大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

Stock Code: 626

2010
Interim Report

Excellence
is Our Commitment

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 **2010** **(Unaudited)** **HK$'000**	2009 (Unaudited) HK$'000
Interest income	6	**745,488**	758,655
Interest expense	6	**(118,288)**	(182,565)
NET INTEREST INCOME		**627,200**	576,090
Gain less losses from disposal of available-for-sale financial assets		**–**	26,035
Other operating income	7	**128,725**	101,626
Non-interest income		**128,725**	127,661
OPERATING INCOME		**755,925**	703,751
Operating expenses	8	**(343,309)**	(284,745)
Changes in fair value of investment properties		**3,260**	15,772
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**415,876**	434,778
Impairment allowances for loans and advances and receivables	9	**(151,571)**	(294,415)
PROFIT BEFORE TAX		**264,305**	140,363
Tax	10	**(46,073)**	(22,708)
PROFIT FOR THE PERIOD		**218,232**	117,655
ATTRIBUTABLE TO:			
Owners of the Company		**218,232**	117,655
EARNINGS PER SHARE (HK$)	12		
Basic		**0.199**	0.107
Diluted		**0.199**	0.107

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

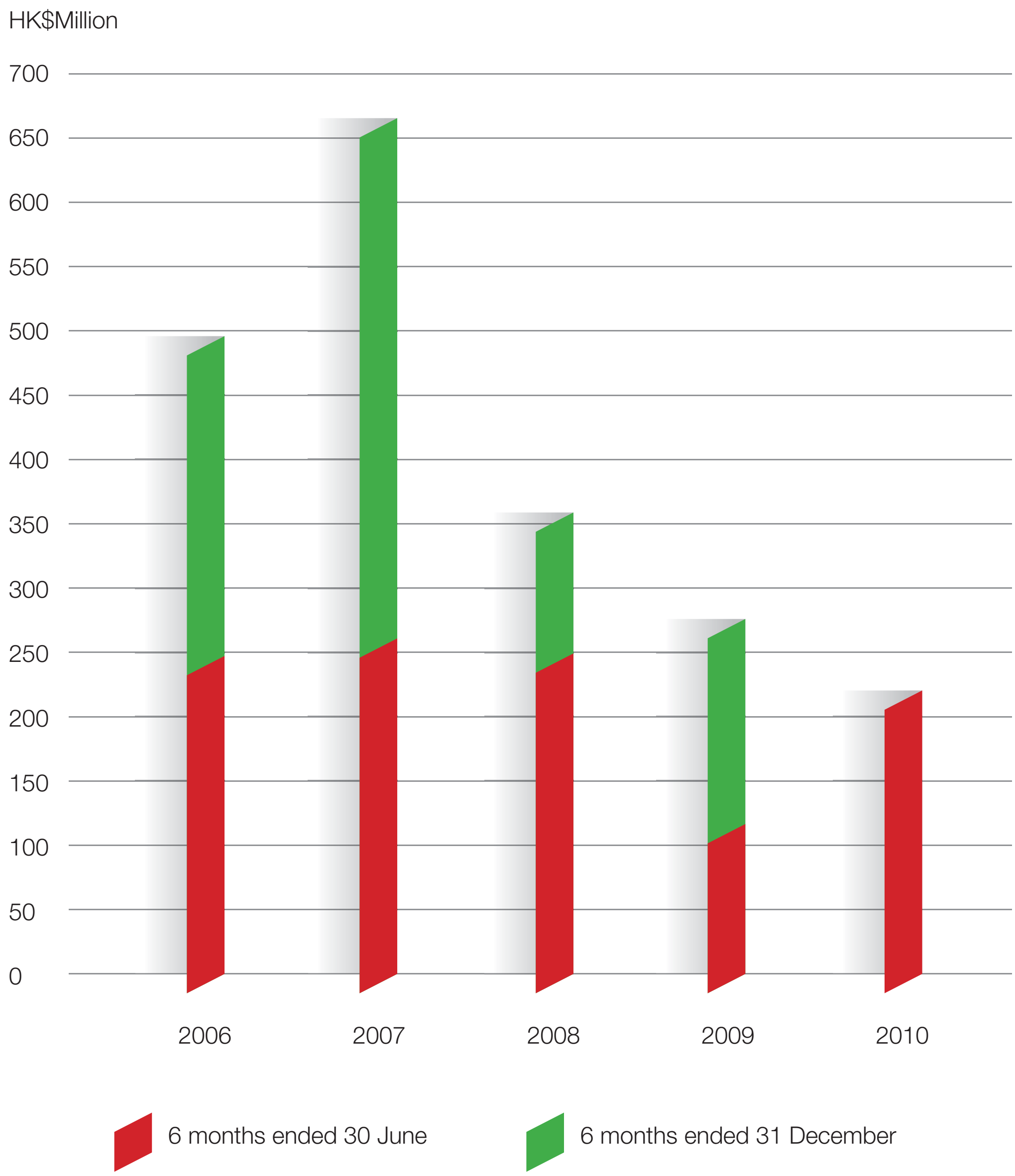
Condensed Consolidated Statement of Comprehensive Income

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
PROFIT FOR THE PERIOD		**218,232**	117,655
OTHER COMPREHENSIVE INCOME/(LOSS):			
Exchange gain/(loss) on translating foreign operations		**2,400**	(340)
Gain on revaluation of available-for-sale financial assets		**–**	11,379
Transfer to income statement for disposal of available-for-sale financial assets		**–**	(26,035)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	Note	**2,400**	(14,996)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**220,632**	102,659
ATTRIBUTABLE TO:			
Owners of the Company		**220,632**	102,659

Note:

There were no tax effects arising from "other comprehensive income/(loss)" for the six months ended 30 June 2010 and 2009.

Five-year Profit Highlight



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Restated) HK$'000
ASSETS			
Cash and short term placements	13	**5,204,047**	5,605,620
Placements with banks and financial institutions	14	**220,795**	868,483
Derivative financial instruments		**4,920**	11,657
Loans and advances and receivables	15	**25,517,279**	24,444,780
Available-for-sale financial assets		**6,804**	6,804
Held-to-maturity investments	17	**3,690,550**	4,216,634
Inventories of taxi licences		**15,084**	15,084
Investment properties	18	**182,894**	184,342
Property and equipment	19	**120,945**	124,130
Land under finance lease	20	**669,150**	668,590
Interest in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**12,727**	16,234
Goodwill		**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets	21	**231,456**	434,062
TOTAL ASSETS		**38,653,285**	39,373,054
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**1,930,873**	1,024,628
Derivative financial instruments		**5,465**	1,668
Customer deposits at amortised cost	22	**27,873,149**	29,364,238
Certificates of deposit issued at amortised cost		**200,000**	–
Dividend payable		**54,896**	142,729
Unsecured bank loans at amortised cost	23	**2,202,867**	2,178,679
Current tax payable		**49,889**	2,726
Deferred tax liabilities		**22,110**	21,562
Other liabilities	24	**316,082**	804,606
TOTAL LIABILITIES		**32,655,331**	33,540,836
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	25	**5,888,162**	5,722,426
TOTAL EQUITY		**5,997,954**	5,832,218
TOTAL EQUITY AND LIABILITIES		**38,653,285**	39,373,054

Condensed Consolidated Statement of Changes in Equity

	For the six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**5,832,218**	5,769,506
Profit for the period	**218,232**	117,655
Other comprehensive income/(loss)	**2,400**	(14,996)
Total comprehensive income for the period	**220,632**	102,659
Dividends declared on shares	**(54,896)**	(54,896)
Balance at the end of the period	**5,997,954**	5,817,269

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**(240,978)**	2,453,983
INVESTING ACTIVITIES	**(7,242)**	(14,357)
FINANCING ACTIVITIES	**(118,541)**	(496,875)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	**(366,761)**	1,942,751
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**8,971,532**	6,006,780
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**8,604,771**	7,949,531
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**899,259**	467,907
Money at call and short notice with original maturity within three months	**4,304,788**	4,984,907
Placements with banks and financial institutions with original maturity within three months	**–**	273,339
Held-to-maturity investments with original maturity within three months	**3,400,724**	2,223,378
	8,604,771	7,949,531

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 2009 Annual Report.

