PUBLIC FINANCIAL HOLDINGS LIMITED

stock code: 626

Interim Report 2009

Contents

Corporate Information

Board of Directors

Non-executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman),
also Founder and Chairman of
Public Bank Berhad

Executive Directors

Tan Yoke Kong
Lee Huat Oon

Non-Executive Directors

Tan Sri Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-executive Directors

Tan Sri Dato' Thong Yaw Hong (Co-Chairman)
Lee Chin Guan
Quah Poh Keat

Joint Secretaries

Tan Yoke Kong
Chan Sau Kuen

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

1105-7 Wing On House
71 Des Voeux Road Central
Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2545 5665
Website : www.publicfinancial.com.hk

Share Listing

Main Board of The Stock Exchange of Hong Kong Limited
Stock Code : 626

Principal Registrar

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Hong Kong Branch Registrar

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

Auditors

Ernst & Young
Certified Public Accountants

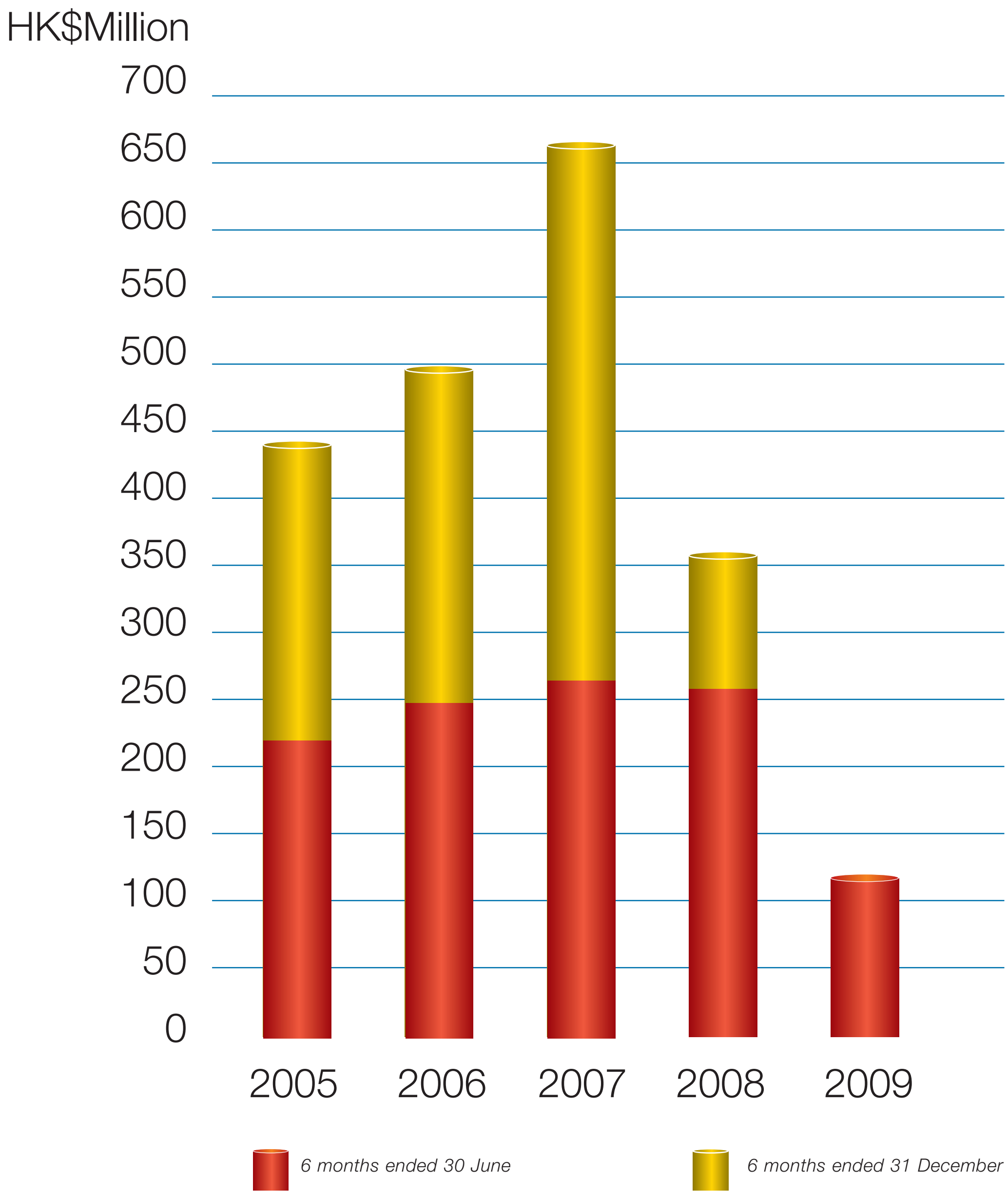
Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June **2009** **(Unaudited)** **HK$'000**	2008 (Unaudited) HK$'000
Interest income	6	**758,655**	872,506
Interest expense	6	**(182,565)**	(340,695)
NET INTEREST INCOME		**576,090**	531,811
Gain less losses from disposal of available-for-sale financial assets		**26,035**	–
Other operating income	7	**101,626**	195,275
Non-interest income		**127,661**	195,275
OPERATING INCOME		**703,751**	727,086
Operating expenses	8	**(268,973)**	(234,250)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**434,778**	492,836
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	9	**(294,415)**	(189,690)
OPERATING PROFIT		**140,363**	303,146
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		**–**	–
PROFIT BEFORE TAX		**140,363**	303,146
Tax	10	**(22,708)**	(52,919)
PROFIT FOR THE PERIOD		**117,655**	250,227
ATTRIBUTABLE TO:			
Owners of the Company		**117,655**	250,227
DIVIDENDS	11		
Interim		**54,896**	54,896
EARNINGS PER SHARE (HK$)	12		
Basic		**0.107**	0.229
Diluted		**0.107**	0.229

Condensed Consolidated Statement of Comprehensive Income

	For the six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**117,655**	250,227
OTHER COMPREHENSIVE INCOME/(LOSS):		
Exchange (loss)/gain on translating foreign operations	**(340)**	13,940
Gain/(deficit) on revaluation of available-for-sale financial assets	**11,379**	(21,439)
Transfer to income statement for disposal of available-for-sale financial assets	**(26,035)**	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	**(14,996)**	(7,499)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**102,659**	242,728
ATTRIBUTABLE TO:		
Owners of the Company	**102,659**	242,728

Five-year Profit Highlight



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**5,546,851**	5,785,272
Placements with banks and financial institutions	14	**432,298**	173,099
Derivative financial instruments		**515**	1,151
Loans and advances and receivables	15	**24,278,658**	24,384,943
Available-for-sale financial assets		**6,804**	21,524
Held-to-maturity investments	17	**3,451,558**	969,216
Inventories of taxi licences		**18,806**	21,805
Investment properties	18	**181,118**	165,346
Property and equipment	19	**123,908**	119,110
Land lease prepayments	20	**664,390**	667,990
Interest in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**8,958**	9,168
Goodwill		**2,774,403**	2,774,403
Intangible assets		**358**	358
Other assets	21	**344,853**	234,767
TOTAL ASSETS		**37,834,991**	35,329,665
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**931,060**	641,732
Derivative financial instruments		**3,223**	4,150
Customer deposits at amortised cost	22	**27,244,192**	24,184,416
Certificates of deposit issued at amortised cost		**79,999**	879,850
Dividend payable		**54,896**	197,625
Unsecured bank loans at amortised cost	23	**2,949,969**	3,249,219
Current tax payable		**7,281**	6,403
Deferred tax liabilities		**26,653**	24,122
Other liabilities	24	**720,449**	372,642
TOTAL LIABILITIES		**32,017,722**	29,560,159
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	25	**5,707,477**	5,659,714
TOTAL EQUITY		**5,817,269**	5,769,506
TOTAL EQUITY AND LIABILITIES		**37,834,991**	35,329,665

Condensed Consolidated Statement of Changes in Equity

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at beginning of period	**5,769,506**	5,654,221
Profit for the period	**117,655**	250,227
Other comprehensive loss	**(14,996)**	(7,499)
Total comprehensive income for the period	**102,659**	242,728
Proceeds from issuance of shares upon exercise of share options, net of expense	**–**	25,541
Dividends declared on shares	**(54,896)**	(54,896)
Balance at end of period	**5,817,269**	5,867,594

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**2,453,983**	(1,162,386)
INVESTING ACTIVITIES	**(14,357)**	5,894
FINANCING ACTIVITIES	**(496,875)**	100,932
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,942,751**	(1,055,560)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**6,006,780**	7,070,190
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**7,949,531**	6,014,630
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**467,907**	589,799
Money at call and short notice with original maturity within three months	**4,984,907**	2,590,825
Placements with banks and financial institutions with original maturity within three months	**273,339**	1,793,908
Held-to-maturity investments with original maturity within three months	**2,223,378**	1,040,098
	7,949,531	6,014,630

Notes to the Condensed Consolidated Financial Statements

1. ACCOUNTING POLICIES

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

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in an annual report, and should be read in conjunction with the Company's 2008 Annual Report.

