000 | Percentage of total loans and advances % |
|---|-------------------------------------|---|-------------------------------------|---|
| Loans and advances overdue for: | | | | |
| Six months or less but over three months | 93,668 | 0.35 | 106,732 | 0.39 |
| One year or less but over six months | 3,347 | 0.01 | 2,630 | 0.01 |
| Over one year | 90,873 | 0.33 | 131,836 | 0.48 |
| Loans and advances overdue for more than three months | 187,888 | 0.69 | 241,198 | 0.88 |
| Rescheduled loans and advances overdue for three months or less | 34,400 | 0.13 | 31,404 | 0.11 |
| Impaired loans and advances overdue for three months or less | 5,300 | 0.02 | 3,488 | 0.01 |
| Total overdue and impaired loans and advances | 227,588 | 0.84 | 276,090 | 1.00 |

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

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Trade bills, accrued interest and other receivables overdue for: | | |
| Six months or less but over three months | 116 | 328 |
| One year or less but over six months | 63 | 1 |
| Over one year | <u>15,715</u> | 13,049 |
| Trade bills, accrued interest and other receivables overdue for more than three months | <u>15,894</u> | 13,378 |
| Impaired trade bills, accrued interest and other receivables overdue for three months or less | <u>1</u> | 4 |
| Total overdue and impaired trade bills, accrued interest and other receivables | <u>15,895</u> | 13,382 |

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 impairment allowances

| | 2012 Mainland HK\$'000 | 2012 China HK\$'000 | 2012 Total HK\$'000 | 2011 Mainland HK\$'000 | 2011 China HK\$'000 | 2011 Total HK\$'000 |
|---|------------------------------|---------------------------|---------------------------|------------------------------|---------------------------|---------------------------|
| (i) Analysis of overdue loans and advances and receivables | | | | | | |
| Loans and advances and receivables overdue for more than three months | 97,623 | 106,159 | 203,782 | 102,789 | 151,787 | 254,576 |
| Individual impairment allowances | <u>69,045</u> | <u>30,961</u> | <u>100,006</u> | 70,502 | 75,111 | 145,613 |
| Current market value and fair value of collateral | | | <u>238,992</u> | | | <u>203,239</u> |
| (ii) Analysis of impaired loans and advances and receivables | | | | | | |
| Impaired loans and advances and receivables | 137,324 | 106,159 | 243,483 | 137,685 | 151,787 | 289,472 |
| Individual impairment allowances | <u>93,406</u> | <u>30,961</u> | <u>124,367</u> | 91,051 | 75,111 | 166,162 |
| Current market value and fair value of collateral | | | <u>242,715</u> | | | <u>205,728</u> |

Over 90% of the Group's gross loans and advances and receivables are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables 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:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Current market value and fair value of collateral held against the covered portion of overdue loans and advances | <u>238,992</u> | 203,239 |
| Covered portion of overdue loans and advances | <u>78,063</u> | 75,741 |
| Uncovered portion of overdue loans and advances | <u>109,825</u> | 165,457 |

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 governments 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

There was no repossessed assets of the Group as at 31 December 2012 (2011: HK\$3,100,000).

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

| | 2012 Gross amount HK\$'000 | 2012 Percentage of total loans and advances % | 2011 Gross amount HK\$'000 | 2011 Percentage of total loans and advances % |
|---|-------------------------------------|---|-------------------------------------|---|
| Loans and advances overdue for three months or less | <u>445,959</u> | <u>1.65</u> | 409,960 | 1.48 |
| Trade bills, accrued interest and other receivables overdue for three months or less | <u>1,924</u> | <u>648</u> | | |

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

| | Individual impairment allowances HK\$'000 | Collective impairment allowances HK\$'000 | Total HK\$'000 |
|--|--|--|-------------------|
| At 1 January 2012 | 166,162 | 29,809 | 195,971 |
| Amounts written off | (531,410) | – | (531,410) |
| Impairment losses and allowances charged to the consolidated income statement | 490,392 | 5,815 | 496,207 |
| Impairment losses and allowances released to the consolidated income statement | (171,847) | (8,224) | (180,071) |
| Net charge/(release) of impairment losses and allowances | 318,545 | (2,409) | 316,136 |
| Loans and advances and receivables recovered | 170,460 | – | 170,460 |
| Exchange difference | 610 | 55 | 665 |
| At 31 December 2012 | 124,367 | 27,455 | 151,822 |
| Deducted from: | | | |
| Loans and advances | 122,560 | 27,294 | 149,854 |
| Trade bills, accrued interest and other receivables | 1,807 | 161 | 1,968 |
| | 124,367 | 27,455 | 151,822 |
| | Individual impairment allowances HK\$'000 | Collective impairment allowances HK\$'000 | Total HK\$'000 |
| At 1 January 2011 | 171,967 | 32,907 | 204,874 |
| Amounts 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/(release) 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 |

