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

(Incorporated in Bermuda with limited liability)
(Stock code: 626; Website: www.publicfinancial.com.hk)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The Board of Directors (the "Board") of Public Financial Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June 2012 (Unaudited) *HK$'000*	2011 (Unaudited) *HK$'000* (Restated)
Interest income	*6*	**818,278**	775,261
Interest expense	*6*	**(212,392)**	(169,658)
NET INTEREST INCOME		**605,886**	605,603
Other operating income	*7*	**110,249**	150,864
OPERATING INCOME		**716,135**	756,467
Operating expenses	*8*	**(369,825)**	(358,964)
Changes in fair value of investment properties		**17,520**	1,884
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**363,830**	399,387
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		**–**	34,157
		363,830	433,544
Impairment allowances for loans and advances and receivables	*9*	**(155,345)**	(178,790)

* *For identification purpose only*

	Notes	For the six months ended 30 June 2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000 (Restated)
PROFIT BEFORE TAX		**208,485**	254,754
Tax	*10*	**(35,703)**	(47,299)
PROFIT FOR THE PERIOD		**172,782**	207,455
ATTRIBUTABLE TO:			
Owners of the Company		**172,782**	207,455
EARNINGS PER SHARE (HK$)	*12*		
Basic		**0.157**	0.189
Diluted		**0.157**	0.189

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
PROFIT FOR THE PERIOD	**172,782**	207,455
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Exchange (loss)/gain on translating foreign operations, net of tax	**(5,920)**	12,300
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**166,862**	219,755
ATTRIBUTABLE TO:		
Owners of the Company	**166,862**	219,755

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000* (Restated)
ASSETS			
Cash and short term placements		**4,533,656**	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months		**848,892**	513,527
Derivative financial instruments		**11,373**	3,220
Loans and advances and receivables	*13*	**26,047,508**	27,575,499
Available-for-sale financial assets		**6,804**	6,804
Held-to-maturity investments	*14*	**3,841,746**	3,421,503
Inventories of taxi licences		**2,676**	2,676
Investment properties		**203,245**	195,309
Property and equipment		**111,242**	111,517
Land held under finance leases		**663,279**	657,900
Interests in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**34,158**	21,610
Goodwill		**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets		**138,431**	105,884
TOTAL ASSETS		**39,219,644**	39,967,365
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**816,596**	1,246,092
Derivative financial instruments		**4,786**	2,051
Customer deposits at amortised cost		**28,471,657**	28,334,785
Certificates of deposit issued at amortised cost		**154,867**	513,315
Dividends payable		**54,896**	120,771
Unsecured bank loans at amortised cost		**3,001,048**	2,960,734
Current tax payable		**28,462**	33,832
Deferred tax liabilities		**20,061**	19,599
Other liabilities		**263,521**	444,402
TOTAL LIABILITIES		**32,815,894**	33,675,581
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	*15*	**6,293,958**	6,181,992
TOTAL EQUITY		**6,403,750**	6,291,784
TOTAL EQUITY AND LIABILITIES		**39,219,644**	39,967,365

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
TOTAL EQUITY		
Balance at the beginning of the period	**6,291,784**	6,074,246
Profit for the period	**172,782**	207,455
Other comprehensive income	**(5,920)**	12,300
Total comprehensive income for the period	**166,862**	219,755
Dividends declared on shares	**(54,896)**	(54,896)
Balance at the end of the period	**6,403,750**	6,239,105

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They also contain the disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the "HKMA").

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2011 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2011 Annual Report, except for the changes in accounting policies as set out in note 4 below.

2. BASIS OF CONSOLIDATION

The interim consolidated financial statements comprise the interim financial statements of the Company and its subsidiaries as at and for the period ended 30 June 2012.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

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 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.

3. BASIS OF CAPITAL DISCLOSURES

The Group has complied with the capital requirements during the reporting period related to capital base and 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 purpose.

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.