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Company's 2008 Annual Report except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs as disclosed in note 3 below.

2. BASIS OF PREPARATION

The consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of land lease prepayments and investment properties, available-for-sale financial assets, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Basis of consolidation

The consolidated interim financial statements comprise the interim financial statements of the Group as at and for the period ended 30 June 2009. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as the Group, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

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.

The subsidiaries consolidated for accounting purpose and which are members of the Group are as follows:

– Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries and a jointly-controlled entity.

Notes to the Condensed Consolidated Financial Statements

2. BASIS OF PREPARATION (Continued)

Basis of capital disclosures

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

Should the Group have not complied with externally imposed capital requirements of the HKMA, capital management plans should be submitted to the HKMA for restoration of capital to the minimum required level as soon as possible.

The computation of 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 on 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 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 non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

3. IMPACT OF NEW HKFRSs AND HKASs

The HKICPA has issued a number of new HKFRSs, and HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2009. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2009 which are pertinent to its operations and relevant to these interim financial statements.

• HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
• HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
• Amendments to HKFRS 7	Financial Instruments: Disclosures
• HKFRS 8	Operating Segments
• HKAS 1 (Revised)	Presentation of Financial Statements
• HKAS 10	Events after the Balance Sheet Date
• HKAS 18	Revenue
• HKAS 23 (Revised)	Borrowing Costs
• HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
• Amendments to HK(IFRIC)-Int 9 and HKAS 39	Reassessment of Embedded Derivative
• HK(IFRIC)-Int 13	Customer Loyalty Programmes
• HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
• HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

3. IMPACT OF NEW HKFRSs AND HKASs (Continued)

HKAS 27 Amendment removes the definition of the cost method and requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. HKFRS 1 Amendment allows a first-time adopters of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements.

HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only, both of which include a requirement for the counterparty to complete a specified period of service. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award of a share option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 7 Amendments requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurement is now required, as well as significant transfer between level 1 and level 2 fair value measurements. The amendments also clarify the requirement for liquidity risk disclosures.

HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three "statements of financial position" whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 10 clarifies that if dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with HKAS 1 Presentation of Financial Statements.

HKAS 18 clarifies that the recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

Notes to the Condensed Consolidated Financial Statements

3. IMPACT OF NEW HKFRSs AND HKASs (Continued)

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current operation does not involve in acquisition, construction, or production of qualifying assets, the revised standard is unlikely to have any financial impact on the Group. In accordance with the transitional provisions in the revised standard, the Group applies the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

Amendments to HK(IFRIC)-Int 9 introduces new condition under which the Group should perform subsequent reassessment on whether embedded derivative should be separated from host contract.

In addition to a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract, the amendments require a subsequent reassessment to be performed when there is a reclassification of a financial asset out of the fair value through profit or loss category, which shall be made on the basis of the circumstances existed on the later date of: (a) when the entity first became a party to the contract; and a change in the terms of the contract; and (b) a change in the terms of contract that significantly modified the cash flows that otherwise would have been required under the contract. The amendments to the interpretation are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no applicable customer loyalty award credits, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 replaces HK Interpretation 3 Revenue – Pre-completion Contracts for the Sale of Development Properties and the current guidance for real estate. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment, the interpretation is unlikely to have any financial impact on the Group.

3. IMPACT OF NEW HKFRSs AND HKASs (Continued)

In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out 35 amendments to 20 HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group adopts the following amendments to HKFRSs from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

(a) HKFRS 7 Financial Instruments: Disclosures: It removes the reference to “total interest income” as a component of finance costs.

(b) HKAS 1 Presentation of Financial Statements: It clarifies that assets and liabilities classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

(c) HKAS 16 Property, Plant and Equipment: It replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

(d) HKAS 27 Consolidated and Separate Financial Statements: It requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(e) HKAS 28 Investment in Associates: It clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(f) HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, which shall be consistent with disclosures required when the discounted cash flows are used to estimate “value in use”.

(g) HKAS 40 Investment Property: It revises the scope such that property that is being constructed or developed for future as an investment property is classified as investment property.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

Notes to the Condensed Consolidated Financial Statements

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs AND HKASs

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

• HKFRS 3 (Revised)	Business Combinations
• HKFRS 5 Amendments	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Classification of non-current assets (or disposal groups) as held for sale
• HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners
• HKAS 27 (Revised)	Consolidated and Separate Financial Statements
• HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently minority interests) at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

HKFRS 5 Amendments clarifies that an entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when certain criteria are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. Also, an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. This new Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in accounting policy, the interpretation is unlikely to have any material financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Cash Flows Statements, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

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

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

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

HKFRS 2 Share-based Payment: It clarifies in the scope that transaction in which entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

HKFRS 8 Operating Segments: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

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

HKAS 17 Lease: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

HKAS 18 Revenue: It gives additional example to illustrate how to determine whether an entity is acting as a principal or as an agent.

HKAS 36 Impairment of Assets: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 Intangible Assets: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination might be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from revised HKFRS 3 were also incorporated.

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. It also replaces the term “assets acquired or liability assumed” under Cash Flow Hedges with “hedged forecast cash flows”.

HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives: It clarifies in the scope that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

Notes to the Condensed Consolidated Financial Statements

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) By business segments

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments:

– 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 comprise management of investments in debts and equity securities, securities dealing and receipt of commission income and provision of authorised wealth management products and services;

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

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

5. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

The following tables represent revenue and profit information for business segments for the six months ended 30 June 2009 and 2008, and certain asset and liability information regarding business segments as at 30 June 2009 and 2008.

	Retail and commercial banking and lending businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2009 (Unaudited) HK$'000	30 June 2008 HK$'000	**30 June 2009 (Unaudited) HK$'000**	30 June 2008 HK$'000	**30 June 2009 (Unaudited) HK$'000**	30 June 2008 HK$'000	**30 June 2009 (Unaudited) HK$'000**	30 June 2008 HK$'000	**30 June 2009 (Unaudited) HK$'000**	30 June 2008 HK$'000
Segment revenue										
Net interest income	**576,042**	531,663	**48**	148	**–**	–	**–**	–	**576,090**	531,811
Other operating income:										
Fees and commission income	**53,983**	82,479	**32,081**	88,912	**257**	2,009	**–**	–	**86,321**	173,400
Others	**7,698**	15,422	**360**	680	**7,247**	5,773	**–**	–	**15,305**	21,875
Profit on sale of available-for-sale financial assets	**–**	–	**26,035**	–	**–**	–	**–**	–	**26,035**	–
Elimination of inter-segment transactions	**–**	–	**–**	–	**33**	225	**(33)**	(225)	**–**	–
	637,723	629,564	**58,524**	89,740	**7,537**	8,007	**(33)**	(225)	**703,751**	727,086
Segment results	**83,534**	277,856	**48,992**	12,284	**7,837**	13,006	**–**	–	**140,363**	303,146
Share of profits and losses of a jointly-controlled entity									**–**	–
Profit before tax									**140,363**	303,146
Tax									**(22,708)**	(52,919)
Profit for the period									**117,655**	250,227
Segment assets other than interests in a jointly-controlled entity and intangible assets	**34,495,981**	30,386,627	**353,854**	347,799	**199,924**	187,125	**–**	–	**35,049,759**	30,921,551
Interests in a jointly-controlled entity	**1,513**	1,513	**–**	–	**–**	–	**–**	–	**1,513**	1,513
Intangible assets	**–**	–	**358**	358	**–**	–	**–**	–	**358**	358
	34,497,494	30,388,140	**354,212**	348,157	**199,924**	187,125	**–**	–	**35,051,630**	30,923,422
Unallocated assets:										
Deferred tax assets									**8,958**	9,137
Goodwill									**2,774,403**	2,774,403
Total assets									**37,834,991**	33,706,962
Segment liabilities	**31,563,850**	27,436,836	**343,823**	201,809	**21,219**	14,039	**–**	–	**31,928,892**	27,652,684
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**33,934**	131,788
Dividend payable									**54,896**	54,896
Total liabilities									**32,017,722**	27,839,368
Other segment information										
Additions to non-current assets – capital expenditure	**18,401**	21,365	**–**	–	**–**	–	**–**	–	**18,401**	21,365
Depreciation and amortisation of land lease prepayments	**14,475**	10,825	**–**	–	**–**	–	**–**	–	**14,475**	10,825
Changes in fair value of investment properties	**–**	–	**–**	–	**(15,772)**	(18,801)	**–**	–	**(15,772)**	(18,801)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	**294,415**	121,474	**–**	68,216	**–**	–	**–**	–	**294,415**	189,690
Net loss on disposal of property and equipment	**21**	54	**–**	–	**–**	–	**–**	–	**21**	54