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Company's 2009 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 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 2010. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as that of 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.

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.

2. Basis of preparation (Continued)

Basis of capital disclosures (Continued)

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 the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission. A portion of retained profits 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, HKASs and Interpretations ("Int"), which are generally effective for accounting periods beginning on or after 1 January 2010. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2010 which are pertinent to its operations and relevant to these interim financial statements.

- HKFRS 1 Amendments — Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
- HKFRS 1 (Revised) — First Time Adoption of Hong Kong Financial Reporting Standards
- HKFRS 2 Amendments — Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
- HKFRS 3 (Revised) — Business Combinations
- HKAS 18 Amendments — Revenue
- HKAS 27 (Revised) — Consolidated and Separate Financial Statements
- HKAS 32 Amendments — Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues
- HKAS 39 Amendments — Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- HK(IFRIC)-Int 17 — Distributions of Non-cash Assets to Owners
- HK-Int 4 Amendment — Determination of Length of Lease Term in respect of Hong Kong Land Leases

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

* Improvements to HKFRSs 2009 contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9.

3. Impact of new HKFRSs and HKASs (Continued)

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments are unlikely to have any financial impact on the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRS, the revisions are unlikely to have any financial impact on the Group.

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments are unlikely to have any financial impact on the Group.

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

HKAS 18 Amendments provide additional guidance to determine whether an entity is acting as principal or agent. The additional guidance is unlikely to have any financial impact on the Group.

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

Amendments to HKAS 32 address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendments contained in this update require that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendments are unlikely to have any financial impact on the Group.

3. Impact of new 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. The amendments are unlikely to have any financial impact on the Group.

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

HK-Int 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by Improvements to HKFRSs issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The adoption of HK-Int 4 has resulted in a change in accounting policy, disclosure and presentation relating to leasehold land. A leasehold land has been re-classified from operating lease to finance lease, and the land lease continues to be amortised over its lease term on straight line basis with no significant financial impact on the Group.

In May 2009, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is separate transitional provision 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 revises the scope that transaction in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

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.

3. Impact of new HKFRSs and HKASs (Continued)

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

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

Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: It 1) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and 3) also replaces the term “assets acquired or liability assumed” under cash flow hedges with “hedged forecast cash flows”.

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

Other than as further explained above regarding the impact of HK-Int 4, the adoption of these new and revised HKFRSs has had no significant impact on the financial position or performance of the Group.

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 9 — Financial Instruments[3]
- HKAS 24 (Revised) — Related Party Disclosure[2]
- HK(IFRIC)-Int 14 Amendment — Prepayment of a Minimum Funding Requirement[2]
- HK(IFRIC)-Int 19 — Extinguishing Financial Liabilities with Equity Instruments[1]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for the annual periods beginning on or after 1 July 2010, other amendments are effective for annual periods beginning on or after 1 January 2011 although there is separate transitional provision for each standard or interpretation.

1 effective for annual periods beginning on or after 1 July 2010
2 effective for annual periods beginning on or after 1 January 2011
3 effective for annual periods beginning on or after 1 January 2013
* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

4. Impact of issued but not yet effective HKFRSs and HKASs (Continued)

HKFRS 9 represents the completion of the first part of a three-part project to replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 uses business model and contractual cash flow characteristics to determine whether a financial asset is measured at amortised cost or fair value, replacing the four category classification in HKAS 39. The approach is also based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The Group expects to adopt HKFRS 9 from 1 January 2011.

HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Government-related entities are now defined as entities that are controlled, jointly-controlled or significantly influenced by the government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are significant. The amendments are unlikely to have any financial impact on the Group.

The amendments to HK(IFRIC)-Int 14 requires entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the Interpretation from 1 January 2011. As the Group has not re-negotiated the terms of a financial liability and issued equity instruments to settle the financial liability, the Interpretation is unlikely to have any material financial impact on the Group.

In May 2010, the HKICPA issued Improvements to HKFRSs which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group expects to adopt the amendments to HKFRSs from 1 January 2011. There is separate transitional provision for each standard. While the adoption of some of them may result changes in accounting policy, none of these amendments are expected to have a material financial impact on the Group.

(a) HKFRS 1 Amendments: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.

(b) HKFRS 3 Amendments: It states the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised HKFRS. It explains the measurement principle for non-controlling interests in the acquiree for business combination. It also provides guidance on the accounting of share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with HKFRS 2 at the acquisition date.

(c) HKFRS 7 Amendments: It clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk are clarified and reduced, which disclosures on carrying amount of assets that will have been past due or impaired unless they have been renegotiated, as well as description of collateral held by the entity as security and other credit enhancements and estimate of their fair value, are no longer required.

4. Impact of issued but not yet effective HKFRSs and HKASs (Continued)

(d) HKAS 1 (Revised) clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

(e) Transition requirements for amendments to HKAS 21, HKAS 28 and HKAS 31 arising as a result of HKAS 27 Consolidated and Separate Financial Statements are to be applied prospectively for annual period beginning on or after 1 July 2010.

(f) HKAS 34 Amendments: It requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

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

5. Segment information

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

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

– the wealth management services, stockbroking and securities management segment 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; and

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

The Group's inter-segment transactions during the 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)

The following tables represent revenue and profit information for these segments for the six months ended 30 June 2010 and 2009, and certain asset and liability information regarding business segments as at 30 June 2010 and 2009.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2010 (Unaudited) HK$'000	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income	**627,187**	576,042	**13**	48	**–**	–	**–**	–	**627,200**	576,090
Other operating income:										
Fees and commission income	**70,071**	53,983	**43,069**	32,081	**228**	257	**–**	–	**113,368**	86,321
Others	**7,948**	7,698	**–**	360	**7,409**	7,247	**–**	–	**15,357**	15,305
Profit on sale of available-for-sale financial assets	**–**	–	**–**	26,035	**–**	–	**–**	–	**–**	26,035
Inter-segment transactions:										
Fee and commission income	**–**	–	**–**	–	**420**	33	**(420)**	(33)	**–**	–
Operating income	**705,206**	637,723	**43,082**	58,524	**8,057**	7,537	**(420)**	(33)	**755,925**	703,751
Segment results	**235,755**	83,534	**18,636**	48,992	**9,914**	7,837	**–**	–	**264,305**	140,363
Share of profits and losses of a jointly-controlled entity									**–**	–
Profit before tax									**264,305**	140,363
Tax									**(46,073)**	(22,708)
Profit for the period									**218,232**	117,655

