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

Stock Code : 626

Excellence is Our Commitment

2011 INTERIM REPORT

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 Datuk Seri Utama 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 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Interest income	6	**775,261**	745,488
Interest expense	6	**(169,658)**	(118,288)
NET INTEREST INCOME		**605,603**	627,200
Other operating income	7	**150,864**	128,725
OPERATING INCOME		**756,467**	755,925
Operating expenses	8	**(358,964)**	(343,309)
Changes in fair value of investment properties		**1,884**	3,260
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**399,387**	415,876
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		**34,157**	–
		433,544	415,876
Impairment allowances for loans and advances and receivables	9	**(178,790)**	(151,571)
PROFIT BEFORE TAX		**254,754**	264,305
Tax	10	**(47,610)**	(46,073)
PROFIT FOR THE PERIOD		**207,144**	218,232
ATTRIBUTABLE TO:			
Owners of the Company		**207,144**	218,232
EARNINGS PER SHARE (HK$)	12		
Basic		**0.189**	0.199
Diluted		**0.189**	0.199

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

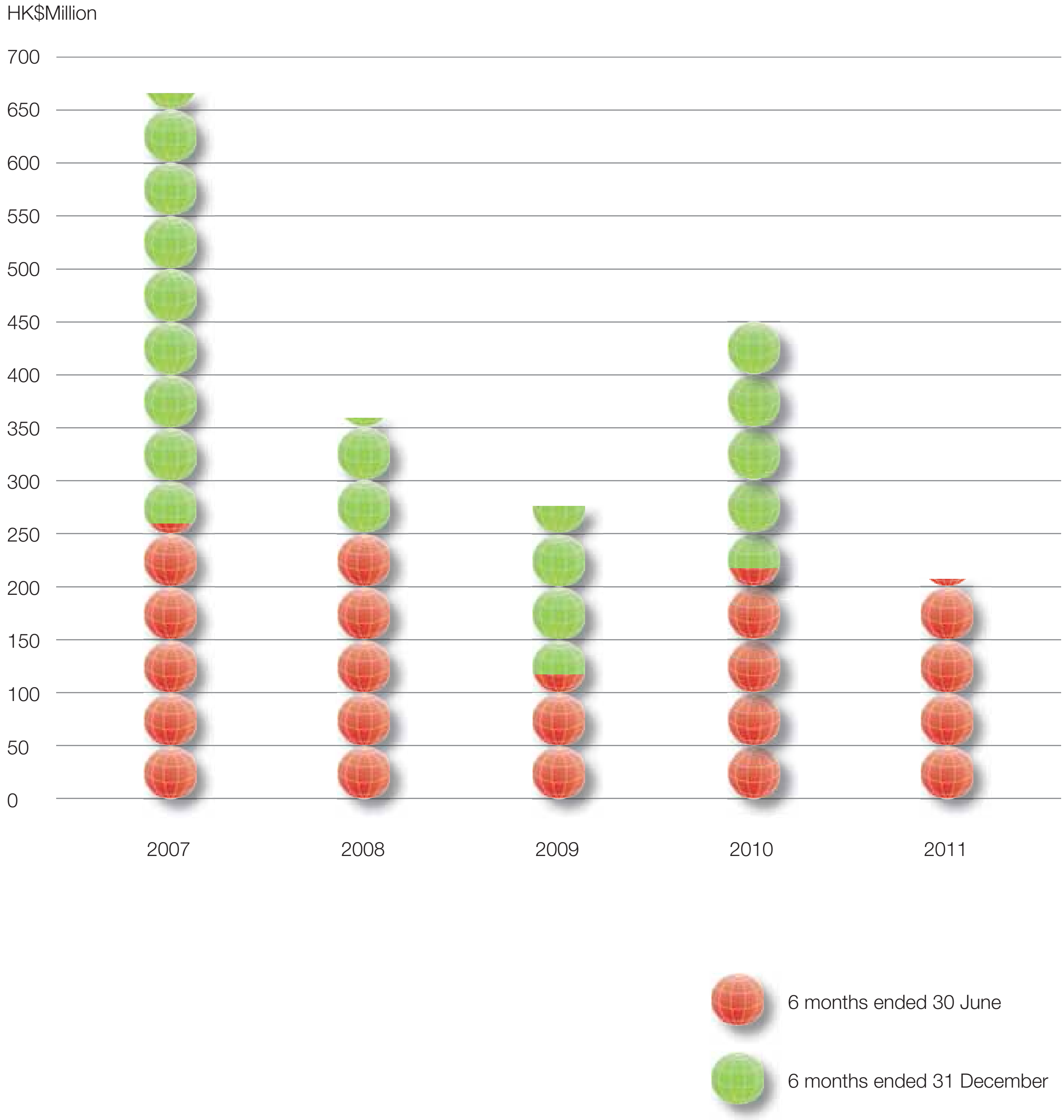
Condensed Consolidated Statement of Comprehensive Income

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
PROFIT FOR THE PERIOD		**207,144**	218,232
OTHER COMPREHENSIVE INCOME FOR THE PERIOD:	Note		
Exchange gain on translating foreign operations		**12,300**	2,400
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**219,444**	220,632
ATTRIBUTABLE TO:			
Owners of the Company		**219,444**	220,632

Note:

There were no tax effects arising from other comprehensive income for the six months ended 30 June 2011 and 2010.