Notes to the Condensed Consolidated Financial Statements

5. SEGMENT INFORMATION (Continued)

(b) By geographical segment

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

(c) Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**696,819**	718,852
Short term placements and placements with banks	**36,964**	91,504
Held-to-maturity investments	**24,872**	62,150
	758,655	872,506
Interest expense on:		
Deposit from banks and financial institutions	**5,840**	14,328
Deposit from customers	**166,877**	310,724
Bank loans	**9,848**	15,643
	182,565	340,695

The interest income for the six months ended 30 June 2009 amounted to HK$758,655,000 (2008: HK$872,506,000) and interest expenses for the six months ended 30 June 2009 amounted to HK$182,565,000 (2008: HK$340,695,000) pursuant to the adoption of effective interest method for financial assets and liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the six months ended 30 June 2009 amounted to HK$3,009,000 (2008: HK$1,508,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**54,810**	85,044
Wealth management services, stockbroking and securities management	**32,081**	88,912
	86,891	173,956
Less: Fees and commission expenses	**(570)**	(556)
Net fees and commission income	**86,321**	173,400
Gross rental income	**6,500**	6,037
Less: Direct operating expenses	**(42)**	(39)
Net rental income	**6,458**	5,998
Gain less losses arising from dealing in foreign currencies	**7,889**	9,389
Losses on disposal of financial assets designated at fair value through profit or loss	**–**	(1,059)
Net losses on disposal of property and equipment	**(21)**	(54)
Dividends from listed investments	**360**	680
Dividends from unlisted investments	**980**	980
Net (expense)/income on derivative financial instruments	**(2,708)**	1,246
Others	**2,347**	4,695
	101,626	195,275

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2009 and 2008.

All fees and commission income and expense are related to financial assets or financial liabilities which are not designated at fair value through profit or loss. No fees and commission income and expense are related to trust and other fiduciary activities.

Notes to the Condensed Consolidated Financial Statements

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**138,385**	122,835
Pension contributions	**8,014**	6,725
Less: Forfeited contributions	**(4)**	(17)
Net retirement benefit schemes	**8,010**	6,708
	146,395	129,543
Other operating expenses:		
Operating lease rentals on leasehold buildings	**22,346**	17,744
Depreciation and amortisation of land lease prepayments	**14,475**	10,825
Administrative and general expenses	**29,635**	23,374
Others	**71,894**	71,565
Operating expenses before changes in fair value of investment properties	**284,745**	253,051
Changes in fair value of investment properties	**(15,772)**	(18,801)
	268,973	234,250

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Net charge for/(write-back) of impairment allowances:		
– Loans and advances	**298,081**	121,225
– Trade bills, accrued interest and receivables	**(3,666)**	249
– Held-to-maturity investments	**–**	37,000
– Available-for-sale securities	**–**	31,216
	294,415	189,690
Net charge for/(write-back) of impairment losses and allowances:		
– Individually assessed	**246,053**	198,322
– Collectively assessed	**48,362**	(8,632)
	294,415	189,690
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**354,254**	254,967
– releases and recoveries	**(59,839)**	(65,277)
Net charge to the consolidated income statement	**294,415**	189,690

There were no impairment allowances for other financial assets (other than loans and advances and receivables, held-to-maturity investments and available-for-sale securities) for the six months ended 30 June 2009 and 2008.

Notes to the Condensed Consolidated Financial Statements

10. TAX

	For the six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**18,601**	47,800
Elsewhere	**1,365**	1,268
Under-provisions in prior years	**–**	4,124
Deferred tax charge/(credit)	**2,742**	(273)
	22,708	52,919

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and 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 2009 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	**133,541**		**6,822**		**140,363**	
Tax at the applicable tax rate	**22,033**	**16.5**	**1,365**	**20.0**	**23,398**	**16.7**
Estimated tax effect of net income that is not taxable	**(690)**	**(0.5)**	**–**	**–**	**(690)**	**(0.5)**
Tax charge at the Group's effective rate	**21,343**	**16.0**	**1,365**	**20.0**	**22,708**	**16.2**

10. TAX (Continued)

	For the six months ended 30 June 2008 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	296,102		7,044		303,146	
Tax at the applicable tax rate	48,857	16.5	1,268	18.0	50,125	16.5
Effect on change in tax rates	(3,634)	(1.2)	–	–	(3,634)	(1.2)
Estimated tax effect of net expense that is tax deductible	2,316	0.8	–	–	2,316	0.8
Estimated tax losses from previous periods utilised	(14)	–	–	–	(14)	–
Estimated tax losses not recognised	2	–	–	–	2	–
Adjustments in respect of current tax of previous periods	4,124	1.4	–	–	4,124	1.4
Tax charge at the Group's effective rate	51,651	17.5	1,268	18.0	52,919	17.5

11. DIVIDENDS

	For the six months ended 30 June			
	2009	2008	**2009**	2008
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim	**0.05**	0.05	**54,896**	54,896

Notes to the Condensed Consolidated Financial Statements

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$117,655,000 (2008: HK$250,227,000) and on the weighted average number of 1,097,917,618 (2008: 1,094,773,602) ordinary shares in issue during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2009 and 2008 had nil effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2009 was based on the profit for the period of HK$117,655,000 (2008: HK$250,227,000) and on the weighted average number of 1,097,917,618 (2008: 1,094,773,602) ordinary shares, being the weighted average number of 1,097,917,618 (2008: 1,094,773,602) ordinary shares in issue during the period as used in the basic earnings per share calculation.

13. CASH AND SHORT TERM PLACEMENTS

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Cash in hand	**116,385**	129,548
Placements with banks and financial institutions	**351,522**	345,590
Money at call and short notice	**5,078,944**	5,310,134
	5,546,851	5,785,272

Over 90% of the placements are rated with grading of Baa2 or above based on the rating of an external credit agency, Moody's.

14. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Placements with banks and financial institutions	**432,298**	173,099

Over 90% of the placements were rated with grading of Baa2 or above based on the rating of an external credit agency, Moody's.

15. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Loans and advances	**24,303,454**	24,377,507
Trade bills	**83,744**	50,861
	24,387,198	24,428,368
Accrued interest	**75,170**	86,165
	24,462,368	24,514,533
Other receivables	**57,225**	58,138
Gross loans and advances and receivables	**24,519,593**	24,572,671
Less: Impairment allowances for loans and advances and receivables		
– Individually assessed	**(113,279)**	(108,432)
– Collectively assessed	**(127,656)**	(79,296)
	(240,935)	(187,728)
Loans and advances and receivables	**24,278,658**	24,384,943

Over 90% of the loans and advances and receivables are unrated exposures. The Group's loans and advances and receivables are mainly collateralised by properties, cash, securities and taxi licences.

Notes to the Condensed Consolidated Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(a) (i) Overdue and impaired loans and advances

	30 June 2009 (Unaudited)		31 December 2008 (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	**141,828**	**0.58**	183,494	0.76
One year or less but over six months	**117,536**	**0.48**	9,551	0.04
Over one year	**16,220**	**0.07**	12,843	0.05
Loans and advances overdue for more than three months	**275,584**	**1.13**	205,888	0.85
Rescheduled loans and advances overdue for three months or less	**58,779**	**0.24**	298	–
Impaired accounts overdue for three months or less	**81,824**	**0.34**	47,198	0.19
Total overdue and impaired loans and advances	**416,187**	**1.71**	253,384	1.04

(ii) Overdue and impaired trade bills, accrued interest and other receivables

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**1,000**	3,251
One year or less but over six months	**6,085**	437
Over one year	**2,593**	2,113
Trade bills, accrued interest and other receivables overdue for more than three months	**9,678**	5,801
Impaired accounts overdue for three months or less	**434**	3,063
Total overdue and impaired trade bills, accrued interest and other receivables	**10,112**	8,864

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.

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2009 (Unaudited)			31 December 2008 (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 more than three months	**213,067**	**72,195**	**285,262**	151,411	60,278	211,689
Individual impairment allowances	**44,351**	**18,495**	**62,846**	68,306	16,311	84,617
Collective impairment allowances	**72,259**	**–**	**72,259**	50,455	–	50,455
Current market value and fair value of collateral			**49,639**			19,085
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**354,104**	**72,195**	**426,299**	198,950	63,298	262,248
Individual impairment allowances	**94,784**	**18,495**	**113,279**	91,526	16,906	108,432
Collective impairment allowances	**99,368**	**–**	**99,368**	50,455	–	50,455
Current market value and fair value of collateral			**59,985**			31,371

Over 90% of the Group's gross loans and advances and receivables and their related impairment allowances are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented herein.