5. Segment information (Continued)

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2010 (Unaudited) HK$'000	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	30 June 2009 (Unaudited) HK$'000
Segment assets other than interests in a jointly-controlled entity and intangible assets	**35,325,430**	34,495,981	**325,003**	353,854	**201,151**	199,924	**–**	–	**35,851,584**	35,049,759
Interests in a jointly-controlled entity	**1,513**	1,513	**–**	–	**–**	–	**–**	–	**1,513**	1,513
Intangible assets	**–**	–	**718**	358	**–**	–	**–**	–	**718**	358
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**–**	–	**2,774,403**	2,774,403
	38,101,346	37,271,897	**325,721**	354,212	**201,151**	199,924	**–**	–	**38,628,218**	37,826,033
Unallocated assets:										
Deferred tax assets and tax recoverable									**25,067**	8,958
Total assets									**38,653,285**	37,834,991
Segment liabilities	**32,281,212**	31,563,850	**192,560**	343,823	**54,664**	21,219	**–**	–	**32,528,436**	31,928,892
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**71,999**	33,934
Dividend payable									**54,896**	54,896
Total liabilities									**32,655,331**	32,017,722
Other segment information										
Additions to non-current assets – capital expenditure	**8,240**	18,401	**–**	–	**–**	–	**–**	–	**8,240**	18,401
Depreciation of fixed assets and amortisation of land under finance lease	**15,551**	14,475	**–**	–	**–**	–	**–**	–	**15,551**	14,475
Changes in fair value of investment properties	**–**	–	**–**	–	**(3,260)**	(15,772)	**–**	–	**(3,260)**	(15,772)
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	**151,571**	294,415	**–**	–	**–**	–	**–**	–	**151,571**	294,415
Net loss on disposal of property and equipment	**13**	21	**–**	–	**–**	–	**–**	–	**13**	21

5. Segment information (Continued)

Geographical information

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

Operating income or revenue from major customers

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

6. Interest income and expense

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**696,885**	696,819
Short term placements and placements with banks	**11,137**	36,964
Held-to-maturity investments	**37,466**	24,872
	745,488	758,655
Interest expense on:		
Deposit from banks and financial institutions	**8,806**	5,840
Deposit from customers	**86,975**	166,877
Bank loans	**22,507**	9,848
	118,288	182,565

The interest income for the six months ended 30 June 2010 amounted to HK$745,488,000 (2009: HK$758,655,000) and interest expenses for the six months ended 30 June 2010 amounted to HK$118,288,000 (2009: HK$182,565,000) 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 2010 amounted to HK$6,420,000 (2009: HK$3,009,000).

7. Other operating income

	For the six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking	**70,842**	54,810
Wealth management services, stockbroking and securities management	**43,069**	32,081
	113,911	86,891
Less: Fees and commission expenses	**(543)**	(570)
Net fees and commission income	**113,368**	86,321
Gross rental income	**6,502**	6,500
Less: Direct operating expenses	**(38)**	(42)
Net rental income	**6,464**	6,458
Gain less losses arising from dealing in foreign currencies	**6,027**	7,889
Net losses on disposal of property and equipment	**(13)**	(21)
Dividends from listed investments	**–**	360
Dividends from unlisted investments	**987**	980
Net expense on derivative financial instruments	**(545)**	(2,708)
Others	**2,437**	2,347
	128,725	101,626

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 2010 and 2009.

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

Notes to the Condensed Consolidated Financial Statements

8. Operating expenses

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**186,263**	138,385
Pension contributions	**8,326**	8,014
Less : Forfeited contributions	**(5)**	(4)
Net retirement benefit schemes	**8,321**	8,010
	194,584	146,395
Other operating expenses:		
Operating lease rentals on leasehold buildings	**24,121**	22,346
Depreciation of fixed assets and amortisation of land under finance lease	**15,551**	14,475
Administrative and general expenses	**32,608**	29,635
Others	**76,445**	71,894
Operating expenses before changes in fair value of investment properties	**343,309**	284,745

As at 30 June 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil). The current period credits arose in respect of staff who left the schemes during the period.

9. Impairment allowances

	For the six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Net charge for/(write-back of) impairment allowances:		
– loans and advances	**152,422**	298,081
– trade bills, accrued interest and receivables	**(851)**	(3,666)
	151,571	294,415
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**159,338**	246,053
– collectively assessed	**(7,767)**	48,362
	151,571	294,415
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**241,902**	354,254
– releases and recoveries	**(90,331)**	(59,839)
Net charge to the consolidated income statement	**151,571**	294,415

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2010 and 2009.

10. Tax

	For the six months ended 30 June 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**42,393**	18,601
Elsewhere	**725**	1,365
Over-provisions in prior years	**(1,099)**	–
Deferred tax charge	**4,054**	2,742
	46,073	22,708

10. Tax (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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

	For the six months ended 30 June 2010 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**260,693**		**3,612**		**264,305**	
Tax at the applicable tax rate	**43,015**	**16.5**	**795**	**22.0**	**43,810**	**16.6**
Effect on change in tax rates	**–**	**–**	**60**	**1.7**	**60**	**–**
Estimated tax effect of net expense that is not deductible	**3,540**	**1.4**	**–**	**–**	**3,540**	**1.3**
Estimated tax losses from previous period utilised	**(2)**	**–**	**–**	**–**	**(2)**	**–**
Adjustments in respect of deferred tax of previous periods	**(236)**	**(0.1)**	**–**	**–**	**(236)**	**(0.1)**
Adjustments in respect of current tax of previous periods	**2,328**	**0.9**	**(3,427)**	**(94.9)**	**(1,099)**	**(0.4)**
Tax charge at the Group's effective rate	**48,645**	**18.7**	**(2,572)**	**(71.2)**	**46,073**	**17.4**

	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

11. Dividends

	For the six months ended 30 June			
	2010 HK$ per ordinary share	2009 HK$ per ordinary share	**2010 HK$'000**	2009 HK$'000
Interim	**0.05**	0.05	**54,896**	54,896

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$218,232,000 (2009: HK$117,655,000) and on the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares in issue during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2010 and 2009 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 2010 was based on the profit for the period of HK$218,232,000 (2009: HK$117,655,000) and on the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares, being the weighted average number of 1,097,917,618 (2009: 1,097,917,618) ordinary shares in issue during the period as used in the basic earnings per share calculation.

13. Cash and short term placements

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Cash in hand	**120,443**	122,412
Placements with banks and financial institutions	**778,816**	603,840
Money at call and short notice	**4,304,788**	4,879,368
	5,204,047	5,605,620

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

There were no overdue or rescheduled placements with banks and financial institutions, and no impairment allowances for such placements accordingly.

14. Placements with banks and financial institutions

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Placements with banks and financial institutions	**220,795**	868,483

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

There were no overdue or rescheduled placements with banks and financial institutions, and no impairment allowances for such placements accordingly.

15. Loans and advances and receivables

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Loans and advances to customers	**25,620,819**	24,516,942
Trade bills	**8,017**	70,286
	25,628,836	24,587,228
Accrued interest	**78,944**	72,955
	25,707,780	24,660,183
Other receivables	**58,033**	55,247
Gross loans and advances and receivables	**25,765,813**	24,715,430
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(146,271)**	(160,868)
– collectively assessed	**(102,263)**	(109,782)
	(248,534)	(270,650)
Loans and advances and receivables	**25,517,279**	24,444,780

Over 90% of the loans and advances and receivables are unrated exposures. Collateral for the Group's secured loans and advances and receivables include properties, cash, securities and taxi licences.