(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:

| | 2012 Minimum lease payments HK\$'000 | 2011 HK\$'000 | 2012 Present value of minimum lease payments HK\$'000 | 2011 HK\$'000 |
|--|--|------------------|--|------------------|
| Amounts receivable under finance leases: | | | | |
| Within one year | 401,340 | 409,076 | 306,648 | 319,864 |
| In the second to fifth years, inclusive | 1,098,536 | 1,079,293 | 809,263 | 824,110 |
| Over five years | 3,717,213 | 3,510,259 | 3,115,985 | 2,986,859 |
| | 5,217,089 | 4,998,628 | 4,231,896 | 4,130,833 |
| Less: Unearned finance income | (985,193) | (867,795) | | |
| Present value of minimum lease payments receivable | 4,231,896 | 4,130,833 | | |

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.

16. HELD-TO-MATURITY INVESTMENTS

| | 2012 HK\$'000 | 2011 HK\$'000 |
|--|------------------|------------------|
| Certificates of deposit held | 1,687,788 | 1,042,281 |
| Treasury bills (including Exchange Fund Bills) | 1,695,873 | 1,489,901 |
| Other debt securities | 1,172,556 | 889,321 |
| | 4,556,217 | 3,421,503 |
| Listed or unlisted: | | |
| – Listed in Hong Kong | 42,156 | – |
| – Unlisted | 4,514,061 | 3,421,503 |
| | 4,556,217 | 3,421,503 |
| Analysed by types of issuers: | | |
| – Central government | 1,695,873 | 1,489,901 |
| – Banks and other financial institutions | 2,860,344 | 1,931,602 |
| | 4,556,217 | 3,421,503 |

Impairment allowances of held-to-maturity investments were nil as at 31 December 2012 and 2011. There were no movements in impairment allowances for the years ended 31 December 2012 and 2011.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2012 and 2011.

All 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.

17. GOODWILL

| | 2012 HK\$'000 | 2011 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 Bank (Hong Kong) and Public Finance, which represent the main operating entities within the business segment “Retail and commercial banking 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 2012 and 2011 as its value in use exceeds the carrying amount.

18. RESERVES

| | Share premium HK\$'000 | Capital redemption reserve HK\$'000 | Contributed surplus HK\$'000 | Employee share-based compensation HK\$'000 | Regulatory reserve HK\$'000 | Retained profits HK\$'000 (Restated) | Translation reserve HK\$'000 | Total HK\$'000 (Restated) |
|--|---------------------------|--|---------------------------------|---|--------------------------------|--|---------------------------------|---------------------------------|
| At 1 January 2011 as previously reported | 4,013,296 | 829 | 96,116 | 45,765 | 322,324 | 1,429,050 | 48,185 | 5,955,565 |
| Impact of change in accounting policy (Note 5) | - | - | - | - | - | 8,889 | - | 8,889 |
| At 1 January 2011 (Restated) | 4,013,296 | 829 | 96,116 | 45,765 | 322,324 | 1,437,939 | 48,185 | 5,964,454 |
| Profit for the year as previously reported | - | - | - | - | - | 374,869 | - | 374,869 |
| Impact of change in accounting policy (Note 5) | - | - | - | - | - | 1,096 | - | 1,096 |
| Profit for the year (Restated) | - | - | - | - | - | 375,965 | - | 375,965 |
| Other comprehensive income | - | - | - | - | - | - | 17,240 | 17,240 |
| Transfer from retained profits | - | - | - | - | 86,171 | (86,171) | - | - |
| Dividends for 2011 (Note 13) | - | - | - | - | - | (175,667) | - | (175,667) |
| At 31 December 2011 (Restated) | 4,013,296 | 829 | 96,116 | 45,765 | 408,495 | 1,552,066 | 65,425 | 6,181,992 |
| At 1 January 2012 as previously reported | 4,013,296 | 829 | 96,116 | 45,765 | 408,495 | 1,542,081 | 65,425 | 6,172,007 |
| Impact of change in accounting policy (Note 5) | - | - | - | - | - | 9,985 | - | 9,985 |
| At 1 January 2012 (Restated) | 4,013,296 | 829 | 96,116 | 45,765 | 408,495 | 1,552,066 | 65,425 | 6,181,992 |
| Profit for the year | - | - | - | - | - | 381,571 | - | 381,571 |
| Other comprehensive income | - | - | - | - | - | - | 5,646 | 5,646 |
| Transfer from retained profits | - | - | - | - | 872 | (872) | - | - |
| Dividends for 2012 (Note 13) | - | - | - | - | - | (153,708) | - | (153,708) |
| At 31 December 2012 | 4,013,296 | 829 | 96,116 | 45,765 | 409,367 | 1,779,057 | 71,071 | 6,415,501 |