Notes to the Condensed Consolidated Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**49,207**	19,085
Covered portion of overdue loans and advances	**42,955**	7,624
Uncovered portion of overdue loans and advances	**232,629**	198,264

The eligibility of assets taken as collateral should satisfy the following criteria:

– The market value of the asset is readily determinable or can be reasonably established and verified.

– The asset is marketable and there exists a readily available secondary market for disposal of the asset.

– The Group's right to repossess the asset is legally enforceable without impediment.

– The Group is able to secure control over the asset if necessary.

(d) Repossessed assets

As at 30 June 2009, the total value of repossessed assets of the Group amounted to HK$13,780,000 (2008: Nil).

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2009 (Unaudited)		31 December 2008 (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 less than three months	**791,239**	**3.26**	718,268	2.95
Rescheduled but not impaired loans and advances	**–**	**–**	505	–
	791,239	**3.26**	718,773	2.95
Trade bills, accrued interest and other receivables overdue less than three months	**2,246**		6,939	

Notes to the Condensed Consolidated Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	30 June 2009 (Unaudited) Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2009	108,432	79,296	187,728
Amount written off	(294,882)	–	(294,882)
Impairment losses and allowances charged to the income statement	305,892	48,362	354,254
Impairment losses and allowances released to the income statement	(59,839)	–	(59,839)
Net charge of impairment losses and allowances	246,053	48,362	294,415
Loans and advances and receivables recovered	53,706	–	53,706
Exchange difference	(30)	(2)	(32)
At 30 June 2009	113,279	127,656	240,935
Deducted from:			
Loans and advances	110,597	127,262	237,859
Trade bills, accrued interest and other receivables	2,682	394	3,076
	113,279	127,656	240,935

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	31 December 2008 (Audited)		
	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2008	33,990	65,871	99,861
Amount written off	(393,087)	–	(393,087)
Impairment losses and allowances charged to the income statement	471,793	13,248	485,041
Impairment losses and allowances released to the income statement	(111,723)	–	(111,723)
Net charge of impairment losses and allowances	360,070	13,248	373,318
Loans and advances and receivables recovered	107,459	–	107,459
Exchange difference	–	177	177
At 31 December 2008	108,432	79,296	187,728
Deducted from:			
Loans and advances	101,893	79,093	180,986
Trade bills, accrued interest and other receivables	6,539	203	6,742
	108,432	79,296	187,728

Notes to the Condensed Consolidated Financial Statements

15. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(g) Finance lease receivables

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000	**30 June 2009 (Unaudited) HK$'000**	31 December 2008 (Audited) HK$'000
Amounts receivable under finance leases:				
Within one year	**378,438**	504,367	**274,816**	402,799
In the second to fifth years, inclusive	**1,070,962**	984,264	**787,930**	712,678
Over five years	**3,086,660**	3,020,088	**2,429,776**	2,390,931
	4,536,060	4,508,719	**3,492,522**	3,506,408
Less: Unearned finance income	**(1,043,538)**	(1,002,311)		
Present value of minimum lease payments receivable	**3,492,522**	3,506,408		

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. OTHER PAST DUE AND RESCHEDULED ASSETS

There were no other overdue or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables and held-to-maturity investments) as at 30 June 2009 and 31 December 2008.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments and intangible assets) as at 30 June 2009 and 31 December 2008, and no impairment allowances and losses were charged to the income statement for such other assets for the six months ended 30 June 2009 and 2008.

17. HELD-TO-MATURITY INVESTMENTS

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Certificates of deposit held	**820,981**	40,000
Treasury bills (including Exchange Fund Bills)	**319,521**	319,721
Other debt securities	**2,311,056**	609,495
	3,451,558	969,216
Listed or unlisted:		
– listed in Hong Kong	**19,997**	19,994
– unlisted	**3,431,561**	949,222
	3,451,558	969,216
Analysed by issuers:		
– central government	**319,521**	319,720
– banks and other financial institutions	**3,132,037**	649,496
	3,451,558	969,216
Market value of listed held-to-maturity investments		
– Hong Kong	**20,218**	20,214

Movement on impairment allowance of held-to-maturity investments

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Balance at beginning of period/year	**–**	9,800
Individual impairment allowance charged to the income statement for the period/year	**–**	37,000
	–	46,800
Less: Amount written off	**–**	(46,800)
Balance at end of the period/year	**–**	–

Notes to the Condensed Consolidated Financial Statements

17. HELD-TO-MATURITY INVESTMENTS (Continued)

There were no overdue held-to-maturity investments.

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

18. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
At 1 January 2008	146,492
Additions	313
Change in fair value	18,541
At 31 December 2008 and 1 January 2009	**165,346**
Change in fair value	**15,772**
At 30 June 2009	**181,118**

19. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2008	68,848	113,551	2,984	185,383
Additions	1,406	37,558	–	38,964
Disposals/write-off	–	(6,590)	–	(6,590)
At 31 December 2008 and 1 January 2009	**70,254**	**144,519**	**2,984**	**217,757**
Additions	**–**	**18,401**	**–**	**18,401**
Disposals/write-off	**–**	**(9,667)**	**–**	**(9,667)**
At 30 June 2009	**70,254**	**153,253**	**2,984**	**226,491**
Accumulated depreciation:				
At 1 January 2008	9,256	75,426	2,694	87,376
Provided during the year	1,539	16,092	99	17,730
Exchange difference	35	23	–	58
Disposals/write-off	–	(6,517)	–	(6,517)
At 31 December 2008 and 1 January 2009	**10,830**	**85,024**	**2,793**	**98,647**
Provided during the period	**805**	**10,047**	**23**	**10,875**
Exchange difference	**(2)**	**–**	**–**	**(2)**
Disposals/write-off	**–**	**(6,937)**	**–**	**(6,937)**
At 30 June 2009	**11,633**	**88,134**	**2,816**	**102,583**
Net carrying amount:				
At 30 June 2009	**58,621**	**65,119**	**168**	**123,908**
At 31 December 2008	59,424	59,495	191	119,110

Notes to the Condensed Consolidated Financial Statements

20. LAND LEASE PREPAYMENTS

	HK$'000
Cost:	
At 1 January 2008	667,402
Additions	45,447
At 31 December 2008, 1 January 2009 and 30 June 2009	**712,849**
Accumulated amortisation and impairment:	
At 1 January 2008	38,738
Provided during the year	6,121
At 31 December 2008 and 1 January 2009	**44,859**
Provided during the period	**3,600**
At 30 June 2009	**48,459**
Net carrying amount:	
At 30 June 2009	**664,390**
At 31 December 2008	667,990

The current and non-current portions of the land lease prepayments were HK$7,213,000 (2008: HK$7,200,000) and HK$657,177,000 (2008: HK$660,790,000) respectively.

21. OTHER ASSETS

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Interest receivable from authorised institutions	**2,247**	13,488
Other debtors, deposits and prepayments	**342,606**	221,279
	344,853	234,767

22. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Demand deposits and current accounts	**1,216,568**	928,778
Savings deposits	**4,614,682**	2,988,709
Time, call and notice deposits	**21,412,942**	20,266,929
	27,244,192	24,184,416

23. UNSECURED BANK LOANS AT AMORTISED COST

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Unsecured bank loans	**2,949,969**	3,249,219
Repayable:		
Within one year	**2,949,969**	3,249,219

The unsecured bank loans are denominated in Hong Kong dollars. The carrying amounts of the unsecured bank loans approximate their fair values and bear interest at floating interest rates and at prevailing market rates.

24. OTHER LIABILITIES

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Creditors, accruals and interest payable	**720,402**	372,595
Amount due to the ultimate holding company	**47**	47
	720,449	372,642

Notes to the Condensed Consolidated Financial Statements

25. RESERVES

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation reserve HK$'000	Total HK$'000
At 1 January 2008	3,988,219	829	96,116	44,176	45,765	161,219	1,187,107	21,400	5,544,831
Profit for the year	–	–	–	–	–	–	358,187	–	358,187
Other comprehensive gains/(losses)	–	–	–	(29,520)	–	–	–	13,660	(15,860)
Premium, net of expenses, arising on share options exercised	25,077	–	–	–	–	–	–	–	25,077
Transfer from retained profits	–	–	–	–	–	143,332	(143,332)	–	–
Dividends for 2008	–	–	–	–	–	–	(252,521)	–	(252,521)
At 31 December 2008 and 1 January 2009	**4,013,296**	**829**	**96,116**	**14,656**	**45,765**	**304,551**	**1,149,441**	**35,060**	**5,659,714**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**117,655**	**–**	**117,655**
Other comprehensive losses	**–**	**–**	**–**	**(14,656)**	**–**	**–**	**–**	**(340)**	**(14,996)**
Transfer to retained profits	**–**	**–**	**–**	**–**	**–**	**(27,071)**	**27,071**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
At 30 June 2009	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**277,480**	**1,239,271**	**34,720**	**5,707,477**