15. Loans and advances and receivables (Continued)

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

	30 June 2010 (Unaudited) Gross amount HK$'000	30 June 2010 (Unaudited) Percentage of total loans and advances	31 December 2009 (Audited) Gross amount HK$'000	31 December 2009 (Audited) Percentage of total loans and advances
Loans and advances overdue for:				
Six months or less but over three months	**126,740**	**0.49**	175,862	0.72
One year or less but over six months	**97,427**	**0.38**	72,266	0.30
Over one year	**145,573**	**0.57**	103,731	0.42
Loans and advances overdue for more than three months	**369,740**	**1.44**	351,859	1.44
Rescheduled loans and advances overdue for three months or less	**62,933**	**0.25**	79,383	0.32
Impaired accounts overdue for three months or less	**13,244**	**0.05**	95,924	0.39
Total overdue and impaired loans and advances	**445,917**	**1.74**	527,166	2.15

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

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**876**	2,492
One year or less but over six months	**4,380**	329
Over one year	**4,940**	3,573
Trade bills, accrued interest and other receivables overdue for more than three months	**10,196**	6,394
Impaired accounts overdue for three months or less	**17**	77
Total overdue and impaired trade bills, accrued interest and other receivables	**10,213**	6,471

Impaired loans and advances and receivables are individually determined to be impaired after considering overdue ageing analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

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 2010 (Unaudited) Hong Kong HK$'000	30 June 2010 (Unaudited) Mainland China HK$'000	30 June 2010 (Unaudited) Total HK$'000	31 December 2009 (Audited) Hong Kong HK$'000	31 December 2009 (Audited) Mainland China HK$'000	31 December 2009 (Audited) Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	**247,374**	**132,562**	**379,936**	227,420	130,833	358,253
Individual impairment allowances	**48,440**	**54,550**	**102,990**	68,888	37,739	106,627
Collective impairment allowances	**65,008**	**–**	**65,008**	72,375	–	72,375
Current market value and fair value of collateral			**254,487**			182,720
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**323,568**	**132,562**	**456,130**	402,804	130,833	533,637
Individual impairment allowances	**91,721**	**54,550**	**146,271**	123,129	37,739	160,868
Collective impairment allowances	**65,008**	**–**	**65,008**	72,375	–	72,375
Current market value and fair value of collateral			**261,489**			262,374

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

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 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**254,487**	182,720
Covered portion of overdue loans and advances	**150,678**	91,885
Uncovered portion of overdue loans and advances	**219,062**	259,974

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

– The market value of the asset is readily determinable or can be reasonably established and verified.
– The asset is marketable and there exists a readily available secondary market for disposal of the asset.
– The Group's right to repossess the asset is legally enforceable without impediment.
– The Group is able to secure control over the asset if necessary.

(d) Repossessed assets

As at 30 June 2010, the total value of repossessed assets of the Group amounted to HK$89,400,000 (2009: HK$25,715,000).

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

	30 June 2010 (Unaudited)		31 December 2009 (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	**510,144**	**1.99**	476,162	1.94
Rescheduled but not impaired loans and advances	**–**	**–**	–	–
	510,144	**1.99**	476,162	1.94
Trade bills, accrued interest and other receivables overdue less than three months	**1,051**		2,375	

15. Loans and advances and receivables (Continued)

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

	30 June 2010 (Unaudited) Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2010	160,868	109,782	270,650
Amount written off	(243,490)	–	(243,490)
Impairment losses and allowances charged to the income statement	241,766	136	241,902
Impairment losses and allowances released to the income statement	(82,428)	(7,903)	(90,331)
Net charge of impairment losses and allowances	159,338	(7,767)	151,571
Loans and advances and receivables recovered	69,517	–	69,517
Exchange difference	38	248	286
At 30 June 2010	146,271	102,263	248,534
Deducted from:			
Loans and advances	145,130	102,205	247,335
Trade bills, accrued interest and other receivables	1,141	58	1,199
	146,271	102,263	248,534

15. Loans and advances and receivables (Continued)

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

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

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 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000	**30 June 2010 (Unaudited) HK$'000**	31 December 2009 (Audited) HK$'000
Amounts receivable under finance leases:				
Within one year	**454,326**	372,656	**353,617**	273,611
In the second to fifth years, inclusive	**1,216,654**	1,072,706	**942,928**	789,937
Over five years	**3,880,099**	3,218,630	**3,286,096**	2,559,516
	5,551,079	4,663,992	**4,582,641**	3,623,064
Less: Unearned finance income	**(968,438)**	(1,040,928)		
Present value of minimum lease payments receivable	**4,582,641**	3,623,064		

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

16. Lehman Brothers Minibonds

Carrying amount of Lehman Brothers Minibonds amounted to nil as full impairment has been made for the Lehman Brothers Minibonds repurchased from eligible customers as at 30 June 2010 and 31 December 2009.

17. Held-to-maturity investments

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Unlisted :		
Certificates of deposit held	745,892	812,130
Treasury bills (including Exchange Fund Bills)	499,930	499,746
Other debt securities	2,444,728	2,904,758
	3,690,550	4,216,634
Analysed by type of issuers:		
– central government	499,930	499,746
– banks and other financial institutions	3,190,620	3,716,888
	3,690,550	4,216,634

Impairment allowances of held-to-maturity investments were nil as at 30 June 2010 and 31 December 2009. There were no movement in impairment allowances in the period under review and 2009.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2010 and 31 December 2009. There were no listed held-to-maturity investments as at 30 June 2010 and 31 December 2009.

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.

Notes to the Condensed Consolidated Financial Statements

18. Investment properties

	HK$'000
At valuation:	
At 1 January 2009	165,346
Legal cost	6
Transfer to property and equipment	(803)
Transfer to land under finance lease	(7,896)
Change in fair value	27,689
At 31 December 2009 and 1 January 2010	**184,342**
Transfer to property and equipment	**(4,708)**
Change in fair value	**3,260**
At 30 June 2010	**182,894**

At 31 December 2009, the carrying amounts of the investment properties were transferred to owner-occupied properties on the basis of their fair values at the date of transfer.

At 30 June 2010, investment properties with a carrying amount of HK$179,634,000 (2009: HK$156,653,000) were revalued at HK$182,894,000 (2009: HK$184,342,000) according to a revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value, existing use basis. The increase in the fair value of HK$3,260,000 (2009: HK$27,689,000) resulting from the above valuation has been credited to the income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 26(a) to the financial statements.

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 2009	70,254	144,519	2,984	217,757
Additions	–	29,947	–	29,947
Transfer from investment properties	803	–	–	803
Disposals/write-off	–	(13,214)	–	(13,214)
At 31 December 2009 and 1 January 2010	**71,057**	**161,252**	**2,984**	**235,293**
Additions	**–**	**8,240**	**–**	**8,240**
Transfer from investment properties	**443**	**–**	**–**	**443**
Disposals/write-off	**–**	**(21,090)**	**–**	**(21,090)**
At 30 June 2010	**71,500**	**148,402**	**2,984**	**222,886**
Accumulated depreciation:				
At 1 January 2009	10,830	85,024	2,793	98,647
Provided during the year	1,616	21,328	33	22,977
Exchange difference	–	–	–	–
Disposals/write-off	–	(10,461)	–	(10,461)
At 31 December 2009 and 1 January 2010	**12,446**	**95,891**	**2,826**	**111,163**
Provided during the period	**800**	**11,036**	**10**	**11,846**
Exchange difference	**11**	**–**	**–**	**11**
Disposals/write-off	**–**	**(21,079)**	**–**	**(21,079)**
At 30 June 2010	**13,257**	**85,848**	**2,836**	**101,941**
Net carrying amount:				
At 30 June 2010	**58,243**	**62,554**	**148**	**120,945**
At 31 December 2009	58,611	65,361	158	124,130

No valuation has been made for the above property and equipment for the period ended 30 June 2010 and the year ended 31 December 2009.