Five-year Profit Highlight



Condensed Consolidated Statement of Financial Position

	Notes	**30 June 2011 (Unaudited) HK$'000**	31 December 2010 (Audited) HK$'000
ASSETS			
Cash and short term placements	13	**4,949,275**	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	**332,536**	723,715
Derivative financial instruments		**1,819**	10,167
Loans and advances and receivables	15	**27,904,951**	26,817,872
Available-for-sale financial assets	16	**6,804**	6,804
Held-to-maturity investments	17	**4,212,071**	2,709,776
Inventories of taxi licences		**11,416**	15,084
Investment properties	18	**190,549**	188,665
Property and equipment	19	**120,363**	119,615
Land held under finance leases	20	**661,650**	665,400
Interests in a jointly-controlled entity		**1,513**	1,513
Deferred tax assets		**15,577**	10,810
Goodwill		**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets	21	**421,453**	263,731
TOTAL ASSETS		**41,605,098**	40,329,638
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**1,846,807**	680,382
Derivative financial instruments		**2,360**	5,435
Customer deposits at amortised cost	22	**29,217,959**	29,670,825
Certificates of deposit issued at amortised cost		**512,938**	200,000
Dividends payable		**54,896**	175,667
Unsecured bank loans at amortised cost	23	**2,991,157**	3,038,991
Current tax payable		**73,362**	40,907
Deferred tax liabilities		**26,314**	23,165
Other liabilities	24	**649,400**	428,909
TOTAL LIABILITIES		**35,375,193**	34,264,281
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	25	**6,120,113**	5,955,565
TOTAL EQUITY		**6,229,905**	6,065,357
TOTAL EQUITY AND LIABILITIES		**41,605,098**	40,329,638

Condensed Consolidated Statement of Changes in Equity

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**6,065,357**	5,832,218
Profit for the period	**207,144**	218,232
Other comprehensive income	**12,300**	2,400
Total comprehensive income for the period	**219,444**	220,632
Dividends declared on shares	**(54,896)**	(54,896)
Balance at the end of the period	**6,229,905**	5,997,954

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**724,444**	(240,978)
INVESTING ACTIVITIES	**(12,769)**	(7,242)
FINANCING ACTIVITIES	**(223,501)**	(118,541)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**488,174**	(366,761)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**8,543,344**	8,971,532
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**9,031,518**	8,604,771
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**680,655**	899,259
Money at call and short notice with original maturity within three months	**4,268,620**	4,304,788
Placements with banks and financial institutions with original maturity within three months	**70,000**	–
Held-to-maturity investments with original maturity within three months	**4,012,243**	3,400,724
	9,031,518	8,604,771

Notes to Financial Statements

1. Accounting policies

These condensed 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 ("the Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Company's 2010 Annual Report except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations as disclosed in note 3 below.

2. Basis of preparation

The consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*.

The consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's 2010 Annual Report.

Basis of consolidation

The consolidated interim financial statements comprise the interim financial statements of the Company and its subsidiaries as at and for the period ended 30 June 2011.

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

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2. Basis of preparation (Continued)

Basis of consolidation (Continued)

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

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

Basis of capital disclosures

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

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

The computation of the consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of the Company, Public Bank (Hong Kong) and Public Finance for regulatory purposes.

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong. A portion of retained profits, based on a percentage of gross loans and advances, is set aside for a non-distributable regulatory reserve as part of supplementary capital included in capital base pursuant to the HKMA capital requirements.

3. Changes in accounting policies and disclosures

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following HKFRSs, HKASs and Hong Kong (International Financial Reporting Interpretations Committee) Interpretations ("HK(IFRIC)-Int") issued up to 30 June 2011 which are pertinent to its operations and relevant to these interim financial statements.

- HKAS 24 (Revised) — *Related Party Disclosures*
- HKAS 32 Amendments — Amendments to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
- Amendments to HK(IFRIC)-Int 14 — *Prepayments of a Minimum Funding Requirement*
- HK(IFRIC)-Int 19 — *Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13 are effective for the reporting period.

3. Changes in accounting policies and disclosures (Continued)

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.

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.

The amendments to HK(IFRIC)-Int 14 require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments 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. As the Group has not re-negotiated the terms of any financial liability which resulted in the issue of equity instruments to settle such financial liability, the interpretation has no financial impact on the Group.

In May 2010, the HKICPA issued *Improvements to HKFRSs* which sets out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is a separate transitional provision for each standard. While the adoption of some of them may result in changes in accounting policies, these amendments have no significant financial impact on the Group.

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

(b) HKFRS 3 Amendments clarify that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arises from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

    The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

3. Changes in accounting policies and disclosures (Continued)

(c) HKAS 1 (Revised) clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(d) HKAS 27 clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

(e) 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.

(f) 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.

4. Impact of issued but not yet effective HKFRSs

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 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
• HKFRS 9	*Financial Instruments*[3]
• HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes: Deferred Tax: Recovery of Underlying Assets*[2]

1 effective for annual periods beginning on or after 1 July 2011
2 effective for annual periods beginning on or after 1 January 2012
3 effective for annual periods beginning on or after 1 January 2013

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 from 1 July 2011. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply.

HKAS 12 Amendments provide guidance on deferred tax measurement for investment properties carried under the fair value model in accordance with HKAS 40. The presumption that the carrying value of underlying asset will be recovered through sale is rebutted if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through 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 the "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. Summary of the operating segments is as follows:

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

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

Notes to Financial Statements

5. Segment information (Continued)

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2011 and 2010, and certain asset and liability information regarding operating segments as at 30 June 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2011 (Unaudited) HK$'000	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000
Segment revenue										
External:										
Net interest income	**605,571**	627,187	**32**	13	**–**	–	**–**	–	**605,603**	627,200
Other operating income:										
Fees and commission income	**78,183**	70,071	**59,053**	43,069	**205**	228	**–**	–	**137,441**	113,368
Others	**5,102**	7,948	**–**	–	**8,321**	7,409	**–**	–	**13,423**	15,357
Inter-segment transactions:										
Fee and commission income	**–**	–	**–**	–	**219**	420	**(219)**	(420)	**–**	–
Operating income	**688,856**	705,206	**59,085**	43,082	**8,745**	8,057	**(219)**	(420)	**756,467**	755,925
Segment results	**222,191**	235,755	**23,237**	18,636	**9,326**	9,914	**–**	–	**254,754**	264,305
Share of profits and losses of a jointly-controlled entity									**–**	–
Profit before tax									**254,754**	264,305
Tax									**(47,610)**	(46,073)
Profit for the period									**207,144**	218,232
Segment assets other than interests in a jointly-controlled entity and intangible assets	**38,037,289**	35,325,430	**572,452**	325,003	**202,830**	201,151	**–**	–	**38,812,571**	35,851,584
Interests in a jointly-controlled entity	**1,513**	1,513	**–**	–	**–**	–	**–**	–	**1,513**	1,513
Intangible assets	**–**	–	**718**	718	**–**	–	**–**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**–**	–	**2,774,403**	2,774,403
	40,813,205	38,101,346	**573,170**	325,721	**202,830**	201,151	**–**	–	**41,589,205**	38,628,218
Unallocated assets:										
Deferred tax assets and tax recoverable									**15,893**	25,067
Total assets									**41,605,098**	38,653,285