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Hong Kong (International Financial Reporting Interpretations Committee) Interpretations ("HK(IFRIC)-Int"), which are generally effective for accounting periods beginning on or after 1 January 2012. The Group has adopted the following new and revised HKFRSs and HKAS issued up to 30 June 2012 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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- HKFRS 7 Amendments — Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
- HKAS 12 Amendments — Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

HKFRS 1 Amendment introduces 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 amendment also removes 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 amendment has no 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. 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. 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 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 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 condensed consolidated statement of comprehensive income was that it reduced the tax expense and increased profit for the current period by HK$2.9 million (six months ended 30 June 2011: HK$0.3 million). The change in accounting policy had an immaterial impact on the basic and diluted earnings per share for the current and comparative periods.

Impact of issued but not yet effective HKFRSs

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

• HKFRS 1 Amendments	Amendments to HKFRS 1 *First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
• HKFRS 9	*Financial Instruments*[4]
• HKFRS 10	*Consolidated Financial Statements*[2]
• HKFRS 11	*Joint Arrangements*[2]
• HKFRS 12	*Disclosure of Interests in Other Entities*[2]
• HKFRS 13	*Fair Value Measurement*[2]
• HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
• HKAS 19 (2011)	*Employee Benefits*[2]
• HKAS 27 (2011)	*Separate Financial Statements*[2]
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
• HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[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 1 Amendments add an exception to the retrospective application of HKFRSs to require that first-time adopters apply the requirements in HKFRS 9 *Financial Instruments* and HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to HKFRSs. This means that first-time adopters shall not recognise the corresponding benefit of government loans at a below-market rate of interest as government grants. However, entities may choose to apply the requirements of HKFRS 9 and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time when that loan was initially accounted for. These amendments give first-time adopters the same relief as existing preparers of HKFRS financial statements. As the Group is not a first-time adopter of HKFRSs, 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. 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 other comprehensive income 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 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 to be 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 other comprehensive income. 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 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 equivalent 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 improves 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.

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 and none of these amendments are expected to have a material financial impact on the Group:

(a) HKFRS 1 (Revised): It clarifies that an entity that has stopped applying HKFRSs may resume reporting under HKFRSs by either:

    (i) re-applying HKFRS 1, even if the entity applied HKFRS 1 in a previous reporting period; or

    (ii) applying HKFRS retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (i.e., as if it had never stopped applying HKFRSs).

    If the entity re-applies HKFRS 1 or applies HKAS 8, it must disclose the reasons why it previously stopped applying HKFRS and subsequently resumed reporting in accordance with HKFRSs.

    In addition, it clarifies that, upon adoption of HKFRSs, an entity that capitalised borrowing costs in accordance with its previous Generally Accepted Accounting Principles (GAAP), may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition.

    Once an entity adopts HKFRSs, borrowing costs are to be recognised in accordance with HKAS 23 *Borrowing Costs*, including those incurred on qualifying assets under construction.

(b) HKAS 1 (Revised): It clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the preceding accounting period.

    An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.

    In addition, the opening statement of financial position (the "third balance sheet") 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. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to accompany the third balance sheet.

(c) HKAS 16: It clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

(d) HKAS 32: It 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.

(e) HKAS 34: It clarifies the requirements in HKAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in HKFRS 8 *Operating Segments*.

Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

5. 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 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 securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and

– other businesses segment comprises taxi trading and the leasing of taxis and letting of investment properties.