20. Land under finance lease

	HK$'000 (Restated)
Cost:	
At 1 January 2009	712,849
Transfer from investment properties	7,896
At 31 December 2009 and 1 January 2010	**720,745**
Transfer from investment properties	**4,265**
At 30 June 2010	**725,010**
Accumulated amortisation and impairment:	
At 1 January 2009	44,859
Amortised during the year	7,296
At 31 December 2009 and 1 January 2010	**52,155**
Amortised during the period	**3,705**
At 30 June 2010	**55,860**
Net carrying amount:	
At 30 June 2010	**669,150**
At 31 December 2009	668,590

Following the adoption of HKAS 17, land leases were classified from "Land lease prepayments under operating lease" to "Land under finance lease".

The current and non-current portions of the land under finance lease were HK$3,756,000 (2009: HK$8,359,000) and HK$665,394,000 (2009: HK$660,231,000) respectively.

21. Other assets

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Interest receivable from authorised institutions	**1,771**	2,187
Other debtors, deposits and prepayments	**217,345**	431,875
Tax recoverable	**12,340**	–
	231,456	434,062

There were no other overdue or rescheduled assets, and no impairment allowances for such other assets accordingly.

22. Customer deposits at amortised cost

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Demand deposits and current accounts	**1,839,629**	1,430,609
Savings deposits	**4,538,651**	5,938,345
Time, call and notice deposits	**21,494,869**	21,995,284
	27,873,149	29,364,238

23. Unsecured bank loans at amortised cost

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Unsecured bank loans	**2,202,867**	2,178,679
Repayable:		
Within one year	**714,960**	700,000
In the second to fifth years, inclusive	**1,487,907**	1,478,679
	2,202,867	2,178,679

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

24. Other liabilities

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Creditors, accruals and interest payable	**316,082**	804,606

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 2009	4,013,296	829	96,116	14,656	45,765	304,551	1,149,441	35,060	5,659,714
Profit for the year	–	–	–	–	–	–	275,073	–	275,073
Other comprehensive losses	–	–	–	(14,656)	–	–	–	(80)	(14,736)
Transfer to retained profits	–	–	–	–	–	(38,170)	38,170	–	–
Dividends for 2009	–	–	–	–	–	–	(197,625)	–	(197,625)
At 31 December 2009 and 1 January 2010	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**266,381**	**1,265,059**	**34,980**	**5,722,426**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**218,232**	**–**	**218,232**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,400**	**2,400**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**20,591**	**(20,591)**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
At 30 June 2010	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**286,972**	**1,407,804**	**37,380**	**5,888,162**

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

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Within one year	**6,119**	7,349
In the second to fifth years, inclusive	**3,910**	2,003
	10,029	9,352

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

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Within one year	**45,613**	38,580
In the second to fifth years, inclusive	**30,543**	27,183
	76,156	65,763

27. Off-balance sheet exposure

(a) Contingent liabilities, 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 2010:

	30 June 2010 (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	**229,339**	**229,339**	**20,350**	**–**	**–**
Transaction-related contingencies	**4,684**	**2,342**	**1,286**	**–**	**–**
Trade related contingencies	**114,118**	**22,823**	**16,257**	**–**	**–**
Forward forward deposits placed	**666,593**	**666,593**	**133,319**	**–**	**–**
Forward asset purchases	**13,845**	**13,845**	**2,769**	**–**	**–**
	1,028,579	**934,942**	**173,981**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**320,311**	**7,351**	**13**	**4,918**	**5,465**
Interest rate swaps	**200,000**	**–**	**–**	**2**	**–**
	520,311	**7,351**	**13**	**4,920**	**5,465**
Other commitments with original maturity of:					
Not more than one year	**–**	**–**	**–**	**–**	**–**
More than one year	**169,504**	**84,752**	**84,752**	**–**	**–**
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	**3,002,791**	**–**	**–**	**–**	**–**
	4,721,185	**1,027,045**	**258,746**	**4,920**	**5,465**
Capital commitment contracted for, but not provided in the financial statements	**5,108**				

27. Off-balance sheet exposure (Continued)
(a) Contingent liabilities and commitments and derivatives (Continued)

	31 December 2009 (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	256,225	256,225	50,611	–	–
Transaction-related contingencies	2,653	1,327	197	–	–
Trade related contingencies	100,655	20,131	16,203	–	–
Forward forward deposits placed	186,651	186,651	37,330	–	–
Forward asset purchases	21,570	21,570	4,314	–	–
	567,754	485,904	108,655	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	–	–	–	–	–
	1,542,301	25,920	59	11,657	1,668
Other commitments with original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	185,230	92,615	92,615	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,677,481	–	–	–	–
	4,972,766	604,439	201,329	11,657	1,668
Capital commitment contracted for, but not provided in the financial statements	6,723				

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts.

As at 30 June 2010 and 31 December 2009, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

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.

Notes to the Condensed Consolidated Financial Statements

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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Related party transactions included in the income statement:		
Interest income from the ultimate holding company	**1,310**	19,493
Rental income from the ultimate holding company	**20**	364
Management fees from the ultimate holding company	**–**	98
Interest paid and payable to fellow subsidiaries	**3,960**	26,463
Interest paid and payable to the ultimate holding company	**409**	246
Key management personnel compensation:		
– short-term employee benefits	**2,671**	2,026
– post employment benefits	**181**	244
	2,852	2,270
Interest income received from key management personnel	**2**	4
Interest expense paid to key management personnel	**3**	103
Commission fee income from key management personnel	**14**	4
Post employment benefits for employees other than key management personnel	**8,140**	7,766

	30 June 2010	31 December 2009
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Related party transactions included in the statement of financial position:		
Cash and short term funds with the ultimate holding company	**2,871**	736,218
Bank placements with the ultimate holding company	**–**	620,408
Interest receivable from the ultimate holding company	**–**	541
Deposits from the ultimate holding company, a fellow subsidiary and an affiliated company	**1,489,174**	828,258
Bank loan from a fellow subsidiary	**700,000**	700,000
Interest payable to fellow subsidiaries and the ultimate holding company	**524**	251
Loans to key management personnel	**829**	696
Deposits from key management personnel	**4,122**	18,421

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 2010 (Unaudited)			31 December 2009 (Audited)		
	Carrying value HK$'000	**Fair value HK$'000**	**Unrecognised loss HK$'000**	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Cash and short term placements	**5,204,047**	**5,204,047**	**–**	5,605,620	5,605,620	–
Placements with banks and financial institutions	**220,795**	**220,795**	**–**	868,483	868,483	–
Derivative financial instruments	**4,920**	**4,920**	**–**	11,657	11,657	–
Loans and advances and receivables	**25,517,279**	**25,517,279**	**–**	24,444,780	24,444,780	–
Available-for-sale financial assets (excluding unlisted equity investment, at cost)	**–**	**–**	**–**	–	–	–
Held-to-maturity investments	**3,690,550**	**3,689,109**	**(1,441)**	4,216,634	4,214,088	(2,546)
Other assets	**231,456**	**231,456**	**–**	434,062	434,062	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**1,930,873**	**1,930,873**	**–**	1,024,628	1,024,628	–
Derivative financial instruments	**5,465**	**5,465**	**–**	1,668	1,668	–
Customer deposits at amortised cost	**27,873,149**	**27,873,149**	**–**	29,364,238	29,364,238	–
Certificates of deposit issued at amortised cost	**200,000**	**200,000**	**–**	–	–	–
Unsecured bank loans at amortised cost	**2,202,867**	**2,202,867**	**–**	2,178,679	2,178,679	–
Other liabilities	**316,082**	**316,082**	**–**	804,606	804,606	–
Total unrecognised change in unrealised fair value			**(1,441)**			(2,546)

(a) Assets and liabilities for which fair value approximates to 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 to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

29. Fair value of financial instruments (Continued)

(a) Assets and liabilities for which fair value approximates to carrying value (Continued)

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 the 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 2010 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**4,920**	**–**	**4,920**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**4,920**	**6,804**	**11,724**
Financial liabilities:				
Derivative financial instruments	**–**	**5,465**	**–**	**5,465**

29. Fair value of financial instruments (Continued)

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

	31 December 2009 (Audited)			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets:				
Derivative financial instruments	–	11,657	–	11,657
Available-for-sale financial assets	–	–	6,804	6,804
	–	11,657	6,804	18,461
Financial liabilities:				
Derivative financial instruments	–	1,668	–	1,668

There were no transfers amongst Level 1, Level 2 and Level 3 in fair value hierarchy.