26. OPERATING LEASE ARRANGEMENTS

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

As at 30 June 2009, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Within one year	**9,206**	8,559
In the second to fifth years, inclusive	**3,718**	3,532
	12,924	12,091

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

As at 30 June 2009, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Within one year	**39,579**	37,759
In the second to fifth years, inclusive	**31,836**	32,391
	71,415	70,150

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27. OFF-BALANCE SHEET EXPOSURE

(a) Contingent liabilities and commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments and derivatives of the Group outstanding as at 30 June 2009:

	30 June 2009 (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	306,573	306,574	87,897	–	–
Transaction-related contingencies	1,422	711	105	–	–
Trade related contingencies	123,756	24,750	21,395	–	–
Forward forward deposits placed	315,154	315,154	63,031	–	–
Forward asset purchases	45,549	45,549	9,110	–	–
	792,454	692,738	181,538	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	485,315	6,379	–	515	3,223
Interest rate swaps	–	–	–	–	–
	485,315	6,379	–	515	3,223
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	270,096	135,048	135,048	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,281,831	–	–	–	–
	4,829,696	834,165	316,586	515	3,223
Capital commitment contracted for, but not provided in the financial statements	5,223				

27. OFF-BALANCE SHEET EXPOSURE (Continued)

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

	31 December 2008 (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	313,464	313,464	99,130	–	–
Transaction-related contingencies	3,238	1,619	563	–	–
Trade related contingencies	70,505	14,101	9,195	–	–
Forward forward deposits placed	8,596	8,596	1,719	–	–
Forward asset purchases	23,346	23,346	4,669	–	–
	419,149	361,126	115,276	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,925,319	15,988	68	1,151	4,150
Interest rate swaps	–	–	–	–	–
	1,925,319	15,988	68	1,151	4,150
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	259,096	129,548	129,548	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,862,542	–	–	–	–
	6,466,106	506,662	244,892	1,151	4,150
Capital commitment contracted for, but not provided in the financial statements	5,192				

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 2009 and 31 December 2008, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

Notes to the Condensed Consolidated Financial Statements

27. OFF-BALANCE SHEET EXPOSURE (Continued)

(b) Derivative financial instruments

The Group uses the following derivative instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

28. RELATED PARTY TRANSACTIONS

During the period, the Group had the following major transactions with related parties which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers:

	For the six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Related party transactions included in the income statement:		
Interest income from the ultimate holding company	**19,493**	3,991
Rental income from the ultimate holding company	**364**	387
Management fees from the ultimate holding company	**98**	320
Interest paid and payable to fellow subsidiaries	**26,463**	11,167
Interest paid and payable to the ultimate holding company	**246**	1,938
Key management personnel compensation:		
– short-term employee benefits	**2,026**	2,931
– post employment benefits	**244**	132
	2,270	3,063
Interest income received from key management personnel	**4**	11
Interest expense paid to key management personnel	**103**	346
Commission fee income from key management personnel	**4**	8
Post employment benefits for employees other than key management personnel	**7,766**	6,575

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Related party transactions included in the statement of financial position:		
Cash and short term funds with the ultimate holding company	**305,637**	1,937,677
Deposits and balances with the ultimate holding company	**233,418**	63,968
Deposits and balances with the fellow subsidiaries	**4,719**	5,750
Interest receivable from the ultimate holding company	**12**	393
Time deposits from a fellow subsidiary and affiliated company	**480,217**	2,332,673
Bank loan from a fellow subsidiary	**1,050,000**	1,050,000
Interest payable to fellow subsidiaries and the ultimate holding company	**677**	31,002
Rental deposits from the ultimate holding company	**47**	47
A mortgage loan to key management personnel	**758**	818
Deposits from key management personnel	**23,643**	22,355

Notes to the Condensed Consolidated Financial Statements

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2009 (Unaudited)			31 December 2008 (Audited)		
	Carrying value HK$'000	**Fair value HK$'000**	**Unrecognised gain/(loss) HK$'000**	Carrying value HK$'000	Fair value HK$'000	Unrecognised gain/(loss) HK$'000
Financial assets						
Cash and short term placements	**5,546,851**	**5,546,851**	**–**	5,785,272	5,785,272	–
Placements with banks and financial institutions	**432,298**	**432,298**	**–**	173,099	173,099	–
Financial assets designated at fair value through profit or loss	**–**	**–**	**–**	–	–	–
Derivative financial instruments	**515**	**515**	**–**	1,151	1,151	–
Loans and advances and receivables	**24,278,658**	**24,278,658**	**–**	24,384,943	24,384,943	–
Available-for-sale financial assets (excluding unlisted equity investment, at cost)	**–**	**–**	**–**	14,720	14,720	–
Held-to-maturity investments	**3,451,558**	**3,440,888**	**(10,670)**	969,216	957,557	(11,659)
Other assets	**344,853**	**344,853**	**–**	234,767	234,767	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**931,060**	**931,060**	**–**	641,732	641,732	–
Derivative financial instruments	**3,223**	**3,223**	**–**	4,150	4,150	–
Customer deposits at amortised cost	**27,244,192**	**27,244,192**	**–**	24,184,416	24,184,416	–
Certificates of deposit issued at amortised cost	**79,999**	**79,999**	**–**	879,850	879,850	–
Unsecured bank loans at amortised cost	**2,949,969**	**2,949,969**	**–**	3,249,219	3,249,219	–
Other liabilities	**720,449**	**720,449**	**–**	372,642	372,642	–
Total unrecognised change in unrealised fair value			**(10,670)**			(11,659)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(A) Assets and liabilities for which fair value approximates carrying value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Liquid or/and very short term and variable rate financial instruments

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are based on current interest rates offered for similar financial instruments appropriate for remaining term to maturity. The estimated fair values of fixed interest bearing deposits are based on discounted cash flows using prevailing money-market interest rates. For those certificates of deposit issued and customer deposits where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(B) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2009 (Unaudited)		
	Level 1	**Level 2**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Financial assets:			
Derivative financial instruments	**–**	**515**	**515**
Financial liabilities:			
Derivative financial instruments	**–**	**3,223**	**3,223**

Notes to the Condensed Consolidated Financial Statements

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(B) Determination of fair value and fair value hierarchy (Continued)

	31 December 2008 (Audited)		
	Level 1	Level 2	Total
	HK$'000	HK$'000	HK$'000
Financial assets:			
Derivative financial instruments	–	1,151	1,151
Available-for-sale financial assets	14,720	–	14,720
	14,720	1,151	15,871
Financial liabilities:			
Derivative financial instruments	–	4,150	4,150

There were no transfers between level 1 and level 2 in fair value hierarchy. There were no transactions or balances for level 3 in fair value hierarchy as at 30 June 2009 and 31 December 2008.

Unlisted equity investment measured at cost amounted to HK$6,804,000 (2008: HK$6,804,000) was excluded from the fair value of financial instruments disclosure.

There were no financial assets and financial liabilities that offset against each other for the six months ended 30 June 2009 and 2008.

30. 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 when they are expected to be recovered or settled.

	30 June 2009 (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	467,907	5,078,944	–	–	–	–	–	5,546,851
Placements with banks and financial institutions	–	–	273,339	158,959	–	–	–	432,298
Derivative financial instruments	–	415	100	–	–	–	–	515
Loans and advances and receivables	666,012	1,957,804	1,131,268	2,433,055	7,546,392	10,420,220	364,842	24,519,593
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,987,167	1,057,190	369,382	37,819	–	–	3,451,558
Other assets	–	2,247	–	–	–	–	342,606	344,853
Total financial assets	1,133,919	9,026,577	2,461,897	2,961,396	7,584,211	10,420,220	714,252	34,302,472
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	66,248	479,719	236,460	148,633	–	–	–	931,060
Derivative financial instruments	–	2,291	932	–	–	–	–	3,223
Customer deposits at amortised cost	5,841,696	9,868,979	7,829,049	3,691,169	13,299	–	–	27,244,192
Certificates of deposit issued at amortised cost	–	79,999	–	–	–	–	–	79,999
Unsecured bank loans at amortised cost	–	2,649,964	300,005	–	–	–	–	2,949,969
Other liabilities	–	51,649	–	–	–	–	668,800	720,449
Total financial liabilities	5,907,944	13,132,601	8,366,446	3,839,802	13,299	–	668,800	31,928,892

Notes to the Condensed Consolidated Financial Statements

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

	31 December 2008 (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	475,138	5,310,134	–	–	–	–	–	5,785,272
Placements with banks and financial institutions	–	–	34,089	139,010	–	–	–	173,099
Derivative financial instruments	–	877	274	–	–	–	–	1,151
Loans and advances and receivables	537,303	1,379,984	1,305,662	2,571,270	8,296,139	10,269,581	212,732	24,572,671
Available-for-sale financial assets	–	–	–	–	–	–	21,524	21,524
Held-to-maturity investments	–	217,410	230,973	417,631	103,202	–	–	969,216
Other assets	–	13,489	–	–	–	–	221,278	234,767
Total financial assets	1,012,441	6,921,894	1,570,998	3,127,911	8,399,341	10,269,581	455,534	31,757,700
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	30,324	398,546	161,297	51,565	–	–	–	641,732
Derivative financial instruments	–	4,026	124	–	–	–	–	4,150
Customer deposits at amortised cost	3,902,302	10,238,254	6,518,751	3,509,886	15,223	–	–	24,184,416
Certificates of deposit issued at amortised cost	–	–	–	879,850	–	–	–	879,850
Unsecured bank loans at amortised cost	–	–	–	3,249,219	–	–	–	3,249,219
Other liabilities	–	105,451	1,277	–	–	–	265,914	372,642
Total financial liabilities	3,932,626	10,746,277	6,681,449	7,690,520	15,223	–	265,914	29,332,009

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise certificates of deposit issued and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade bills, held-to-maturity investments, loans and advances and receivables, available-for-sale financial assets and financial assets designated at fair value through profit or loss, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts held for trading. The purpose is to manage or mitigate interest rate risk and currency risk arising from the Group's operations.