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

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2012 and 2011.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2012 (Unaudited) *HK$'000*	30 June 2011 (Unaudited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	30 June 2011 (Unaudited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	30 June 2011 (Unaudited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	30 June 2011 (Unaudited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	30 June 2011 (Unaudited) *HK$'000* (Restated)
Segment revenue										
External:										
Net interest income	**605,933**	605,571	**(47)**	32	**–**	–	**–**	–	**605,886**	605,603
Other operating income:										
Fees and commission income	**72,655**	78,183	**23,410**	59,053	**249**	205	**–**	–	**96,314**	137,441
Others	**6,978**	5,102	**(13)**	–	**6,970**	8,321	**–**	–	**13,935**	13,423
Inter-segment transactions:										
Fees and commission income	**–**	–	**–**	–	**65**	219	**(65)**	(219)	**–**	–
Operating income	**685,566**	688,856	**23,350**	59,085	**7,284**	8,745	**(65)**	(219)	**716,135**	756,467
Profit before tax	**181,785**	222,191	**6,845**	23,237	**19,855**	9,326	**–**	–	**208,485**	254,754
Tax									**(35,703)**	(47,299)
Profit for the period									**172,782**	207,455
Other segment information										
Depreciation of property and equipment and land held under finance leases	**15,721**	16,130	**–**	–	**–**	–	**–**	–	**15,721**	16,130
Changes in fair value of investment properties	**–**	–	**–**	–	**(17,520)**	(1,884)	**–**	–	**(17,520)**	(1,884)
Impairment allowances for loans and advances and receivables	**155,345**	178,790	**–**	–	**–**	–	**–**	–	**155,345**	178,790
Net losses on disposal of property and equipment	**51**	149	**–**	–	**–**	–	**–**	–	**51**	149

The following table represents certain asset and liability information regarding operating segments as at 30 June 2012 and 31 December 2011.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000* (Restated)
Segment assets other than interests in a jointly-controlled entity, intangible assets and goodwill	**35,903,134**	36,718,085	**281,930**	236,279	**207,415**	199,034	**–**	–	**36,392,479**	37,153,398
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
	38,679,050	39,494,001	**282,648**	236,997	**207,415**	199,034	**–**	–	**39,169,113**	39,930,032
Unallocated assets:										
Deferred tax assets and tax recoverable									**50,531**	37,333
Total assets									**39,219,644**	39,967,365
Segment liabilities	**32,600,300**	33,429,739	**105,102**	64,984	**7,073**	6,656	**–**	–	**32,712,475**	33,501,379
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**48,523**	53,431
Dividends payable									**54,896**	120,771
Total liabilities									**32,815,894**	33,675,581
Other segment information										
Additions to non-current assets - capital expenditure	**11,310**	16,668	**–**	–	**–**	–	**–**	–	**11,310**	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 six months ended 30 June 2012 and 2011.

	30 June 2012 (Unaudited) ***HK$'000***	30 June 2011 (Unaudited) *HK$'000*
Segment revenue from external customers:		
Hong Kong	**678,295**	730,101
Mainland China	**37,840**	26,366
	716,135	756,467

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 30 June 2012 and 31 December 2011.

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Non-current assets:		
Hong Kong	**3,736,171**	3,722,387
Mainland China	**18,229**	18,973
	3,754,400	3,741,360

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interests 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.

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income from:		
Loans and advances and receivables	**758,965**	725,536
Short term placements and placements with banks	**33,310**	17,067
Held-to-maturity investments	**26,003**	32,658
	818,278	775,261
Interest expense on:		
Deposits from banks and financial institutions	**19,392**	11,240
Deposits from customers	**175,505**	143,216
Bank loans	**17,495**	15,202
	212,392	169,658

Interest income and interest expense for the six months ended 30 June 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$818,278,000 and HK$212,392,000 (2011: HK$775,261,000 and HK$169,658,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2012 amounted to HK$3,331,000 (2011: HK$2,577,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Fees and commission income:		
Retail and commercial banking	**73,547**	78,908
Wealth management services, stockbroking and securities management	**23,410**	59,053
	96,957	137,961
Less: Fees and commission expenses	**(643)**	(520)
Net fees and commission income	**96,314**	137,441
Gross rental income	**6,633**	6,052
Less: Direct operating expenses	**(38)**	(40)
Net rental income	**6,595**	6,012
Gains less losses arising from dealing in foreign currencies	**(1,848)**	4,186
Net losses on disposal of property and equipment	**(51)**	(149)
Dividend income from listed investments	**12**	8
Dividend income from unlisted investments	**1,000**	500
Net gains/(losses) on derivative financial instruments	**6,586**	(541)
Others	**1,641**	3,407
	110,249	150,864

Direct operating expenses include repair and maintenance expenses arising from investment properties.

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 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.