There were no issues and settlements related to the Level 3 financial instruments for the six months ended 30 June 2010. Lehman Brothers Minibonds were purchased during the six months ended 30 June 2010 and the year 2009, and they were fully impaired as at 30 June 2010 and 31 December 2009.

There was no gain or loss and nil comprehensive income reported in Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income respectively related to the Level 3 financial instruments for the six months ended 30 June 2010.

There was a loss of HK$42,962,000 and nil comprehensive income reported in Income Statement and Statement of Comprehensive Income respectively related to the Level 3 financial instruments for the year ended 31 December 2009.

For fair value measurements in Level 3, changing one or more of the inputs to reasonably possible alternative assumptions would not change fair value significantly.

There were no financial assets and financial liabilities that offset against each other as at 30 June 2010 and 31 December 2009.

30. Maturity analysis of financial assets and financial liabilities

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

	30 June 2010 (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	899,259	4,304,788	–	–	–	–	–	5,204,047
Placements with banks and financial institutions	–	–	131,437	89,358	–	–	–	220,795
Loans and advances and receivables	700,515	1,293,877	1,115,020	2,751,088	7,886,719	11,688,232	330,362	25,765,813
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	3,155,154	415,552	79,961	39,883	–	–	3,690,550
Other assets	288	167,403	208	258	174	–	63,125	231,456
Foreign exchange contracts (gross)	–	689,517	66,357	–	–	–	–	755,874
Total financial assets	1,600,062	9,610,739	1,728,574	2,920,665	7,926,776	11,688,232	400,291	35,875,339
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	402,195	88,349	1,415,329	25,000	–	–	–	1,930,873
Customer deposits at amortised cost	6,244,785	11,537,030	7,241,389	2,784,330	65,615	–	–	27,873,149
Certificates of deposit issued at amortised cost	–	–	–	200,000	–	–	–	200,000
Unsecured bank loans at amortised cost	–	714,960	–	–	1,487,907	–	–	2,202,867
Other liabilities	671	191,995	10,416	5,999	3,714	–	103,287	316,082
Foreign exchange contracts (gross)	–	694,199	62,220	–	–	–	–	756,419
Total financial liabilities	6,647,651	13,226,533	8,729,354	3,015,329	1,557,236	–	103,287	33,279,390

30. Maturity analysis of financial assets and financial liabilities (Continued)

	31 December 2009 (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	726,251	4,879,369	–	–	–	–	–	5,605,620
Placements with banks and financial institutions	–	–	779,485	88,998	–	–	–	868,483
Loans and advances and receivables	963,795	1,560,843	1,115,379	2,920,641	7,076,453	10,736,956	341,363	24,715,430
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,859,338	903,823	411,646	41,827	–	–	4,216,634
Other assets	12	385,687	749	276	162	–	47,176	434,062
Foreign exchange contracts (gross)	–	949,956	592,345	–	–	–	–	1,542,301
Total financial assets	1,690,058	10,635,193	3,391,781	3,421,561	7,118,442	10,736,956	395,343	37,389,334
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,312	345,383	41,359	–	–	–	1,024,628
Customer deposits at amortised cost	7,289,672	10,726,313	8,109,281	3,234,638	4,334	–	–	29,364,238
Certificates of deposit issued at amortised cost	–	–	–	–	–	–	–	–
Unsecured bank loans at amortised cost	–	–	–	700,000	1,478,679	–	–	2,178,679
Other liabilities	47	656,481	14,939	13,195	534	–	119,410	804,606
Foreign exchange contracts (gross)	–	946,802	585,510	–	–	–	–	1,532,312
Total financial liabilities	7,563,293	12,693,908	9,055,113	3,989,192	1,483,547	–	119,410	34,904,463

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 interest rate, foreign currency price, 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, Assets and Liabilities Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and assessed 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 introduction of new products or services or implementation of new business activities. 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 respective Assets and Liabilities Management Committees of Public Bank (Hong Kong) and 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 board of the directors. The Group has no significant foreign currencies risk as 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 2010 and the year ended 31 December 2009. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

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 directors and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the 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 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, the taking of collateral, the 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 the use of 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 Group's 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 licences 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 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 Assets and Liabilities Management Committee of the Group monitors 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 factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their 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.

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, retained profits, 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 2010 (Unaudited)	31 December 2009 (Audited)
Group:		
Consolidated capital adequacy ratio	**12.6%**	11.9%
Consolidated core capital ratio	**11.6%**	11.0%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**19.9%**	19.1%
Consolidated core capital ratio	**18.8%**	18.0%

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. Deductions from the capital base include investments in subsidiaries and other exposures.

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.

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 2010								
	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$'000	Loans and advances overdue for more than three months HK$'000
Loans for use in Hong Kong									
Manufacturing	209,392	237	1,279	1,041	3,367	153,574	73.3	1,612	1,612
Building and construction, property development and investment									
Property development	447,321	509	–	–	–	53,796	12.0	–	–
Property investment	5,804,719	6,597	–	–	–	4,922,656	84.8	1,989	–
Civil engineering works	110,472	125	–	–	–	27,133	24.6	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	2,920	3	–	–	–	2,920	100.0	–	–
Information technology	2,369	3	–	–	–	2,369	100.0	–	–
Wholesale and retail trade	92,873	123	455	–	–	72,645	78.2	1,857	36
Transport and transport equipment	4,543,281	4,615	3,073	279	250	4,424,234	97.4	3,300	3,138
Hotels, boarding houses and catering	348,055	396	–	–	–	16,457	4.7	–	–
Financial concerns	234,547	267	–	–	–	195,465	83.3	–	–
Stockbrokers									
Margin lending	69,338	79	–	–	–	34,532	49.8	–	–
Others	21,055	24	–	–	–	6,658	31.6	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	20,450	23	–	–	–	18,835	92.1	–	–
Others	160,469	183	–	5,206	5,206	155,462	96.9	–	–
Professional and 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 and Tenant Purchase Scheme	188,161	214	–	–	–	188,004	99.9	295	–
Loans for the purchase of other residential properties	6,844,574	7,424	–	–	153	6,775,312	99.0	2,864	2,864
Loans for credit card advances	15,992	18	169	557	434	–	–	169	131
Loans for other business purposes	385	–	–	–	–	385	100.0	–	–
Loans for other private purposes	3,834,690	76,476	41,042	197,756	196,763	167,335	4.4	159,047	97,341
Trade finance	483,704	549	12,786	5,016	194	354,604	73.3	93,865	93,424
Other loans and advances	97,306	111	–	1,493	37,123	91,459	94.0	–	–
Sub-total	23,532,073	97,976	58,804	211,348	243,490	17,663,835	75.1	264,998	198,546
Loans and advances for use outside Hong Kong	2,088,746	4,229	86,326	30,314	–	741,958	35.5	180,919	171,194
Total loans and advances (excluding trade bills)	25,620,819	102,205	145,130	241,662	243,490	18,405,793	71.8	445,917	369,740