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 2011 (Unaudited) HK$'000	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	30 June 2010 (Unaudited) HK$'000
Segment liabilities	**34,775,866**	32,281,212	**438,164**	192,560	**6,591**	54,664	**-**	–	**35,220,621**	32,528,436
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**99,676**	71,999
Dividends payable									**54,896**	54,896
Total liabilities									**35,375,193**	32,655,331
Other segment information										
Additions to non-current assets – capital expenditure	**13,298**	8,240	**-**	–	**-**	–	**-**	–	**13,298**	8,240
Depreciation of property and equipment and land held under finance leases	**16,130**	15,551	**-**	–	**-**	–	**-**	–	**16,130**	15,551
Changes in fair value of investment properties	**-**	–	**-**	–	**(1,884)**	(3,260)	**-**	–	**(1,884)**	(3,260)
Impairment allowances for loans and advances and receivables	**178,790**	151,571	**-**	–	**-**	–	**-**	–	**178,790**	151,571
Net losses on disposal of property and equipment	**149**	13	**-**	–	**-**	–	**-**	–	**149**	13

Geographical information

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

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.

Notes to Financial Statements

6. Interest income and expense

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**725,536**	696,885
Short term placements and placements with banks	**17,067**	11,137
Held-to-maturity investments	**32,658**	37,466
	775,261	745,488
Interest expense on:		
Deposits from banks and financial institutions	**11,240**	8,806
Deposits from customers	**143,216**	86,975
Bank loans	**15,202**	22,507
	169,658	118,288

Interest income and interest expenses for the six months ended 30 June 2011, calculated using the effective interest method on financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$775,261,000 and HK$169,658,000, respectively (2010: HK$745,488,000 and HK$118,288,000). Interest income of the impaired loans and advances for the six months ended 30 June 2011 amounted to HK$2,577,000 (2010: HK$6,420,000).

Notes to Financial Statements

7. Other operating income

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**78,908**	70,842
Wealth management services, stockbroking and securities management	**59,053**	43,069
	137,961	113,911
Less: Fees and commission expenses	**(520)**	(543)
Net fees and commission income	**137,441**	113,368
Gross rental income	**6,052**	6,502
Less: Direct operating expenses	**(40)**	(38)
Net rental income	**6,012**	6,464
Gains less losses arising from dealing in foreign currencies	**4,186**	6,027
Net losses on disposal of property and equipment	**(149)**	(13)
Dividend income from listed investments	**8**	7
Dividend income from unlisted investments	**500**	980
Net expense on derivative financial instruments	**(541)**	(545)
Others	**3,407**	2,437
	150,864	128,725

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2011 and 2010.

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

8. Operating expenses

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**192,477**	186,263
Pension contributions	**9,298**	8,326
Less: Forfeited contributions	**(7)**	(5)
Net retirement benefit schemes	**9,291**	8,321
	201,768	194,584
Other operating expenses:		
Operating lease rentals on leasehold buildings	**26,641**	24,121
Depreciation of property and equipment and land held under finance leases	**16,130**	15,551
Administrative and general expenses	**35,589**	32,608
Others	**78,836**	76,445
Operating expenses before changes in fair value of investment properties	**358,964**	343,309

As at 30 June 2011, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil). The current period credits arose in respect of staff who left the schemes during the period.

Notes to Financial Statements

9. Impairment allowances

	For the six months ended 30 June 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**180,976**	152,422
– trade bills, accrued interest and receivables	**(2,186)**	(851)
	178,790	151,571
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**179,850**	159,338
– collectively assessed	**(1,060)**	(7,767)
	178,790	151,571
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	**258,914**	241,902
– releases and recoveries	**(80,124)**	(90,331)
Net charge to the consolidated income statement	**178,790**	151,571

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2011 and 2010.

10. Tax

	For the six months ended 30 June 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Current tax charge:		
Hong Kong	**42,440**	42,393
Elsewhere	**5,936**	725
Underprovisions/(overprovisions) in prior years	**852**	(1,099)
Deferred tax (credit)/charge, net	**(1,618)**	4,054
	47,610	46,073

10. Tax (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the 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 2011 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**251,568**		**3,186**		**254,754**	
Tax at the applicable tax rate	**41,508**	**16.5**	**765**	**24.0**	**42,273**	**16.6**
Effect on change in tax rates	**–**	**–**	**74**	**2.3**	**74**	**–**
Estimated tax effect of net expense that is not deductible	**2,491**	**1.0**	**–**	**–**	**2,491**	**1.0**
Adjustments in respect of deferred tax of previous periods	**1,920**	**0.8**	**–**	**–**	**1,920**	**0.8**
Adjustments in respect of current tax of previous periods	**1,500**	**0.5**	**(648)**	**(20.3)**	**852**	**0.3**
Tax charge at the Group's effective rate	**47,419**	**18.8**	**191**	**6.0**	**47,610**	**18.7**

	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 periods 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

11. Dividends

	For the six months ended 30 June			
	2011	2010	**2011**	2010
	HK$ per ordinary share	HK$ per ordinary share	**HK$'000**	HK$'000
Interim	**0.05**	0.05	**54,896**	54,896

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK$207,144,000 (2010: HK$218,232,000) and on the weighted average number of 1,097,917,618 (2010: 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 2011 and 2010 had nil dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2011 is based on the profit for the period of HK$207,144,000 (2010: HK$218,232,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2010: 1,097,917,618), being the weighted average number of ordinary shares of 1,097,917,618 (2010: 1,097,917,618) in issue during the period as used in the basic earnings per share calculation.