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 allowances were included as supplementary capital in the Group's capital base at 31 December 2012 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

19. 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 2012 and 2011, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------------------|------------------|
| Within one year | 6,546 | 8,002 |
| In the second to fifth years, inclusive | 2,779 | 2,805 |
| | 9,325 | 10,807 |

(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 2012 and 2011, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

| | 2012 HK\$'000 | 2011 HK\$'000 |
|---|------------------|------------------|
| Within one year | 48,135 | 42,606 |
| In the second to fifth years, inclusive | 27,956 | 32,350 |
| | 76,091 | 74,956 |

20. 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:

| | Contractual amount HK\$'000 | Credit equivalent amount HK\$'000 | 2012 Credit risk- weighted amount HK\$'000 | Positive fair value- assets HK\$'000 | Negative fair value- liabilities HK\$'000 |
|--|-----------------------------------|--|--|---|--|
| Direct credit substitutes | 200,808 | 200,808 | 52,922 | – | – |
| Transaction-related contingencies | 10,909 | 5,454 | 3,785 | – | – |
| Trade-related contingencies | 99,942 | 19,989 | 17,223 | – | – |
| Forward forward deposits placed | 74,218 | 74,218 | 14,844 | – | – |
| Forward asset purchases | 2,806 | 2,806 | 561 | – | – |
| | 388,683 | 303,275 | 89,335 | – | – |
| Derivatives held for trading: | | | | | |
| Foreign exchange rate contracts | 142,582 | 489 | 1 | 317 | 135 |
| Other commitments with an original maturity of: | | | | | |
| Not more than one year | – | – | – | – | – |
| More than one year | 181,353 | 90,676 | 90,676 | – | – |
| Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties | 3,242,637 | – | – | – | – |
| | 3,955,255 | 394,440 | 180,012 | 317 | 135 |
| Capital commitments contracted for, but not provided in the financial statements | 5,925 | | | | |

| | 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 | 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 |
| 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 | | | | |

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 Banking (Capital) Rules 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 2012 and 2011, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

21. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

| | | | 2012 | | | | | | |
|---|------------------|----------------|-----------------|--|---|---|-----------------|--|------------|
| | | | Over 1 month | Over but not more than 3 months | Over but not more than 12 months | Over but not more than 5 years | Over 5 years | Repayable within an indefinite period | Total |
| Repayable on demand | Up to 1 month | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets: | | | | | | | | | |
| Cash and short term placements | 708,553 | 3,242,915 | - | - | - | - | - | - | 3,951,468 |
| Placements with banks and financial institutions maturing after one month but not more than twelve months | - | - | 651,076 | 222,875 | - | - | - | - | 873,951 |
| Loans and advances and receivables | 661,247 | 1,013,130 | 1,204,691 | 3,557,492 | 6,962,883 | 13,746,310 | 175,572 | 27,321,325 | |
| Available-for-sale financial assets | - | - | - | - | - | - | - | 6,804 | 6,804 |
| Held-to-maturity investments | - | 1,103,708 | 1,052,681 | 2,343,085 | 56,743 | - | - | 42,520 | 4,556,217 |
| Other assets | 73 | 86,035 | 1,048 | 1,655 | - | - | - | 131,331 | |
| Foreign exchange contracts (gross) | - | 116,591 | 5,068 | 20,923 | - | - | - | 142,582 | |
| Total financial assets | 1,369,873 | 5,562,379 | 2,914,564 | 6,146,030 | 7,019,626 | 13,746,310 | 224,896 | 36,983,678 | |
| Financial liabilities: | | | | | | | | | |
| Deposits and balances of banks and other financial institutions at amortised cost | 39,866 | 258,430 | 90,000 | 150,000 | - | - | - | - | 538,296 |
| Customer deposits at amortised cost | 6,206,734 | 9,568,395 | 9,375,385 | 3,808,813 | 414,795 | - | - | - | 29,374,122 |
| Certificates of deposit issued at amortised cost | - | - | - | 449,959 | 199,874 | - | - | - | 649,833 |
| Unsecured bank loans at amortised cost | 48,000 | - | - | 2,046,661 | 865,776 | - | - | - | 2,960,437 |
| Other liabilities | 83 | 116,029 | 22,317 | 26,435 | 12,452 | - | 163,428 | 340,744 | |
| Foreign exchange contracts (gross) | - | 116,524 | 5,056 | 20,820 | - | - | - | 142,400 | |
| Total financial liabilities | 6,294,683 | 10,059,378 | 9,492,758 | 6,502,688 | 1,492,897 | - | 163,428 | 34,005,832 | |