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Staff costs:		
Salaries and other staff costs	**195,612**	192,477
Pension contributions	**9,734**	9,298
Less: Forfeited contributions	**(16)**	(7)
Net retirement benefit schemes	**9,718**	9,291
	205,330	201,768
Other operating expenses:		
Operating lease rentals on leasehold buildings	**28,535**	26,641
Depreciation of property and equipment and land held under finance leases	**15,721**	16,130
Administrative and general expenses	**34,287**	35,589
Others	**85,952**	78,836
Operating expenses before changes in fair value of investment properties	**369,825**	358,964

As at 30 June 2012 and 2011, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current period credits arose in respect of staff who left the schemes during the period.

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**155,356**	180,976
– trade bills, accrued interest and receivables	**(11)**	(2,186)
	155,345	178,790
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**156,400**	179,850
– collectively assessed	**(1,055)**	(1,060)
	155,345	178,790
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**259,455**	258,914
– releases and recoveries	**(104,110)**	(80,124)
Net charge to the consolidated income statement	**155,345**	178,790

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2012 and 2011.

10. TAX

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Current tax charge:		
Hong Kong	**29,836**	42,440
Elsewhere	**6,910**	5,936
Underprovisions in prior periods	**11,043**	852
Deferred tax credit, net	**(12,086)**	(1,929)
	35,703	47,299

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 period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, 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:

	For the six months ended 30 June 2012 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	*%*	***HK$'000***	*%*	***HK$'000***	*%*
Profit before tax	**179,408**		**29,077**		**208,485**	
Tax at the applicable tax rate	**29,602**	**16.5**	**7,269**	**25.0**	**36,871**	**17.7**
Estimated tax losses from previous periods utilised	**(1)**	**–**	**–**	**–**	**(1)**	**–**
Estimated tax effect of net income that is not taxable	**(1,029)**	**(0.6)**	**(181)**	**(0.6)**	**(1,210)**	**(0.6)**
Adjustments in respect of deferred tax of previous periods	**(11,000)**	**(6.1)**	**–**	**–**	**(11,000)**	**(5.3)**
Adjustments in respect of current tax of previous periods	**11,043**	**6.2**	**–**	**–**	**11,043**	**5.3**
Tax charge at the Group's effective rate	**28,615**	**16.0**	**7,088**	**24.4**	**35,703**	**17.1**

	For the six months ended 30 June 2011 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000 (Restated)	*%*	*HK$'000*	*%*	*HK$'000* (Restated)	*%*
Profit before tax	251,568		3,186		254,754	
Tax at the applicable tax rate	41,508	16.5	765	24.0	42,273	16.6
Effect on change in tax rates	–	–	74	2.3	74	–
Estimated tax effect of net expense that is not deductible	2,180	0.9	–	–	2,180	0.9
Adjustments in respect of deferred tax of previous periods	1,920	0.8	–	–	1,920	0.8
Adjustments in respect of current tax of previous periods	1,500	0.5	(648)	(20.3)	852	0.3
Tax charge at the Group's effective rate	47,108	18.7	191	6.0	47,299	18.6

11. DIVIDENDS

	For the six months ended 30 June			
	2012	2011	**2012**	2011
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	HK$ per ordinary share	***HK$'000***	*HK$'000*
Interim	**0.05**	0.05	**54,896**	54,896

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$172,782,000 (2011 (Restated): HK$207,455,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2012 and 2011 had nil dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2012 was based on the profit for the period of HK$172,782,000 (2011 (Restated): HK$207,455,000) 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 period as used in the basic earnings per share calculation.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Loans and advances to customers	**26,080,605**	27,621,506
Trade bills	**14,519**	7,264
Loans and advances, and trade bills	**26,095,124**	27,628,770
Accrued interest	**92,836**	90,602
	26,187,960	27,719,372
Other receivables	**50,179**	52,098
Gross loans and advances and receivables	**26,238,139**	27,771,470
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(161,948)**	(166,162)
– collectively assessed	**(28,683)**	(29,809)
	(190,631)	(195,971)
Loans and advances and receivables	**26,047,508**	27,575,499

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:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Neither past due nor impaired loans and advances and receivables	**25,353,055**	27,071,390
Past due but not impaired loans and advances and receivables	**602,723**	410,608
Individually impaired loans and advances	**267,212**	276,090
Individually impaired receivables	**15,149**	13,382
Total loans and advances and receivables	**26,238,139**	27,771,470

About 66% 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 customer deposits, properties, taxi licences, public light bus licences and vehicles.