The main risks arising from the Group's financial instruments are market risk, credit risk, liquidity risk and operational risk. The board reviews and approves policies for managing each of these risks and they are summarised below.

Risk management

The Group has established systems, policies and procedures for the control and monitoring of market, credit, liquidity and operational risks, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, Credit Risk Management Committee, Asset and Liability Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and measured by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the implementation of new products or services or business activities. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Market risk management

(a) Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Group's Treasury Department and monitored and measured by the Asset and Liability Management Committee of Public Bank (Hong Kong) and Assets and Liabilities Committee of Public Finance against limits approved by the board of directors.

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the boards of directors of respective subsidiaries. The Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars of which the exchange rates have remained relatively stable among each other for the period ended 30 June 2009 and the year ended 31 December 2008.

Notes to the Condensed Consolidated Financial Statements

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(c) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities including commodities, debt securities and equities.

The Group monitors market risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the boards of directors of respective subsidiaries and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the board of directors, the price risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures for price risk have been prepared.

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits set by the Credit Risk Management Committee and approved by the board of directors). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, taking of collateral, capital adequacy treatment and detailed procedures and controls for monitoring of connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than loans granted to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

Credit and compliance audits are periodically conducted by the Internal Audit Department to evaluate the effectiveness of the credit review, approval and monitoring processes and to ensure the established credit policies and procedures are complied with.

The Credit Committee of the Group monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantee) through meeting discussions, management information systems and reports. Those loan borrowers subject to legal proceedings, negative comments from other counterparties and rescheduled arrangements are put under watch lists or under "special mention" grade for management oversight.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

The Credit Committee of the Group monitors the quality of past due or impaired financial assets by internal grading of "substandard", "doubtful" and "loss" through the same meeting discussions and management information systems and reports. The impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

The Credit Risk Management Committee of the Group is responsible for establishing the framework for identifying, measuring, monitoring and controlling credit risk of existing and new products, and approving credit risk management policies and credit risk tolerable limits as and when necessary.

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as cash, properties, taxi licenses and cabs and securities.

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by management and approved by the board of directors. The Group measures the liquidity of the Group using the statutory liquidity ratio, loan-to-deposit ratio, maturity mismatch ratio and other relevant performance measures.

The Asset and Liability Management Committee of the Public Bank (Hong Kong) and Assets and Liabilities Committee of Public Finance monitor the liquidity position as part of the ongoing assets and liabilities management, and sets up trigger limits to monitor liquidity risk. They also closely monitors the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet the funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

Operational risk management

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group has operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines responsibilities of various committees, business units and supporting departments, highlights key operational risk cause factors and categories with loss event types to facilitate measurement and assessment of operational risks and potential impact. The operational risk exposures are monitored by appropriate key risk indicators for tracking and escalation to management for providing early warning signals of increased operational risk or a breakdown in operational risk management. Regular operational risk management reports are received and consolidated from various parties and reported to the Operational Risk Management Committee for monitoring and control of operational risk.

Notes to the Condensed Consolidated Financial Statements

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

Capital of the Group for regulatory and risk management purpose include share capital, share premium, reserves, profit and loss, regulatory reserve and sub-ordinated debts, if any. The Finance and Control Department is responsible for monitoring the amount of capital base and capital adequacy ratio against trigger limits and for risk exposures, ensuring compliance with relevant statutory limits taking into account business growth, dividend payout and other relevant factors.

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various business activities of the Group depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of three years.

Capital adequacy and core capital ratios

	30 June 2009	31 December 2008
Group:		
Consolidated capital adequacy ratio	**12.2%**	11.7%
Consolidated core capital ratio	**11.2%**	10.8%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**19.4%**	18.9%
Consolidated core capital ratio	**18.3%**	17.8%

Capital disclosures

The consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Holdings (Hong Kong) Limited, Winton Financial Limited, Winton Motors, Limited and Winsure Company, Limited.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) is computed on a consolidated basis including Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

Supplementary Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

Gross and impaired loans and advances to customers, impairment allowances, impaired loans written off and collateral are analysed by industry sectors pursuant to HKMA guidelines as follows:

30 June 2009

	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK$'000	Overdue more than three months loans and advances HK$'000
Loans for use in Hong Kong									
Manufacturing	500,579	841	39,059	30,909	25,492	229,789	45.9%	74,264	17,397
Building & construction, property development and investment									
Property development	567,279	544	–	–	–	118,312	20.9%	–	–
Property investment	6,259,172	6,003	1,009	719	–	4,852,928	77.5%	21,426	20,498
Civil engineering works	195,036	187	–	–	–	13,710	7.0%	–	–
Electricity and gas	32,447	31	–	–	–	–	–	–	–
Recreational activities	2,863	3	–	–	–	2,847	99.4%	–	–
Information technology	1,015	1	–	–	–	1,015	100.0%	–	–
Wholesale and retail trade	59,240	442	–	–	–	44,531	75.2%	2,458	571
Transport and transport equipment	3,434,596	2,885	5,882	3,437	1,499	3,333,934	97.1%	6,614	5,142
Hotels, boarding houses & catering	103,829	98	–	–	–	9,608	9.3%	–	–
Financial concerns	131,528	126	–	–	–	57,202	43.5%	–	–
Stockbrokers									
Margin lending	64,882	62	–	–	–	29,843	46.0%	–	–
Others	67,038	64	–	–	–	23,674	35.3%	–	–
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	454,081	436	–	–	–	286,036	63.0%	–	–
Others	16,787	16	–	–	–	130	0.8%	–	–
Professional & private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme	217,298	209	32	–	–	217,298	100.0%	325	325
Loans for the purchase of other residential properties	6,273,388	5,896	1,051	226	–	6,247,775	99.6%	2,397	1,509
Loans for credit card advances	17,455	17	127	338	233	–	–	127	127
Loans for other business purposes	–	–	–	–	–	–	–	–	–
Loans for other private purposes	3,952,995	106,019	15,084	290,497	238,069	476,421	12.1%	174,239	113,352
Trade finance	564,585	542	17,435	12,162	25,219	399,747	70.8%	44,975	41,979
Other loans and advances	85,481	82	2,918	13,406	2,917	73,293	85.7%	2,917	95
Sub-total	23,001,574	124,504	82,597	351,694	293,429	16,418,093	71.4%	329,742	200,995
Loans and advances for use outside Hong Kong	1,301,880	2,758	28,000	–	–	59,847	4.6%	86,445	74,589
Total loans and advances (excluding trade bills)	24,303,454	127,262	110,597	351,694	293,429	16,477,940	67.8%	416,187	275,584