13. Cash and short term placements

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Cash in hand	**132,503**	123,469
Placements with banks and financial institutions	**548,152**	561,234
Money at call and short notice	**4,268,620**	5,336,662
	4,949,275	6,021,365

Over 90% of the placements were rated with a grading of Baa2 or above based on the credit 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.

Notes to Financial Statements

14. Placements with banks and financial institutions maturing after one month but not more than twelve months

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Placements with banks and financial institutions	**332,536**	723,715

Over 90% of the placements were rated with a grading of Baa2 or above based on the credit 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 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Loans and advances to customers	**27,906,775**	26,850,951
Trade bills	**65,039**	31,170
Loans and advances, and trade bills	**27,971,814**	26,882,121
Accrued interest	**83,542**	83,672
	28,055,356	26,965,793
Other receivables	**54,570**	56,953
Gross loans and advances and receivables	**28,109,926**	27,022,746
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(173,128)**	(171,967)
– collectively assessed	**(31,847)**	(32,907)
	(204,975)	(204,874)
Loans and advances and receivables	**27,904,951**	26,817,872

Over 90% of the loans and advances and receivables were unrated exposures. Over 90% of the collateral for the Group's secured loans and advances and receivables were cash, properties, listed shares, taxi licences, public light bus licences and vehicles.

15. Loans and advances and receivables (Continued)

Loans and advances and receivables are summarised as follows:

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Neither past due nor impaired loans and receivables	**27,149,560**	26,150,795
Past due but not impaired loans and advances and receivables	**670,453**	540,761
Individually impaired loans and advances	**276,630**	315,715
Individually impaired receivables	**13,283**	15,475
Total loans and advances and receivables	**28,109,926**	27,022,746

About 65% of "Neither past due nor impaired loans and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by cash, properties, taxi licences and vehicles.

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	**90,667**	**0.33**	90,673	0.34
One year or less but over six months	**6,794**	**0.02**	5,790	0.02
Over one year	**138,745**	**0.50**	175,927	0.66
Loans and advances overdue for more than three months	**236,206**	**0.85**	272,390	1.02
Rescheduled loans and advances overdue for three months or less	**34,504**	**0.12**	39,413	0.15
Impaired accounts overdue for three months or less	**5,920**	**0.02**	3,912	0.01
Total overdue and impaired loans and advances	**276,630**	**0.99**	315,715	1.18

15. Loans and advances and receivables (Continued)

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

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**5**	12
One year or less but over six months	**–**	1,778
Over one year	**13,265**	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	**13,270**	15,473
Impaired accounts overdue for three months or less	**13**	2
Total overdue and impaired trade bills, accrued interest and other receivables	**13,283**	15,475

Impaired loans and advances and receivables are individually determined to be impaired after considering the 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 2011 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2010 (Audited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**110,684**	**138,792**	**249,476**	154,018	133,845	287,863
Individual impairment allowances	**71,124**	**77,877**	**149,001**	92,671	55,942	148,613
Collective impairment allowances	**–**	**–**	**–**	–	–	–
Current market value and fair value of collateral			**206,126**			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**151,121**	**138,792**	**289,913**	197,345	133,845	331,190
Individual impairment allowances	**95,251**	**77,877**	**173,128**	116,025	55,942	171,967
Collective impairment allowances	**–**	**–**	**–**	–	–	–
Current market value and fair value of collateral			**208,214**			253,689

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

15. Loans and advances and receivables (Continued)

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

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**206,126**	252,189
Covered portion of overdue loans and advances	**76,442**	88,701
Uncovered portion of overdue loans and advances	**159,764**	183,689

The assets taken as collateral should satisfy the following criteria:

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

The main types of guarantors for credit risk mitigation are as follows:

- Central government with a grading of Aa3 or above
- Unrated public sector enterprises
- Banks with a grading of Baa2 or above
- Unrated corporation
- Individual shareholders and directors of corporate customers

Notes to Financial Statements

15. Loans and advances and receivables (Continued)

(d) Repossessed assets

As at 30 June 2011, the total value of repossessed assets of the Group amounted to HK$16,180,000 (31 December 2010: HK$26,190,000).

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

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances overdue for less than three months	**668,963**	**2.40**	539,829	2.01
Rescheduled but not impaired loans and advances	**–**	**–**	–	–
	668,963	**2.40**	539,829	2.01
Trade bills, accrued interest and other receivables overdue less than three months	**1,490**		932	

15. Loans and advances and receivables (Continued)

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

	30 June 2011 (Unaudited)		
	Individual impairment allowance HK$'000	Collective impairment allowance HK$'000	Total HK$'000
At 1 January 2011	171,967	32,907	204,874
Amount written off	(255,169)	–	(255,169)
Impairment losses and allowances charged to the consolidated income statement	258,036	878	258,914
Impairment losses and allowances released to the consolidated income statement	(78,186)	(1,938)	(80,124)
Net charge of impairment losses and allowances	179,850	(1,060)	178,790
Loans and advances and receivables recovered	75,305	–	75,305
Exchange difference	1,175	–	1,175
At 30 June 2011	173,128	31,847	204,975
Deducted from:			
Loans and advances	171,309	31,488	202,797
Trade bills, accrued interest and other receivables	1,819	359	2,178
	173,128	31,847	204,975

15. Loans and advances and receivables (Continued)

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

	31 December 2010 (Audited)		
	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	(484,172)	–	(484,172)
Impairment losses and allowances charged to the consolidated income statement	514,834	–	514,834
Impairment losses and allowances released to the consolidated income statement	(157,427)	(76,921)	(234,348)
Net charge of impairment losses and allowances	357,407	(76,921)	280,486
Loans and advances and receivables recovered	136,940	–	136,940
Exchange difference	924	46	970
At 31 December 2010	171,967	32,907	204,874
Deducted from:			
Loans and advances	167,812	32,698	200,510
Trade bills, accrued interest and other receivables	4,155	209	4,364
	171,967	32,907	204,874

Impairment for some overdue consumer financing loans of Public Finance, which was collectively assessed in prior years, was assessed individually in 2010. This resulted in an increase in the individual impairment allowance of HK$62,618,000 and a corresponding reduction in the collective impairment allowance.