Supplementary Information (Unaudited)

Advances to customers by industry sectors (Continued)

	31 December 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$'000	Loans and advances overdue for more than three months HK$'000
Loans for use in Hong Kong									
Manufacturing	679,618	826	41,755	43,683	38,455	317,442	46.7	79,403	64,628
Building and construction, property development and investment									
Property development	570,549	634	–	–	–	60,658	10.6	–	–
Property investment	5,446,731	6,045	–	–	–	4,547,101	83.5	907	–
Civil engineering works	112,441	124	–	–	–	30,456	27.1	–	–
Electricity and gas	27,765	31	–	–	–	–	–	–	–
Recreational activities	3,039	3	–	–	–	3,039	100.0	–	–
Information technology	2,992	3	–	–	–	2,505	83.7	–	–
Wholesale and retail trade	90,760	101	461	461	–	73,329	80.8	1,872	9
Transport and transport equipment	3,595,266	3,470	3,066	2,610	3,204	3,477,280	96.7	3,362	3,190
Hotels, boarding houses and catering	306,399	340	–	–	–	17,444	5.7	–	–
Financial concerns	453,249	503	–	–	–	387,419	85.5	–	–
Stockbrokers									
Margin lending	87,019	97	–	–	–	33,235	38.2	–	–
Others	56,771	63	–	–	–	1,316	2.3	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	49,015	54	–	–	–	11,666	23.8	–	–
Others	87,519	97	–	–	–	87,519	100.0	–	–
Professional and 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 and Tenant Purchase Scheme	204,443	227	–	–	43	204,443	100.0	292	292
Loans for the purchase of other residential properties	6,656,486	7,241	413	258	258	6,631,499	99.6	2,696	1,497
Loans for credit card advances	18,110	20	91	760	690	–	–	91	45
Loans for other business purposes	409	–	–	–	–	409	100.0	–	–
Loans for other private purposes	4,207,486	84,671	46,065	524,324	461,988	547,290	13.0	183,652	105,713
Trade finance	537,736	597	9,960	12,754	29,532	455,373	84.7	107,460	29,054
Other loans and advances	109,933	122	–	24,443	3,006	103,984	94.6	–	–
Sub-total	23,303,736	105,269	101,811	609,293	537,176	16,993,407	72.9	379,735	204,428
Loans and advances for use outside Hong Kong	1,213,206	4,077	57,443	21,240	–	497,394	41.0	147,431	147,431
Total loans and advances (excluding trade bills)	24,516,942	109,346	159,254	630,533	537,176	17,490,801	71.3	527,166	351,859

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

Supplementary Information (Unaudited)

Non-bank mainland exposures

The following table illustrates the disclosure required to be made in respect of the Group's 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 2010				
Mainland entities	**830**	**246**	**1,076**	**–**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**154**	**–**	**154**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland exposures	**477**	**–**	**477**	**55**
	1,461	**246**	**1,707**	**55**

	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 2009				
Mainland entities	98	142	240	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	124	–	124	–
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland exposures	741	–	741	38
	963	142	1,105	38

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 the table has been 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 2010				
1. Asia Pacific excluding Hong Kong	**3,499**	**36**	**373**	**3,908**
of which:				
China	**1,051**	**36**	**63**	**1,150**
Japan	**808**	**–**	**26**	**834**
2. Western Europe of which:	**3,436**	**–**	**99**	**3,535**
France	**1,317**	**–**	**–**	**1,317**
Germany	**918**	**–**	**–**	**918**

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2009				
1. Asia Pacific excluding Hong Kong	4,426	9	372	4,807
of which:				
Malaysia	1,971	–	93	2,064
2. Western Europe of which:	4,526	–	135	4,661
France	1,181	–	–	1,181

Supplementary Information (Unaudited)

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 HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/ (short) position HK$'million	Structural assets HK$'million
As at 30 June 2010						
United States Dollars	**4,458**	**4,551**	**403**	**301**	**9**	**–**
Renminbi	**179**	**188**	**–**	**–**	**(9)**	**230**
Others	**2,910**	**2,815**	**332**	**434**	**(7)**	**–**
	7,547	**7,554**	**735**	**735**	**(7)**	**230**

	Spot assets HK$'million	Spot liabilities HK$'million	Forward purchases HK$'million	Forward sales HK$'million	Net long/ (short) position HK$'million	Structural assets HK$'million
As at 31 December 2009						
United States Dollars	4,105	3,579	511	1,028	9	–
Renminbi	143	133	–	–	10	227
Others	3,257	3,141	154	275	(5)	–
	7,505	6,853	665	1,303	14	227

Liquidity ratios

	For the six months ended 30 June **2010**	2009
Average liquidity ratios:		
Public Bank (Hong Kong)	**42.1%**	47.9%
Public Finance	**128.4%**	110.3%

The average liquidity ratios above are computed on solo basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to liquidity position submitted by Public Bank (Hong Kong) and Public Finance to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the reporting period.

Management Discussion and Analysis

Business Review

Overview

During the period under review, the Hong Kong economy was generally stable and the level of consumer confidence in the gradual recovery of the Hong Kong economy was encouraging.

The economic stimulus measures introduced by the Government of the People's Republic of China (the "PRC") continued to have positive impact on the recovery of the Hong Kong economy in the period under review.

During the period under review, property prices in Hong Kong were on the rise generally, and retail sales activities showed encouraging signs of improvement. In general, the earnings and loan asset quality of financial institutions in Hong Kong recorded positive growth. The Group benefited from these factors and recorded significant improvement in earnings for the six months ended 30 June 2010.

However, with the uncertainty in the global economy, and in particular in the European countries, the operating environment of the Group remains challenging. Competition for retail banking business in Hong Kong remains very keen, which will put pressure on net interest margins of financial institutions. The Group will continue to adopt a prudent approach in its lending business while expanding its customer base.

Financial Review

Group performance

Revenue and Earnings

For the six months ended 30 June 2010, the Group recorded a profit after tax of HK$218.2 million, representing a significant improvement of 85.5% over the net earnings of HK$117.7 million for the corresponding period in 2009. The increase in net operating income and the decrease in impairment allowances for loans and advances contributed to the strong rebound in the profit after tax of the Group during the period under review.

The Group's basic earnings per share for the six months ended 30 June 2010 was HK$0.20. The directors had declared an interim dividend of HK$0.05 per share on 29 June 2010 which is payable on 6 August 2010.

The decrease in personal bankruptcies and improvement in bad debts recovery arising from restructured consumer loans in the period under review had resulted in the Group's impairment allowances for financial assets to decline by 48.5% or HK$142.8 million to HK$151.6 million from HK$294.4 million in the corresponding period in 2009.

The Group's operating income increased by 7.4% or HK$52.2 million to HK$756.0 million for the six months ended 30 June 2010 as compared to HK$703.8 million in the corresponding period in 2009. The increase was mainly due to increase in net interest income of HK$51.1 million. Interest expense decreased by 35.2% or HK$64.3 million to HK$118.3 million whilst interest income decreased marginally by 1.7% or HK$13.2 million to HK$745.5 million, leading to the increase in net interest income. Total fee income from loan transactions, stockbroking and other businesses registered an increase of 26.7% or HK$27.1 million to HK$128.7 million in the period under review.

The Group's operating expenses increased by 20.6% or HK$58.6 million to HK$343.3 million mainly due to increases in staff costs and premises related costs when compared to the corresponding period in 2009.