Supplementary Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

	31 December 2008								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK$'000	Overdue more than three months loans and advances HK$'000
Loans for use in Hong Kong									
Manufacturing	542,760	608	34,808	38,750	9,860	71,477	13.2%	42,963	39,459
Building & construction, property development and investment									
Property development	596,458	626	–	344	344	56,769	9.5%	–	–
Property investment	5,720,563	5,941	–	–	–	4,198,015	73.4%	4,308	–
Civil engineering works	93,295	97	–	–	–	7,681	8.2%	–	–
Electricity and gas	34,080	35	–	–	–	–	–	–	–
Recreational activities	3,023	3	–	–	–	2,915	96.4%	–	–
Information technology	1,565	2	–	–	–	–	–	–	–
Wholesale and retail trade	42,331	58	–	6,450	11,678	28,348	67.0%	889	–
Transport and transport equipment	3,474,961	3,244	5,433	5,385	3,277	541,771	15.6%	6,239	4,728
Hotels, boarding houses & catering	12,505	11	–	–	–	11,565	92.5%	–	–
Financial concerns	156,033	162	–	–	–	21,910	14.0%	–	–
Stockbrokers									
Margin lending	–	–	–	–	–	–	–	–	–
Others	52,223	54	–	–	–	3,454	6.6%	–	–
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	243,798	253	–	–	–	–	–	–	–
Others	2,303	2	–	–	–	–	–	–	–
Professional & private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme	234,704	244	32	29	–	234,672	100.0%	32	32
Loans for the purchase of other residential properties	6,159,142	6,281	859	35	–	6,158,283	100.0%	2,578	825
Loans for credit card advances	18,945	20	31	410	379	–	–	31	31
Loans for other business purposes	11,824	164	–	–	–	534	4.5%	202	202
Loans for other private purposes	4,000,964	58,196	10,918	375,623	361,582	168,391	4.2%	88,565	82,591
Trade finance	623,706	648	30,559	33,628	5,967	45,418	7.3%	38,521	17,431
Other loans and advances	1,349,670	1,402	2,986	16,387	–	297,866	22.1%	8,434	2,865
Sub-total	23,374,853	78,051	85,626	477,041	393,087	11,849,069	50.7%	192,762	148,164
Loans and advances for use outside Hong Kong	1,002,654	1,042	16,274	–	–	316,066	31.5%	60,622	57,724
Total loans and advances (excluding trade bills)	24,377,507	79,093	101,900	477,041	393,087	12,165,135	49.9%	253,384	205,888

The advances to customers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

NON-BANK MAINLAND EXPOSURES

The following table illustrates the disclosure required to make in respect of its Mainland exposures to non-bank counterparties:

	On-balance sheet exposure HK$'million	**Off-balance sheet exposure HK$'million**	**Total exposures HK$'million**	**Individual impairment allowance HK$'million**
As at 30 June 2009				
Mainland entities	**116**	**220**	**336**	**–**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**134**	**–**	**134**	**–**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**840**	**–**	**840**	**18**
	1,090	**220**	**1,310**	**18**

	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total exposures HK$'million	Individual impairment allowance HK$'million
As at 31 December 2008				
Mainland entities	182	231	413	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	125	–	125	–
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	926	–	926	17
	1,233	231	1,464	17

Supplementary Information (Unaudited)

CROSS-BORDER CLAIMS

The following table illustrates the geographical disclosure of the Group's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims and was prepared in accordance with the guidelines issued by the HKMA.

	Banks and other financial institutions HK$'million	**Public sector entities HK$'million**	**Others HK$'million**	**Total HK$'million**
As at 30 June 2009				
1. Asia Pacific excluding Hong Kong	**3,701**	**14**	**432**	**4,147**
2. Western Europe of which:	**4,398**	**–**	**160**	**4,558**
France	**1,065**	**–**	**–**	**1,065**

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2008				
1. Asia Pacific excluding Hong Kong of which:	3,700	29	386	4,115
Malaysia	2,399	–	45	2,444
2. Western Europe of which:	2,456	–	171	2,627
Germany	934	–	–	934

CURRENCY RISK

Foreign currency exposures with a net position which constitutes not less than 10% of the total net position in all foreign currencies of the Group are as follow:

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural long position
As at 30 June 2009						
(In HK$'million)						
United States Dollars	**4,478**	**4,668**	**351**	**135**	**26**	
Renminbi	**353**	**126**	**–**	**–**	**227**	
Others	**2,517**	**2,317**	**127**	**337**	**(10)**	
	7,348	**7,111**	**478**	**472**	**243**	
Renminbi						**227**

	Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural long position
As at 31 December 2008						
(In HK$'million)						
United States Dollars	4,672	6,200	1,694	181	(15)	
Renminbi	332	115	–	1	216	
Others	2,452	2,326	169	300	(5)	
	7,456	8,641	1,863	482	196	
Renminbi						227

Supplementary Information (Unaudited)

LIQUIDITY RATIO

	For the six months ended 30 June 2009	2008
Average liquidity ratio:		
Public Bank (Hong Kong)	**47.9%**	39.1%
Public Finance	**110.3%**	54.0%

The average liquidity ratio for the period is computed in accordance with the Fourth Schedule of the Banking Ordinance.

Management Discussion and Analysis

BUSINESS REVIEW

Overview

During the period under review, the economic conditions in Hong Kong continued to be affected by the global economic slow down and tight credit markets. Faced with a rising unemployment rate which rose from 4.1% as at the end of 2008 to 5.3% as at the end of May 2009, declining retail sales and exports, and an increase in personal bankruptcy petitions, the economic conditions in Hong Kong remains challenging. Likewise the Group's operating environment during the period under review was also very challenging with intense competition for customers and deteriorating credit quality.

FINANCIAL REVIEW

Group performance

Revenue and earnings

For the six months ended 30 June 2009, the Group recorded a profit after tax of HK$117.7 million, representing a decline of 53.0% or HK$132.5 million when compared to the profit after tax of HK$250.2 million in the corresponding period in 2008.

The Group's basic earnings per share for the six months ended 30 June 2009 was HK$0.107. The directors had declared an interim dividend of HK$0.05 per share on 30 June 2009, payable on 7 August 2009.

The Group's operating income decreased by 3.2% or HK$23.3 million to HK$703.8 million for the six months ended 30 June 2009 as compared to HK$727.1 million in the corresponding period in 2008 due to a decrease in non-interest income of HK$67.6 million. However, net interest income increased by 8.3% or HK$44.3 million to HK$576.1 million from widening net interest margins. As a result of the decline in interest rates, interest expense decreased by 46.4% or HK$158.1 million to HK$182.6 million whilst interest income decreased by 13.0% or HK$113.9 million to HK$758.7 million, giving rise to an increase in net interest income. The decrease in sales of wealth management products in the period under review, and the one-off income in relation to the goodwill payment of HK$47.3 million received for the Regional Strategic Alliance Agreement with ING Group to distribute insurance products in the first half of the previous year had caused the Group's non-interest income for the six months ended 30 June 2009 to decline by 34.6% or HK$67.6 million to HK$127.7 million.

The Group's operating expenses increased by 14.8% or HK$34.7 million to HK$269.0 million when compared to the corresponding period in 2008. The rapid expansion of the branch network of the Company's banking subsidiary, Public Bank (Hong Kong), in the last two years had resulted in a significant increase in staff costs and branch premises related costs, contributed to the overall increase in the operating expenses of the Group.

The increase in personal bankruptcies and debt restructuring of consumer loans had resulted in the Group's impairment allowances for financial assets to increase by HK$104.7 million to HK$294.4 million for the period under review from HK$189.7 million for the corresponding period in 2008.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) decreased marginally by 0.2% or HK$41.0 million to HK$24.39 billion as at 30 June 2009 from HK$24.43 billion as at 31 December 2008. The Group's deposits from customers increased by 12.7% or HK$3.06 billion to HK$27.24 billion as at 30 June 2009 from HK$24.18 billion as at 31 December 2008. Total assets of the Group increased by 7.1% to HK$37.83 billion as at 30 June 2009 from HK$35.33 billion as at 31 December 2008.

Management Discussion and Analysis

Branch network

During the period under review, Public Bank (Hong Kong) opened 2 new branches in Hong Kong bringing its branch network to 30 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("PRC"). Together with the 42 branches of Public Bank (Hong Kong)'s subsidiary, Public Finance, the Public Bank (Hong Kong) Group has a combined branch network of 75 branches. The Company's other subsidiary, Winton Financial Limited, which operates with a money lenders licence, also expanded its branch network to 6 branches in Hong Kong to provide personal financing to its selected market segment.

Business development of Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) increased marginally by 0.3% or HK$60.0 million to HK$20.14 billion as at 30 June 2009 from HK$20.08 billion as at 31 December 2008. Deposits from customers grew strongly by 14.6% or HK$3.03 billion to HK$23.82 billion as at 30 June 2009 from HK$20.79 billion as at 31 December 2008.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at over 19% and there were no exposures attributed to structured investment vehicles and US-subprime mortgages as at 30 June 2009.

Public Bank (Hong Kong) will continue to expand its branch network with the opening of new branches at suitable locations in the development of its banking and related financial services business.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its retail and commercial banking and retail consumer financing businesses in respect of treasury, trade finance and loan commitments disclosed in the notes to the financial statements) 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 2009, the Group had a charge over a bank deposit of HK$60 million by Public Bank (Hong Kong)'s Shenzhen Branch to secure a RMB loan to fund its lending business in the PRC. Other than as disclosed, there was no charge over the assets of the Group as at 30 June 2009.

Segmental information

The Group's business comprised three main segments: (i) retail and commercial banking and lending, (ii) wealth management services and stockbroking and (iii) other businesses. Over 50% of the Group's operating income and profit before tax (excluding gains on disposal of available-for sale securities) were contributed by retail and commercial banking and lending in Hong Kong for the period under review. When compared to the first half of 2008, the Group's operating income from retail and commercial banking and lending increased by 1.3% or HK$8.2 million to HK$637.7 million. Due to the significant increase in impairment allowance for loans and advances, profit before tax from retail and commercial banking and lending decreased by 69.9% or HK$194.3 million to HK$83.5 million when compared to the corresponding period in 2008.