Notes to Financial Statements

15. Loans and advances and receivables (Continued)

(g) Finance lease receivables

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000	**30 June 2011 (Unaudited) HK$'000**	31 December 2010 (Audited) HK$'000
Amounts receivable under finance leases:				
Within one year	**405,743**	437,537	**318,822**	340,354
In the second to fifth years, inclusive	**1,061,961**	1,157,354	**820,391**	889,179
Over five years	**3,510,946**	3,853,487	**3,009,524**	3,287,420
	4,978,650	5,448,378	**4,148,737**	4,516,953
Less: Unearned finance income	**(829,913)**	(931,425)		
Present value of minimum lease payments receivable	**4,148,737**	4,516,953		

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

16. Available-for-sale financial assets

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the period/year	**6,804**	6,804

Unlisted investments are measured at fair value based on the present value of cash flows over a period of 10 years.

17. Held-to-maturity investments

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Unlisted:		
Certificates of deposit held	**1,366,848**	147,767
Treasury bills (including Exchange Fund Bills)	**1,049,915**	1,099,681
Other debt securities	**1,795,308**	1,462,328
	4,212,071	2,709,776
Analysed by type of issuers:		
– Central government	**1,049,915**	1,099,681
– Banks and other financial institutions	**3,162,156**	1,610,095
	4,212,071	2,709,776

Impairment allowances of held-to-maturity investments were nil as at 30 June 2011 and 31 December 2010. There were no movements in impairment allowances in the period under review and 2010.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2011 and 31 December 2010. There were no listed held-to-maturity investments as at 30 June 2011 and 31 December 2010.

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

18. Investment properties

	HK$'000
At valuation:	
At 1 January 2010	184,342
Transfer to property and equipment	(443)
Transfer to land held under finance leases	(4,265)
Changes in fair value	9,031
At 31 December 2010 and 1 January 2011	**188,665**
Changes in fair value	**1,884**
At 30 June 2011	**190,549**

At 31 December 2010, 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 2011, investment properties with a carrying amount of HK$188,665,000 (31 December 2010: HK$179,634,000) were revalued at HK$190,549,000 (31 December 2010: HK$188,665,000) 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 fair value of HK$1,884,000 (31 December 2010: HK$9,031,000) resulting from the above valuation has been credited to the consolidated 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 2010	71,057	161,252	2,984	235,293
Additions	–	19,362	–	19,362
Transfer from investment properties	443	–	–	443
Disposals/write-off	–	(17,155)	–	(17,155)
At 31 December 2010 and 1 January 2011	**71,500**	**163,459**	**2,984**	**237,943**
Additions	**–**	**13,148**	**150**	**13,298**
Disposals/write-off	**–**	**(389)**	**–**	**(389)**
At 30 June 2011	**71,500**	**176,218**	**3,134**	**250,852**
Accumulated depreciation:				
At 1 January 2010	12,446	95,891	2,826	111,163
Provided during the year	1,586	22,565	20	24,171
Exchange difference	41	–	–	41
Disposals/write-off	–	(17,047)	–	(17,047)
At 31 December 2010 and 1 January 2011	**14,073**	**101,409**	**2,846**	**118,328**
Provided during the period	**795**	**11,572**	**13**	**12,380**
Exchange difference	**21**	**–**	**–**	**21**
Disposals/write-off	**–**	**(240)**	**–**	**(240)**
At 30 June 2011	**14,889**	**112,741**	**2,859**	**130,489**
Net carrying amount:				
At 30 June 2011	**56,611**	**63,477**	**275**	**120,363**
At 31 December 2010	57,427	62,050	138	119,615

No valuation has been made for the above items of property and equipment for the period ended 30 June 2011 and the year ended 31 December 2010.

20. Land held under finance leases

	HK$'000
Cost:	
At 1 January 2010	720,745
Transfer from investment properties	4,265
At 31 December 2010, 1 January 2011 and 30 June 2011	**725,010**
Accumulated depreciation and impairment:	
At 1 January 2010	52,155
Depreciation provided during the year	7,455
At 31 December 2010 and 1 January 2011	**59,610**
Depreciation provided during the period	**3,750**
At 30 June 2011	**63,360**
Net carrying amount:	
At 30 June 2011	**661,650**
At 31 December 2010	665,400

Land leases were stated at the recoverable amount subject to an impairment test pursuant to HKAS 36, which is based on the higher of fair value less costs to sell and value in use.

21. Other assets

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Interest receivable from authorised institutions	**2,601**	3,108
Other debtors, deposits and prepayments	**418,536**	259,722
Tax recoverable	**316**	901
	421,453	263,731

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 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Demand deposits and current accounts	**1,872,556**	2,012,896
Savings deposits	**4,000,184**	4,528,561
Time, call and notice deposits	**23,345,219**	23,129,368
	29,217,959	29,670,825

23. Unsecured bank loans at amortised cost

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Unsecured bank loans	**2,991,157**	3,038,991
Repayable:		
On demand or within a period not exceeding one year	**829,733**	1,578,939
Within a period of more than two years but not exceeding five years	**2,161,424**	1,460,052
	2,991,157	3,038,991

The amount repayable on demand of the Group was a term loan of HK$30,000,000 as at 30 June 2011 (31 December 2010: a term loan of HK$80,000,000). The term loan was callable by the lender, but management did not expect the lender to exercise its right to demand repayment in normal circumstances.

The unsecured bank loans were denominated in Hong Kong dollars. Carrying amounts of the unsecured bank loans bore interest at floating interest rates and at prevailing market rates.