Loans and Advances, Customer Deposits and Total Assets

The Group's total loans and advances (including trade bills) expanded by HK$1.04 billion to HK$25.63 billion as at 30 June 2010 from HK$24.59 billion as at 31 December 2009. However, the Group's deposits from customers decreased by HK$1.49 billion to HK$27.87 billion as at 30 June 2010 from HK$29.36 billion as at 31 December 2009, due to keen competition and aggressive deposit pricing strategies of banks in Hong Kong. Total assets of the Group stood at HK$38.65 billion as at 30 June 2010.

Financial Review (Continued)

Group performance (Continued)

Branch Network

As at 30 June 2010, Public Bank (Hong Kong) had 30 branches in Hong Kong and 3 branches in Shenzhen in the PRC, providing a broad range of commercial and retail banking services. A subsidiary of the Company, Winton Financial Limited ("Winton"), which operates under a money lenders license, expanded its network to 8 branches in Hong Kong providing personal financing to its target customer segment. Together with the 42 branches of Public Finance, the Group had a combined branch network of 83 branches as at 30 June 2010.

Business development of Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 4.4% or HK$0.9 billion to HK$21.19 billion as at 30 June 2010 from HK$20.29 billion as at 31 December 2009. Deposits from customers however declined by 5.8% or HK$1.51 billion to HK$24.55 billion as at 30 June 2010 from HK$26.06 billion as at 31 December 2009. During the period under review, Public Bank (Hong Kong) diversified its sources of funding to the issuance of certificates of deposit of HK$0.2 billion and at the same time increased deposits from financial institutions and banks by HK$0.9 billion.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) was strong at over 19% as at 30 June 2010, and there were no exposure attributed to structured investment vehicles and "PIIGS" countries, namely Portugal, Ireland, Italy, Greece and Spain as at 30 June 2010.

Public Bank (Hong Kong) will continue to expand its branch network by opening new branches in appropriate locations to further develop its retail banking and related financial services business.

Contingent liabilities and commitments

The Group had 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 its treasury and trade finance operations and loan commitments disclosed in the notes to the financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. As at 31 December 2009, there was a charge over bank deposits of HK$27 million created by Public Bank (Hong Kong)'s Shenzhen Branch to secure a floating-rate loan of RMB20 million to fund its lending business in the PRC. During the period under review, this charge over the deposits of HK$27 million was released and there was no charge over the assets of the Group as at 30 June 2010.

Segmental information

The Group's business comprises three main segments: (i) retail and commercial banking and lending, (ii) wealth management services and stockbroking and (iii) other businesses. Over 90% of the Group's operating income and over 80% of profit before tax were contributed by retail and commercial banking and lending in Hong Kong for the period under review. When compared to the first half of 2009, the Group's operating income from retail and commercial banking and lending increased by 10.6% or HK$67.5 million to HK$705.2 million. Due to the decrease in impairment allowances for loans and advances, profit before tax from retail and commercial banking and lending increased by 182.2% or HK$152.2 million to HK$235.8 million when compared to the corresponding period in 2009.

Management Discussion and Analysis

Operational Review

Funding and capital management

The main objective of the Group's funding 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 relies 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$2.2 billion as at 30 June 2010. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.37 times as compared to 0.38 times as at 31 December 2009. The Group's bank borrowings have remaining maturity periods ranging from one year to three years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange and interest rates arising from such foreign exchange contracts and interest rate swap and forward contracts were immaterial.

Asset quality

The Group's impaired loans and advances to total loans and advances ratio improved from 2.1% as at 31 December 2009 to 1.7% as at 30 June 2010, due to improvement in asset quality of the Group's consumer financing and commercial loans. The Group will continue to adopt a prudent credit risk management strategy and endeavour with its best efforts in the recovery of impaired loans.

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

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 employees share option scheme approved by shareholders on 28 February 2002. In the first half year of 2010, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2010, options to subscribe for 28,953,000 shares in the Company remained unexercised.

As at 30 June 2010, the Group's staff force stood at 1,357 employees. For the six months ended 30 June 2010, the Group's total staff and related cost amounted to HK$194.6 million.

Management Discussion and Analysis

Prospects

The economic outlook of Hong Kong and the PRC is expected to be positive in the second half of 2010 although there are uncertainties in the recovery of the global economy. Due to close economic ties between Hong Kong and the PRC, there will be demand for project and working capital financing for the commercial and industrial sectors in the PRC as well as demand for financing the purchase of residential and commercial properties in Hong Kong. The anticipated expiry of the full deposit guarantee provided by the HKSAR Government by the end of 2010 would likely increase the cost of funds from customer deposits and inter-bank borrowings, and this would have an impact on the earnings of financial institutions in Hong Kong. However, Hong Kong is expected to continue to benefit from the economic policies and measures taken by the Government of the PRC which will contribute to the increasing economic activities in Hong Kong. The anticipated positive economic growth in the PRC and Hong Kong will benefit the consumer financing business of the Group. The Group will continue to seek long term business growth and take steps to align the business strategies of the Group in line with its future expansion plans. The Group will also adopt prudent capital and funding management to meet the challenges ahead under the current uncertain global economic conditions.

Competition in the banking and financing industry is expected to intensify further with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment will continue to exert pressure on the pricing of banking and financing products. However, the Group will continue to adopt prudent risk management measures balanced with flexible business strategies and diversified sources of income streams.

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

Barring unforeseen circumstances, the Group expects to register positive growth in its banking and financing businesses and its financial performance in the second half of 2010.

Other Information

Interim dividend

The board of directors has on 29 June 2010 declared an interim dividend of HK$0.05 (2009: HK$0.05) per share payable on 6 August 2010 to shareholders whose names appear on the register of members of the Company on 21 July 2010.

Directors' interests and short positions in shares and underlying shares

As at 30 June 2010, 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 of Hong Kong Limited (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
2.	Public Bank Berhad ("Public Bank"), the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	22,464,802	–	820,835,261	843,300,063	23.8765
		Tan Sri Dato' Thong Yaw Hong	7,633,342	365,294	326,154	8,324,790	0.2357
		Tan Sri Dato' Sri Tay Ah Lek	6,898,951	208,739	145,576	7,253,266	0.2054
		Lee Chin Guan	887,028	–	–	887,028	0.0251
		Dato' Chang Kat Kiam	114,215	–	–	114,215	0.0032
		Tan Yoke Kong	40,588	–	–	40,588	0.0011
		Lee Huat Oon	57,402	–	–	57,402	0.0016
		Chong Yam Kiang	17,128	–	–	17,128	0.0005
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 843,300,063 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.

Other Information

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 2010.

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 nor cancelled during the six months ended 30 June 2010.

	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
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
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	21,877,000	–	372,000	21,505,000	6.35
	29,325,000	–	372,000	28,953,000	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 28,953,000 outstanding options was 4.94 years as at 30 June 2010.

(d) The share options outstanding as at 30 June 2010 can only be exercised in future open exercise periods.

Other Information

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2010, 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	76,912,000	7.0053

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 2010.

Loan agreement with covenants relating to specific performance of the controlling shareholder

In May 2009, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight banks as the original lenders and CITIC Bank International Limited (formerly known as "CITIC Ka Wah Bank Limited") as the agent (the "Agent") for a 36-month transferable term loan facility in an aggregate amount of up to HK$1,500,000,000. As at 30 June 2010, the outstanding loan principal and amortised cost were HK$1,500,000,000 and HK$1,487,907,000 respectively.

The Facility Agreement provides, 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, more than 50% of the issued share capital of, and ownership interests in, the Company free from any security, or Public Bank does not or ceases to exercise management control over the Company.

If an event of default occurs, the Agent 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 continue to exist.

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 2010.

Other Information

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 2010 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.

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 2010 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 2010