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

	30 June 2012 (Unaudited)		31 December 2011 (Audited)	
	Gross amount ***HK$'000***	**Percentage of total loans and advances** ***%***	Gross amount *HK$'000*	Percentage of total loans and advances *%*
Loans and advances overdue for:				
Six months or less but over three months	**93,967**	**0.36**	106,732	0.39
One year or less but over six months	**9,096**	**0.04**	2,630	0.01
Over one year	**130,633**	**0.50**	131,836	0.48
Loans and advances overdue for more than three months	**233,696**	**0.90**	241,198	0.88
Rescheduled loans and advances overdue for three months or less	**30,064**	**0.11**	31,404	0.11
Impaired loans and advances overdue for three months or less	**3,452**	**0.01**	3,488	0.01
Total overdue and impaired loans and advances	**267,212**	**1.02**	276,090	1.00

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

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**101**	328
One year or less but over six months	**903**	1
Over one year	**14,130**	13,049
Trade bills, accrued interest and other receivables overdue for more than three months	**15,134**	13,378
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**15**	4
Total overdue and impaired trade bills, accrued interest and other receivables	**15,149**	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**

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**96,835**	**151,995**	**248,830**	102,789	151,787	254,576
Individual impairment allowances	**67,079**	**74,390**	**141,469**	70,502	75,111	145,613
Current market value and fair value of collateral			**236,640**			203,329
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**130,093**	**152,268**	**282,361**	137,685	151,787	289,472
Individual impairment allowances	**87,286**	**74,662**	**161,948**	91,051	75,111	166,162
Current market value and fair value of collateral			**236,735**			205,728

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:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**236,640**	203,239
Covered portion of overdue loans and advances	**76,818**	75,741
Uncovered portion of overdue loans and advances	**156,878**	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 government with a grading of Aa3 or above

– Unrated public sector enterprises

– Banks with a grading of Baa2 or above

– Unrated corporation

– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 30 June 2012, the total value of repossessed assets of the Group amounted to HK$1,580,000 (31 December 2011: HK$3,100,000).

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

	30 June 2012 (Unaudited)		31 December 2011 (Audited)	
	Gross amount	**Percentage of total loans and advances**	Gross amount	Percentage of total loans and advances
	HK$'000	***%***	*HK$'000*	*%*
Loans and advances overdue for three months or less	**598,807**	**2.30**	409,960	1.48
Trade bills, accrued interest and other receivables overdue for three months or less	**3,916**		648	

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

	30 June 2012 (Unaudited)		
	Individual impairment allowances	**Collective impairment allowances**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2012	**166,162**	**29,809**	**195,971**
Amounts written off	**(247,633)**	**–**	**(247,633)**
Impairment losses and allowances charged to the consolidated income statement	**256,257**	**3,198**	**259,455**
Impairment losses and allowances released to the consolidated income statement	**(99,857)**	**(4,253)**	**(104,110)**
Net charge/(release) of impairment losses and allowances	**156,400**	**(1,055)**	**155,345**
Loans and advances and receivables recovered	**87,810**	**–**	**87,810**
Exchange difference	**(791)**	**(71)**	**(862)**
At 30 June 2012	**161,948**	**28,683**	**190,631**
Deducted from:			
Loans and advances	**160,031**	**28,638**	**188,669**
Trade bills, accrued interest and other receivables	**1,917**	**45**	**1,962**
	161,948	**28,683**	**190,631**

	31 December 2011 (Audited) 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:

	30 June 2012 (Unaudited)	31 December 2011 (Audited)	**30 June 2012 (Unaudited)**	31 December 2011 (Audited)
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under finance leases:				
Within one year	**395,321**	409,076	**306,028**	319,864
In the second to fifth years, inclusive	**1,048,771**	1,079,293	**784,895**	824,110
Over five years	**3,411,447**	3,510,259	**2,873,267**	2,986,859
	4,855,539	4,998,628	**3,964,190**	4,130,833
Less: Unearned finance income	**(891,349)**	(867,795)		
Present value of minimum lease payments receivable	**3,964,190**	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.