24. Other liabilities

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Creditors, accruals and interest payable	**649,400**	428,909

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 2010	4,013,296	829	96,116	–	45,765	266,381	1,265,059	34,980	5,722,426
Profit for the year	–	–	–	–	–	–	450,497	–	450,497
Other comprehensive income	–	–	–	–	–	–	–	13,205	13,205
Transfer from retained profits	–	–	–	–	–	55,943	(55,943)	–	–
Dividends for 2010	–	–	–	–	–	–	(230,563)	–	(230,563)
At 31 December 2010 and 1 January 2011	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**322,324**	**1,429,050**	**48,185**	**5,955,565**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**207,144**	**–**	**207,144**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,300**	**12,300**
Transfer from retained profits	**–**	**–**	**–**	**–**	**–**	**64,963**	**(64,963)**	**–**	**–**
Dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
At 30 June 2011	**4,013,296**	**829**	**96,116**	**–**	**45,765**	**387,287**	**1,516,335**	**60,485**	**6,120,113**

Note:

In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowance were included as supplementary capital in the Group's capital base at 30 June 2011 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of requirements of accounting standards pursuant to the requirements from the HKMA.

26. Operating lease arrangements

(a) As lessor

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

As at 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Within one year	**7,718**	5,951
In the second to fifth years, inclusive	**4,419**	4,107
	12,137	10,058

(b) As lessee

The Group has entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from 1 to 5 years.

As at 30 June 2011 and 31 December 2010, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Within one year	**43,214**	41,839
In the second to fifth years, inclusive	**33,564**	22,521
	76,778	64,360

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, commitments and derivatives of the Group outstanding at the end of the reporting period:

	30 June 2011 (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	231,926	231,926	31,862	–	–
Transaction-related contingencies	23,204	11,602	1,975	–	–
Trade-related contingencies	75,144	15,028	12,902	–	–
Forward forward deposits placed	155,660	155,660	31,132	–	–
Forward asset purchases	14,840	14,840	2,968	–	–
	500,774	429,056	80,839	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	822,768	2,507	561	1,819	2,360
Interest rate swaps	–	–	–	–	–
	822,768	2,507	561	1,819	2,360
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	130,061	65,030	65,030	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,716,720	–	–	–	–
	5,170,323	496,593	146,430	1,819	2,360
Capital commitments contracted for, but not provided in the financial statements	4,395				

Notes to Financial Statements

27. Off-balance sheet exposure (Continued)

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

	31 December 2010 (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	249,122	249,122	29,633	–	–
Transaction-related contingencies	7,278	3,639	2,800	–	–
Trade-related contingencies	108,931	21,785	16,055	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	9,356	9,356	1,871	–	–
	374,687	283,902	50,359	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	579,220	14,888	47	10,145	5,435
Interest rate swaps	200,000	–	–	22	–
	779,220	14,888	47	10,167	5,435
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	261,004	130,502	130,502	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	4,166,068	–	–	–	–
	5,580,979	429,292	180,908	10,167	5,435
Capital commitments contracted for, but not provided in the financial statements	7,160				

27. Off-balance sheet exposure (Continued)

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

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 2011 and 31 December 2010, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

(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 a 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 used for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the consolidated 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 risk. The derivative financial 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 the 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 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Related party transactions included in the consolidated income statement:		
Interest income from the ultimate holding company	**2**	1,310
Rental income from the ultimate holding company	**–**	20
Interest paid and payable to fellow subsidiaries	**5,753**	3,960
Interest and commitment fee paid and payable to the ultimate holding company	**4,459**	409
Key management personnel compensation:		
– short term employee benefits	**2,899**	2,671
– post-employment benefits	**192**	181
	3,091	2,852
Interest income received from key management personnel	**24**	2
Interest expense paid to key management personnel	**4**	3
Commission fee income from key management personnel	**11**	14
Post-employment benefits for employees other than key management personnel	**9,099**	8,140

	30 June	31 December
	2011	2010
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Related party transactions included in the consolidated statement of financial position:		
Cash and short term funds with the ultimate holding company	**4,402**	13,070
Deposits from the ultimate holding company, a fellow subsidiary and an affiliated company	**1,769,450**	697,065
Amount due to the ultimate holding company	**1,762**	–
Bank loans from a fellow subsidiary	**730,000**	700,000
Interest payable to the ultimate holding company, the fellow subsidiaries and an affiliated company	**1,204**	521
Loans to key management personnel	**643**	634
Deposits from key management personnel	**4,985**	4,610

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 2011 (Unaudited)			31 December 2010 (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	4,949,275	4,949,275	–	6,021,365	6,021,365	–
Placements with banks and financial institutions maturing after one month but not more than twelve months	332,536	332,536	–	723,715	723,715	–
Derivative financial instruments	1,819	1,819	–	10,167	10,167	–
Loans and advances and receivables	27,904,951	27,904,951	–	26,817,872	26,817,872	–
Available-for-sale financial assets	6,804	6,804	–	6,804	6,804	–
Held-to-maturity investments	4,212,071	4,211,766	(305)	2,709,776	2,708,954	(822)
Other assets	421,453	421,453	–	263,731	263,731	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	1,846,807	1,846,807	–	680,382	680,382	–
Derivative financial instruments	2,360	2,360	–	5,435	5,435	–
Customer deposits at amortised cost	29,217,959	29,217,959	–	29,670,825	29,670,825	–
Certificates of deposit issued at amortised cost	512,938	512,938	–	200,000	200,000	–
Unsecured bank loans at amortised cost	2,991,157	2,991,157	–	3,038,991	3,038,991	–
Other liabilities	649,400	649,400	–	428,909	428,909	–
Total unrecognised loss			(305)			(822)

29. Fair value of financial instruments (Continued)

(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 have not been 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.