| | | 2011 | | | | | | | |
|---|------------------|---|---|---|-----------------|--|-------------|----------------|------|
| | | 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 | | |
| Repayable on demand | Up to 1 month | 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 | - | - | 30,893 | 90,161 | |
| Foreign exchange contracts (gross) | - | 783,428 | 80,699 | 42,143 | - | - | - | 906,270 | |
| Total financial assets | 1,514,864 | 7,944,536 | 3,022,142 | 3,507,458 | 8,050,831 | 13,084,580 | 160,606 | 37,285,017 | |
| 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 | |

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 2012 annual report, in compliance with the former Code on Corporate Governance Practices and the new Corporate Governance Code effective from 1 April 2012 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.

Under code provision A.4.1 of Appendix 14 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 Corporate Governance Code as set out in the Listing Rules.

DIVIDENDS

The first interim dividend of HK\$0.05 (2011: HK\$0.05) per ordinary share was paid on 30 July 2012. The second interim dividend of HK\$0.09 (2011: HK\$0.11) per ordinary share was declared on 27 December 2012 and will be payable on 21 February 2013 to shareholders of the Company whose names appear on the register of members on 30 January 2013. The directors do not recommend the payment of a final dividend for the year (2011: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 12 March 2013 to Friday, 15 March 2013, 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 Monday, 11 March 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the year under review, the global economic conditions remained volatile with slow and uncertainty in the resolution of the European debt issues and in the recovery of the US economy. The quantitative easing monetary policy in the US continued to have an impact on the low HIBOR interest rate environment of Hong Kong putting pressure on net interest margins of local financial institutions. Inflationary effects from higher rental and staff costs in Hong Kong and the measures implemented by the Hong Kong Government to curb rising prices of residential properties have adversely affected domestic loan demands and earnings growth of financial institutions in Hong Kong. The Group's banking and finance lending business were also affected by narrowing net interest margin and slower loan growth.

FINANCIAL REVIEW

Revenue and earnings

For the year ended 31 December 2012, the Group recorded a profit after tax of HK\$381.6 million, representing an increase of HK\$5.6 million or 1.5% when compared to the profit after tax of HK\$376.0 million as restated in the previous year.

The Group's basic earnings per share for 2012 was HK\$0.35. The Board of Directors had declared a first interim dividend of HK\$0.05 per share in June 2012 and a second interim dividend of HK\$0.09 per share in December 2012. The Board of Directors does not recommend the payment of a final dividend, making a total dividend for the year of HK\$0.14 per share (2011: HK\$0.16 per share).

For the year under review, the Group's net interest income increased by HK\$25.5 million or 2.1% to HK\$1.24 billion. Interest income increased by HK\$53.3 million or 3.4% to HK\$1.64 billion whilst interest expense increased by HK\$27.8 million or 7.4% to HK\$405.0 million.

Total operating income of the Group decreased by HK\$33.1 million or 2.2% to HK\$1.46 billion for 2012. The decrease in operating income was mainly due to decrease in fee income from the Group's stockbroking activities of HK\$41.4 million in the current year and the additional goodwill income of HK\$8.1 million received in the previous year. Total operating expenses (before changes in fair value of investment properties) increased by HK\$9.9 million or 1.4% to HK\$744.1 million, mainly due to increase in staff costs and rental costs on branch premises. Gains from the change in fair value of investment properties increased by HK\$53.3 million to HK\$60.0 million as compared to the previous year.