14. HELD-TO-MATURITY INVESTMENTS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Certificates of deposit held	**1,172,943**	1,042,281
Treasury bills (including Exchange Fund Bills)	**1,668,318**	1,489,901
Other debt securities	**1,000,485**	889,321
	3,841,746	3,421,503
Listed or unlisted:		
– Listed in Hong Kong	**29,302**	–
– Unlisted	**3,812,444**	3,421,503
	3,841,746	3,421,503
Analysed by type of issuers:		
– Central government	**1,668,318**	1,489,901
– Banks and other financial institutions	**2,173,428**	1,931,602
	3,841,746	3,421,503

Impairment allowances of held-to-maturity investments were nil as at 30 June 2012 and 31 December 2011. There were no movements in impairment allowances for the period ended 30 June 2012 and for the year ended 31 December 2011.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2012 and 31 December 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.

15. 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* (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 4)*	–	–	–	–	–	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 4)*	–	–	–	–	–	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	–	–	–	–	–	(175,667)	–	(175,667)
At 31 December 2011 (Audited)/(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 4)*	**–**	**–**	**–**	**–**	**–**	**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 period	**–**	**–**	**–**	**–**	**–**	**172,782**	**–**	**172,782**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(5,920)**	**(5,920)**
Transfer from retained profits	**–**	**–**	**–**	**–**	**(18,444)**	**18,444**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
At 30 June 2012 (Unaudited)	**4,013,296**	**829**	**96,116**	**45,765**	**390,051**	**1,688,396**	**59,505**	**6,293,958**

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 30 June 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.

16. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at 30 June 2012 and 31 December 2011, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Within one year	**6,866**	8,002
In the second to fifth years, inclusive	**1,655**	2,805
	8,521	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 30 June 2012 and 31 December 2011, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Within one year	**50,188**	42,606
In the second to fifth years, inclusive	**35,107**	32,350
	85,295	74,956

17. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities, commitments and derivatives

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

			30 June 2012 (Unaudited)		
	Contractual amount *HK$'000*	**Credit equivalent amount** *HK$'000*	**Credit risk-weighted amount** *HK$'000*	**Positive fair value-assets** *HK$'000*	**Negative fair value-liabilities** *HK$'000*
Direct credit substitutes	**202,684**	**202,684**	**53,690**	**–**	**–**
Transaction-related contingencies	**16,189**	**8,095**	**2,004**	**–**	**–**
Trade-related contingencies	**77,775**	**15,556**	**11,318**	**–**	**–**
Forward forward deposits placed	**157,813**	**157,813**	**31,563**	**–**	**–**
Forward asset purchases	**6,571**	**6,571**	**1,314**	**–**	**–**
	461,032	**390,719**	**99,889**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**1,274,633**	**7,955**	**9**	**11,373**	**4,786**
Other commitments with an original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**152,873**	**76,437**	**76,437**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,439,541**	**–**	**–**	**–**	**–**
	5,328,079	**475,111**	**176,335**	**11,373**	**4,786**
Capital commitments contracted for, but not provided in the financial statements	**10,163**				

	31 December 2011 (Audited)				
	Contractual amount *HK$'000*	Credit equivalent amount *HK$'000*	Credit risk-weighted amount *HK$'000*	Positive fair value-assets *HK$'000*	Negative fair value-liabilities *HK$'000*
Direct credit substitutes	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 Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

As at 30 June 2012 and 31 December 2011, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

18. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2012 (Unaudited)							
	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	666,920	3,866,736	–	–	–	–	–	4,533,656
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	574,209	274,683	–	–	–	848,892
Loans and advances and receivables	519,260	990,760	1,195,819	2,803,240	7,326,765	13,263,853	138,442	26,238,139
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,783,972	810,360	1,215,670	31,744	–	–	3,841,746
Other assets	233	96,690	1,634	993	–	–	38,881	138,431
Foreign exchange contracts (gross)	–	1,265,077	9,556	–	–	–	–	1,274,633
Total financial assets	1,186,413	8,003,235	2,591,578	4,294,586	7,358,509	13,263,853	184,127	36,882,301
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,669	527,927	70,000	170,000	–	–	–	816,596
Customer deposits at amortised cost	5,961,121	10,209,365	8,073,827	3,848,366	378,978	–	–	28,471,657
Certificates of deposit issued at amortised cost	–	–	154,867	–	–	–	–	154,867
Unsecured bank loans at amortised cost	37,500	700,000	799,460	–	1,464,088	–	–	3,001,048
Other liabilities	2,204	130,053	24,080	16,868	8,203	–	82,113	263,521
Foreign exchange contracts (gross)	–	1,258,537	9,509	–	–	–	–	1,268,046
Total financial liabilities	6,049,494	12,825,882	9,131,743	4,035,234	1,851,269	–	82,113	33,975,735

	31 December 2011 (Audited)							
	Repayable on demand *HK$'000*	Up to 1 month *HK$'000*	Over 1 month but not more than 3 months *HK$'000*	Over 3 months but not more than 12 months *HK$'000*	Over 1 year but not more than 5 years *HK$'000*	Over 5 years *HK$'000*	Repayable within an indefinite period *HK$'000*	Total *HK$'000*
Financial assets:								
Cash and short term placements	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
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

INTERIM DIVIDEND

The Board of Directors has on 26 June 2012 declared an interim dividend of HK$0.05 (2011: HK$0.05) per share payable on 30 July 2012 to shareholders whose names appear on the register of members of the Company on 16 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the period under review, the persistence of European debts crisis continued to cast uncertainties on the global economic conditions including Hong Kong.

High property prices in Hong Kong and in the People's Republic of China ("PRC") during the period under review remained a threat to a potential asset price bubble and caused a significant decline in the volume of property transactions in Hong Kong. Rising rentals and staff costs in Hong Kong and the PRC, together with narrowing net interest margins of retail commercial banks in Hong Kong, have also contributed to the pressure on earnings of financial institutions. The Group's banking business and financial performance were likewise affected.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2012, the Group recorded a profit after tax of HK$172.8 million, representing a decrease of HK$34.7 million or 16.7% as compared to the profit after tax of HK$207.5 million as restated for the corresponding period in 2011. When compared to the corresponding period in 2011, the decrease in earnings of the Group for the period under review was mainly attributed to the written back of impairment allowance of HK$34.2 million from the settlement of Lehman Brothers Minibonds investments in 2011; and the additional Goodwill income of HK$8.2 million received from ING in 2011.

The Group's basic earnings per share for the six months ended 30 June 2012 was HK$0.157. The Board of Directors had declared an interim dividend of HK$0.05 per share on 26 June 2012, payable on 30 July 2012.

During the period under review, the Group's total interest income increased by HK$43.0 million or 5.5% to HK$818.3 million, whilst total interest expense also increased by HK$42.7 million or 25.2% to HK$212.4 million. Other operating income from loan transactions, stockbroking and other businesses of the Group recorded a decrease of HK$40.6 million or 26.9% to HK$110.2 million in the period under review.

The Group's operating expenses increased marginally by HK$10.9 million or 3% to HK$369.8 million mainly due to the increase in staff costs, premises related costs and marketing expenses.

Impairment allowance for loans and advances decreased by HK$23.4 million or 13.1% to HK$155.3 million due to lower impairment allowances on loans and higher debts recovery from defaulted loans during the period under review.

Loans and advances, customer deposits and total assets
The Group's total loans and advances (including trade bills) decreased by HK$1.53 billion or 5.6% to HK$26.10 billion as at 30 June 2012 from HK$27.63 billion as at 31 December 2011 mainly due to the redemption of some commercial loans and lower volume of mortgage loans business. The Group's deposits from customers increased by HK$0.14 billion or 0.5% to HK$28.47 billion as at 30 June 2012 from HK$28.33 billion as at 31 December 2011. Total assets of the Group stood at HK$39.22 billion as at 30 June 2012.