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 2011 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**1,819**	**–**	**1,819**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**1,819**	**6,804**	**8,623**
Financial liabilities:				
Derivative financial instruments	**–**	**2,360**	**–**	**2,360**

29. Fair value of financial instruments (Continued)

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

	31 December 2010 (Audited)			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets:				
Derivative financial instruments	–	10,167	–	10,167
Available-for-sale financial assets	–	–	6,804	6,804
	–	10,167	6,804	16,971
Financial liabilities:				
Derivative financial instruments	–	5,435	–	5,435

During the six months ended 30 June 2011 and the year ended 31 December 2010, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

There were no issues and settlements related to the Level 3 financial instruments for the six months ended 30 June 2011 and for the year ended 31 December 2010. Full impairment in relation to Lehman Brothers Minibonds was written back and there were nil outstanding exposures and impairment in relation to Lehman Brothers Minibonds as at 30 June 2011.

There were no gains or losses and nil comprehensive income reported in the condensed consolidated income statement and the condensed consolidated statement of comprehensive income respectively related to the Level 3 financial instruments for the six months ended 30 June 2011 and 2010.

For fair value measurements in Level 3, changing one or more of the inputs to the 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 2011 and 31 December 2010.

Notes to Financial Statements

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 periods that they are expected to be recovered or settled.

	30 June 2011 (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	680,655	4,268,620	–	–	–	–	–	4,949,275
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	133,123	199,413	–	–	–	332,536
Loans and advances and receivables	539,679	1,309,003	1,138,264	3,547,268	8,187,967	13,255,600	132,145	28,109,926
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,424,060	1,735,527	50,076	2,408	–	–	4,212,071
Other assets	128	374,240	705	832	771	–	44,777	421,453
Foreign exchange contracts (gross)	–	772,439	50,329	–	–	–	–	822,768
Net interest rate swaps	–	–	–	–	–	–	–	–
Total financial assets	1,220,462	9,148,362	3,057,948	3,797,589	8,191,146	13,255,600	183,726	38,854,833
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	42,986	585,451	1,078,370	140,000	–	–	–	1,846,807
Customer deposits at amortised cost	5,882,657	11,133,631	9,022,992	3,091,527	87,152	–	–	29,217,959
Certificates of deposit issued at amortised cost	–	–	–	512,938	–	–	–	512,938
Unsecured bank loans at amortised cost	30,000	–	799,733	–	2,161,424	–	–	2,991,157
Other liabilities	784	287,015	17,814	11,247	4,117	–	328,423	649,400
Foreign exchange contracts (gross)	–	773,019	50,290	–	–	–	–	823,309
Total financial liabilities	5,956,427	12,779,116	10,969,199	3,755,712	2,252,693	–	328,423	36,041,570

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

	31 December 2010 (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	684,703	5,336,662	–	–	–	–	–	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	527,254	196,461	–	–	–	723,715
Loans and advances and receivables	606,792	1,643,747	790,748	2,814,346	8,365,811	12,598,319	202,983	27,022,746
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	1,720,179	839,863	147,375	2,359	–	–	2,709,776
Other assets	447	212,516	396	649	10	–	49,713	263,731
Foreign exchange contracts (gross)	–	573,001	6,219	–	–	–	–	579,220
Net interest rate swaps	–	–	22	–	–	–	–	22
Total financial assets	1,291,942	9,486,105	2,164,502	3,158,831	8,368,180	12,598,319	259,500	37,327,379
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	199,250	291,132	115,000	75,000	–	–	–	680,382
Customer deposits at amortised cost	6,551,816	11,278,914	9,274,125	2,427,200	138,770	–	–	29,670,825
Certificates of deposit issued at amortised cost	–	–	200,000	–	–	–	–	200,000
Unsecured bank loans at amortised cost	80,000	–	–	1,498,939	1,460,052	–	–	3,038,991
Other liabilities	1,607	227,165	14,733	9,759	6,747	–	168,898	428,909
Foreign exchange contracts (gross)	–	568,229	6,281	–	–	–	–	574,510
Total financial liabilities	6,832,673	12,365,440	9,610,139	4,010,898	1,605,569	–	168,898	34,593,617

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, capital, market 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, Credit 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 are 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. Interest rate risk is managed by the Group's Treasury Department and monitored and measured by the Assets and Liabilities Management Committees of Public Bank (Hong Kong) and Public Finance against limits approved by the respective boards of directors.

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the directors. The Group has no significant foreign currency 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 against each other for the six months ended 30 June 2011 and the year ended 31 December 2010. Accordingly, no quantitative market risk disclosures for currency risk have been made.

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 price risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the board of directors and are monitored on a daily basis.

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

Credit risk management

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

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

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those loans offered 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 that established credit policies and procedures are complied with.

Credit Committees of the Group monitor the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions, management information systems and reports. 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)

Credit Committees of the Group also monitor the quality of past due or impaired financial assets by internal grading comprising “substandard”, “doubtful” and “loss” accounts through the same meeting discussions and management information systems and reports. 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 the credit risk of existing and new products, and approving credit risk management policies and credit risk tolerance 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 vehicles and securities.

The “Neither past due nor impaired loans and receivables” are shown in note 15 to the financial statements.

Loans and advances and receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Liquidity risk management

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

The respective Assets and Liabilities Management Committees of Public Bank (Hong Kong) and Public Finance monitor the liquidity position as part of the ongoing management of assets and liabilities, and set up trigger limits to monitor liquidity risk. They also closely monitor the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries’ assets, liabilities and commitments can meet their 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

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and systems errors or from external events.

The Group has an operational risk management function in place to identify, measure, monitor and control operational risk. Its Operational Risk Management Policy Manual defines the responsibilities of various committees, business units and supporting departments, and highlights key operational risk factors and categories with loss event types to facilitate the measurement and assessment of operational risks and their potential impact. 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 controlling of operational risk.