OPERATIONAL REVIEW

Funding and capital management

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

The Group relied principally on its internally generated capital, deposits from customers, deposits from financial institutions and bank borrowings to fund its retail consumer financing business and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating rates stood at HK$2.95 billion as at 30 June 2009. 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 0.51 times as compared to 0.55 times as at 31 December 2008. The bank loans of HK$2.95 billion will mature within one year, and will be refinanced by new bank borrowings of HK$2.2 billion denominated in Hong Kong dollars in July 2009. The new bank borrowings will have maturity periods in the range of 1 year to 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures of the Group.

Asset quality

The Group's impaired loans to total loans ratio increased to 1.7% as at 30 June 2009 from 1.0% as at 31 December 2008 due to deterioration of asset quality of the Group's consumer financing loans amidst global financial crisis and economic recession. The Group will continue to adopt a prudent credit risk management strategy and endeavour with its best efforts in the recovery of impaired loans.

Human resources management

The objective of the Group's human resources management activities 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 for 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 share option scheme approved by shareholders on 28 February 2002. In the first half of 2009, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2009, options to subscribe for 30,359,000 shares in the Company remained unexercised.

As at 30 June 2009, the Group's staff force stood at 1,228 employees. For the six months ended 30 June 2009, the Group's total staff and related cost amounted to HK$146.4 million.

Management Discussion and Analysis

PROSPECTS

The economic outlook of Hong Kong is expected to be challenging in the second half of 2009. Consumer sentiment and demand for consumer financing are not expected to recover significantly and the employment market remains subdue. Faced with the risk of deterioration in asset quality and an anticipated slower recovery in the Hong Kong economy, the banking business is expected to adopt a cautious approach in its lending business in particular to the commercial sector. However, Hong Kong is expected to continue to benefit from the continuing economic growth momentum in the PRC, and the strengthening of its financial status and position with further integration of Hong Kong's businesses with other cities in Guangzhou and Pearl River delta in the PRC.

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

Competition in the banking and financing industry is expected to be very challenging with financial institutions seeking greater market share. The competitive environment will continue to add pressure in the pricing of banking and financing products. However, the Group will continue to adopt prudential risk management and flexible business strategies amidst the volatile market conditions.

Barring unforeseen circumstances, the Group is expected to register growth in its lending and deposit-taking businesses, and a stable performance in the second half of 2009.

INTERIM DIVIDEND

The board of directors has on 30 June 2009 declared an interim dividend of HK$0.05 (2008: HK$0.05) per share payable on 7 August 2009 to shareholders whose names appear on the register of members of the Company on 24 July 2009.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Long positions in ordinary shares of the Company and associated corporations

			Number of ordinary shares				
Interests in		Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Total	Percentage of interests in the issued share capital
1.	The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	804,017,920	804,017,920	73.2312
		Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	350,000	0.0319
		Dato' Chang Kat Kiam	300,000	–	–	300,000	0.0273
		Tan Yoke Kong	540,000	–	–	540,000	0.0492
		Lee Huat Oon	20,000	–	–	20,000	0.0018
		Chong Yam Kiang	20,000	–	–	20,000	0.0018

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(a) Long positions in ordinary shares of the Company and associated corporations (Continued)

		Number of ordinary shares				
Interests in	Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Total	Percentage of interests in the issued share capital
2. Public Bank Berhad ("Public Bank"), the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	22,139,228	–	808,939,118	831,078,346	23.5305
	Tan Sri Dato' Thong Yaw Hong	7,522,714	360,000	321,428	8,204,142	0.2323
	Tan Sri Dato' Sri Tay Ah Lek	6,798,968	205,714	143,467	7,148,149	0.2024
	Lee Chin Guan	1,080,057	–	–	1,080,057	0.0306
	Dato' Chang Kat Kiam	112,561	–	–	112,561	0.0032
	Tan Yoke Kong	52,000	–	–	52,000	0.0015
	Lee Huat Oon	56,571	–	–	56,571	0.0016
	Chong Yam Kiang	36,880	–	–	36,880	0.0010
3. Winsure Company, Limited, a subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	15,500	15,500	96.8750
4. CampuBank Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	3,850,000	55.0000

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and indirect interest of 831,078,346 shares in Public Bank, is deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Long positions in underlying shares of the Company and an associated corporation

		Number of ordinary shares attached to the share options					
Interests in	Name of director	At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period	Exercise price	Exercise period
The Company	Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	HK$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	HK$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,318,000	–	–	1,318,000	HK$6.35	10.6.2005 to 9.6.2015
	Lee Huat Oon	3,170,000	–	–	3,170,000	HK$6.35	10.6.2005 to 9.6.2015

Note: The options to subscribe for ordinary shares of HK$0.10 each in the Company under the Employees' Share Option Scheme of the Company (the "ESOS") are only exercisable during certain periods as notified by the board or the Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

Save as disclosed above, none of the directors had registered an interest or a short position in the shares, or underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2009.

Other Information

SHARE OPTION SCHEME

Under the ESOS approved on 28 February 2002, the board of directors granted share options to subscribe for a total of 66,526,000 shares in the Company to eligible participants, including directors and employees of the Company and its subsidiaries pursuant to a board resolution passed on 18 May 2005. 65,976,000 share options were accepted by the directors and employees of the Group. Each share option gives the holder the right to subscribe for one ordinary share during the exercise period from 10 June 2005 to 9 June 2015. The Group is not legally bound or obliged to repurchase or settle the options in cash. No options were granted during the six months ended 30 June 2009.

	Number of share options				
Name	**Outstanding at the beginning of the period**	**Exercised during the period**	**Lapsed during the period**	**Outstanding at the end of the period**	**Exercise price HK$**
Directors					
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35
Dato' Yeoh Chin Kee (resigned on 15 January 2009)	550,000	–	–	550,000	6.35
Lee Chin Guan	350,000	–	–	350,000	6.35
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35
Wong Kong Ming (deceased on 2 October 2008)	3,920,000	–	3,920,000	–	6.35
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	23,201,000	–	840,000	22,361,000	6.35
	35,119,000	–	4,760,000	30,359,000	6.35

Notes:

(a) The share options are only exercisable at the exercise price of HK$6.35 per share during certain periods as notified by the board or the Share Option Committee to each grantee which it may in its absolute discretion determine from 10 June 2005 to 9 June 2015.

(b) There was no open exercise period during the period.

(c) The remaining contractual life of the 30,359,000 outstanding options was 5.94 years as at 30 June 2009.

(d) The share options outstanding as at 30 June 2009 can only be exercised in future open exercise periods.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital
Substantial shareholder			
1. Public Bank	Beneficial owner	804,017,920	73.2312
Other person			
2. Aberdeen Asset Management Plc and its subsidiaries (together "the AA Group") on behalf of accounts managed by the AA Group	Investment manager	54,964,000	5.0000

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' interests and short positions in shares and underlying shares", no person had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO as at 30 June 2009.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

(a) In 2006, the Company entered into a facility agreement ("Facility Agreement A") with Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as agent and financial institutions as stipulated in the Company's announcement dated 21 July 2006 as original lenders for a three-year term loan facility in an aggregate amount of HK$2,000,000,000. As at 30 June 2009, the outstanding loan principal was HK$1,100,000,000 (would be repaid in full amount in July 2009).

(b) In May 2009, the Company entered into a facility agreement ("Facility Agreement B") with a total of eight banks as original lenders and Citic Ka Wah Bank Limited as agent for a 36 months transferable term loan facility in an aggregate amount of up to HK$1,500,000,000. As at 30 June 2009, the outstanding loan principal was nil (the loan would be drawn in amount of HK$1,500,000,000 in July 2009).

Facility Agreements A and B provide, among other things, that it is an event of default if Public Bank, the controlling shareholder (currently holding approximately 73.2% interest) of the Company does not or ceases to beneficially own, directly or indirectly, at least 51% and more than 50% respectively of the issued share capital of, and ownership interests in, the Company free from any charge or other security interest, or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the respective agents may, among other things, demand immediate repayment of all or any of the loans made to the Company together with accrued interest. The circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continued to exist.

Other Information

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 2009.

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 2009 interim report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

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

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

CHANGE IN INFORMATION OF DIRECTORS

During the period under review, the directorships in the Group companies were changed in order to streamline the Group's businesses and operations. As a result, Mr. Tan Yoke Kong resigned as an Executive Director and Mr. Chong Yam Kiang resigned as a Non-executive Director of Public Finance effective from 22 April 2009.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code of the Listing Rules. All directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

REVIEW BY AUDIT COMMITTEE

The 2009 interim report has been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

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

Hong Kong, 14 July 2009