Branch network
As at 30 June 2012, the Group had a combined branch network of 86 branches with 35 branches of Public Bank (Hong Kong), 42 branches of Public Finance which is a deposit taking company, and 9 branches of Winton Financial Limited ("Winton") which operates under a money lenders licence.

Business performance

Public Bank (Hong Kong)
During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) decreased by HK$1.49 billion or 6.5% to HK$21.4 billion as at 30 June 2012 from HK$22.89 billion as at 31 December 2011. Deposits from customers decreased by HK$0.11 billion or 0.4% to HK$24.98 billion as at 30 June 2012 from HK$25.08 billion as at 31 December 2011.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 20% as at 30 June 2012, and there were no exposures attributed to structured investment vehicles and to Portugal, Ireland, Italy, Greece and Spain as at 30 June 2012.

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

Public Finance
Total loans and advances of Public Finance decreased slightly by HK$82.2 million or 1.8% to HK$4.50 billion as at 30 June 2012 from HK$4.58 billion as at 31 December 2011. Deposits from customers increased by HK$227.1 million or 6.6% to HK$3.68 billion as at 30 June 2012 from HK$3.46 billion as at 31 December 2011.

Segmental information
The Group's business comprises three main segments: (i) retail and commercial banking and lending, (ii) stockbroking and wealth management services, and (iii) other businesses. 96% of the Group's operating income and 87% of the profit before tax were contributed by retail and commercial banking and lending for the period under review. When compared to the first half of 2011, the Group's operating income from retail and commercial banking and lending decreased by HK$3.3 million or 0.5% to HK$685.6 million. The increase in impairment allowance in consumer financing loans of Public Finance had resulted in the decline of the Group's profit before tax from retail and commercial banking and lending by HK$40.4 million or 18.2% to HK$181.8 million when compared to the corresponding period in 2011.

Contingent liabilities and commitments

The Group had 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 period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. As at 30 June 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 in funding of their business growth.

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its banking and finance businesses. 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 30 June 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 0.47 times as at 30 June 2012, which is the same gearing ratio as at 31 December 2011. The Group's bank borrowings have remaining maturity periods of less than 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange rates and interest rates were immaterial during the period under review.

Asset quality

The Group's impaired loans to total loans ratio was 1.0% as at 30 June 2012, which was at similar level as at 31 December 2011.

The Group will continue to safeguard its capital adequacy position, manage risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Human resources management

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff enroll in external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market, and to improve their management and business skills. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's employees' share option scheme approved by shareholders on 28 February 2002. In the first half year of 2012, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2012, options to subscribe for 25,851,000 shares in the Company remained unexercised.

As at 30 June 2012, the Group's staff force stood at 1,380 employees. For the six months ended 30 June 2012, the Group's total staff related costs amounted to HK$205.3 million.

PROSPECTS

The economic outlook of Hong Kong is anticipated to remain challenging with uncertainties of the global economic conditions for the second half of 2012. Supported by the economic activities momentum of the PRC with policies beneficial to Hong Kong, the economic activities and retail business in Hong Kong will continue to benefit leading to improved demand for banking and financing services in Hong Kong and of the Group. The development of offshore RMB Centre in Hong Kong is also expected to foster more business opportunities for financial institutions in Hong Kong. The Group will continue to seek long-term business growth and take steps to align the business strategies of the Group with future expansion plans. The Group will also adopt prudent capital and funding management to meet the challenges ahead.

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

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

Under present conditions, the Group expects to register moderate growth in its banking and financing businesses and improvement in its financial performance in the second half of 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2012.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2012 Interim Report, in compliance with the Code Provisions in the Corporate Governance Code and Corporate Governance Report (revised and took effect on 1 April 2012) as well as those of the former Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under Code Provision A.4.1 of the Listing Rules.

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

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

REVIEW BY AUDIT COMMITTEE

The 2012 interim results have been reviewed by the Company's Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

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

Hong Kong, 17 July 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.