Impairment allowances for loans and advances decreased by HK\$11.4 million or 3.5% to HK\$316.1 million in 2012 as compared to HK\$327.6 million in the previous year. Impairment allowance of HK\$34.2 million in relation to the Lehman Brothers Minibonds purchased was written back in the previous year from the recovery of proceeds received from the underlying collaterals.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased by HK\$446.4 million or 1.6% to HK\$27.18 billion as at 31 December 2012 from HK\$27.63 billion as at 31 December 2011. Customer deposits increased by HK\$1.04 billion or 3.7% to HK\$29.37 billion as at 31 December 2012 from HK\$28.33 billion as at 31 December 2011.

As at 31 December 2012, the Group's total assets stood at HK\$40.54 billion, an increase of HK\$568.5 million when compared to the position as at 31 December 2011.

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 Financial"), 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, the Group has a combined branch network of 86 branches as at 31 December 2012 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 a decrease of HK\$524.3 million or 2.3% to HK\$22.37 billion as at 31 December 2012 from HK\$22.89 billion as at 31 December 2011. The decrease in loans was partly due to the repayment of some syndicated loans which Public Bank (Hong Kong) did not seek to refinance, and the drop in demand for residential mortgage loans. Customer deposits increased by HK\$654.7 million or 2.6% to HK\$25.74 billion as at 31 December 2012 from HK\$25.08 billion as at 31 December 2011.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 19.6% as at 31 December 2012. 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 2012.

Public Bank (Hong Kong) will continue to develop and expand its retail banking business and customer base, identify suitable locations for the relocation of its branches to better sites in order to expand its reach of existing and potential customers, and develop its banking related financial services businesses.

Public Finance

Total loans and advances of Public Finance recorded a growth of HK\$52.6 million or 1.1% to HK\$4.63 billion as at 31 December 2012 from HK\$4.58 billion as at 31 December 2011. Customer deposits increased by HK\$374.3 million or 10.8% to HK\$3.83 billion as at 31 December 2012 from HK\$3.46 billion as at 31 December 2011. Public Finance’s capital adequacy ratio stood at 27.7% as at 31 December 2012.

Public Finance will continue to focus on its consumer financing business and deposit takings.

Segmental information

The Group’s businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96% of the Group’s operating income and 83% of the profit before tax were contributed by retail and commercial banking businesses for the year under review. When compared to the previous year, the Group’s operating income from retail and commercial banking businesses increased by HK\$21.6 million or 1.6% to HK\$1,396.6 million. Profit before tax from retail and commercial banking businesses for 2012 decreased by HK\$43.5 million or 10.3% to HK\$378.2 million mainly due to recovery of impairment allowance of HK\$34.2 million in relation to the Lehman Brothers Minibonds in the previous year.

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 2012, 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 on 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 its retail and commercial banking businesses. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK\$2.96 billion as at the end of 2012. 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 0.45 times as at 31 December 2012. The bank borrowings have remaining maturity periods of less than 2 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 0.84% as at 31 December 2012 from 1.00% as at 31 December 2011. The Group will continue to adopt prudent credit underwriting standards, pursue recovery of problem loans diligently, safeguard its capital adequacy and liquidity positions, and set prudent yet flexible business development strategies to strike a balance between business growth and managing risk.

Human resource management

The objective of the Group's human resource 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 are enrolled 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 developments, 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 2012, no options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2012, options to subscribe for 25,375,000 shares in the Company remained unexercised.

As at 31 December 2012, the Group's staff force stood at 1,416 employees. For the year ended 31 December 2012, the Group's total staff-related costs amounted to HK\$418.5 million.

PROSPECTS

Competition in the banking and financing industry in Hong Kong is expected to remain keen and will intensify with financial institutions seeking greater market share in loans and advances, customer deposits, and other banking and financing businesses. The competitive environment will continue to exert pressure on the pricing of banking and financing products in Hong Kong. The slow economic recovery and concerns over the US fiscal issues, the unresolved European debt issues, and signs of overheated property market in the PRC will add uncertainties and complexities to the economy growth outlook of Hong Kong. Net interest margin on loans of financial institutions in Hong Kong will remain under pressure whilst operating costs are on the rise, thus affecting the earnings of financial institutions in the year ahead.

Notwithstanding the aforesaid, the Group will adjust the business strategies and exercise cost controls measures where appropriate to maintain stable profit margins from the loans and deposits business. The Group will also continue to focus on expanding its retail and commercial banking business and its consumer finance business cautiously with sound marketing strategies and excellent customer service. 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 Financial.

The Group will continue to pursue long-term business growth objectives, and take steps to align business strategies in line 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 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 2012 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, 18 January 2013

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.