31. Financial risk management objectives and policies (Continued)

Capital management

Capital of the Group for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits, regulatory reserve and sub-ordinated debts, if any. Finance and Control Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures and 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 various business activities of the Group depending on the risks 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 2011 (Unaudited)	31 December 2010 (Audited)
Group:		
Consolidated capital adequacy ratio	**12.1%**	11.9%
Consolidated core capital ratio	**11.1%**	11.0%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**18.5%**	18.8%
Consolidated core capital ratio	**17.4%**	17.7%

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 Financial 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 the HKMA guidelines as follows:

30 June 2011	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 and advances for use in Hong Kong									
Manufacturing	557,360	414	281	281	2,018	499,464	89.6	281	281
Building and construction, property development and investment									
Property development	506,914	380	–	21	–	22,524	4.4	–	–
Property investment	6,475,576	4,851	–	–	–	5,790,878	89.4	–	–
Civil engineering works	103,622	76	–	–	–	20,097	19.4	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	1,816	1	–	–	–	1,816	100.0	–	–
Information technology	49,968	37	–	–	–	932	1.9	–	–
Wholesale and retail trade	84,864	55	–	69	89	70,281	82.8	–	–
Transport and transport equipment	4,129,622	2,777	2,150	373	1,133	4,054,569	98.2	2,463	1,765
Hotels, boarding houses and catering	363,923	273	–	–	–	32,388	8.9	–	–
Financial concerns	391,224	312	–	114	–	375,872	96.1	–	–
Stockbrokers									
Margin lending	103,200	77	–	–	–	103,200	100.0	–	–
Others	479	–	–	–	–	479	100.0	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	40,452	30	–	–	–	908	2.2	–	–
Others	74,733	56	–	–	–	74,733	100.0	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	159,313	119	–	–	–	159,313	100.0	200	–
Loans for the purchase of other residential properties	8,051,654	5,726	–	267	–	7,931,116	98.5	–	–
Loans for credit card advances	16,666	12	220	329	122	–	–	221	162
Loans for other business purposes	2,759	2	–	2	–	2,759	100.0	–	–
Loans for other private purposes	3,862,306	12,035	91,794	222,390	222,001	281,745	7.3	133,680	94,213
Trade finance	491,338	368	–	50	14,224	363,829	74.0	11,614	11,614
Other loans and advances	92,015	69	–	–	–	74,321	80.8	–	–
Sub-total	25,559,804	27,670	94,445	223,896	239,587	19,861,224	77.7	148,459	108,035
Loans and advances for use outside Hong Kong	2,346,971	3,818	76,864	33,280	15,582	963,078	41.0	128,171	128,171
Total loans and advances (excluding trade bills and other receivables)	27,906,775	31,488	171,309	257,176	255,169	20,824,302	74.6	276,630	236,206

Supplementary Financial Information (Unaudited)

Advances to customers by industry sectors (Continued)

	31 December 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 and advances for use in Hong Kong									
Manufacturing	206,444	161	1,270	1,368	3,398	154,224	74.7	1,270	1,270
Building and construction, property development and investment									
Property development	455,361	359	–	–	–	27,112	6.0	–	–
Property investment	6,647,512	5,231	–	–	–	5,533,717	83.2	–	–
Civil engineering works	105,189	82	–	–	–	22,380	21.3	–	–
Electricity and gas	–	–	–	–	–	–	–	–	–
Recreational activities	2,795	2	–	–	–	2,795	100.0	–	–
Information technology	50,391	40	–	–	–	1,469	2.9	–	–
Wholesale and retail trade	85,070	56	435	21	–	70,236	82.6	1,656	29
Transport and transport equipment	4,490,085	3,168	3,289	680	432	4,384,582	97.7	3,306	3,165
Hotels, boarding houses and catering	358,539	282	–	–	–	17,259	4.8	–	–
Financial concerns	251,789	198	–	–	–	219,689	87.3	–	–
Stockbrokers									
Margin lending	119,725	94	–	–	–	119,725	100.0	–	–
Others	20,972	17	–	–	–	972	4.6	–	–
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	41,276	33	–	–	–	8,366	20.3	–	–
Others	95,197	75	–	5,222	5,222	95,197	100.0	–	–
Professional and private individuals									
Loans for the purchase of flats covered by the guarantees issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	174,410	137	–	–	–	174,410	100.0	248	–
Loans for the purchase of other residential properties	7,249,571	5,459	–	–	153	7,174,568	99.0	–	–
Loans for credit card advances	15,713	12	15	606	637	–	–	15	4
Loans for other business purposes	351	–	–	–	–	351	100.0	–	–
Loans for other private purposes	3,872,952	13,088	91,669	456,764	410,446	187,791	4.8	136,033	94,735
Trade finance	403,383	318	14,374	8,645	223	283,571	70.3	32,286	32,286
Other loans and advances	101,688	80	–	8,963	43,166	93,927	92.4	–	–
Sub-total	24,748,413	28,892	111,052	482,269	463,677	18,572,341	75.0	174,814	131,489
Loans and advances for use outside Hong Kong	2,102,538	3,806	56,760	20,592	20,495	790,138	37.6	140,901	140,901
Total loans and advances (excluding trade bills and other receivables)	26,850,951	32,698	167,812	502,861	484,172	19,362,479	72.1	315,715	272,390

The advances to customers are classified by industry sectors based on the industry in which the granted loans are 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 Financial Information (Unaudited)

Non-bank Mainland China exposures

The following table illustrates the disclosure required to be made in respect of the Group's Mainland China 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 2011				
Mainland China entities	**1,445**	**59**	**1,504**	**77**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**549**	**150**	**699**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**–**	**–**	**–**	**–**
	1,994	**209**	**2,203**	**77**

	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 2010				
Mainland China entities	1,153	34	1,187	55
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	665	175	840	2
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	–	–	–	–
	1,818	209	2,027	57

Supplementary Financial 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 2011				
1. Asia Pacific excluding Hong Kong, of which:	**3,761**	**92**	**423**	**4,276**
China	**926**	**92**	**204**	**1,222**
Malaysia	**801**	**–**	**106**	**907**
2. Western Europe, of which:	**2,883**	**–**	**76**	**2,959**
France	**1,071**	**–**	**–**	**1,071**

	Banks and other financial institutions HK$'million	Public sector entities HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2010				
1. Asia Pacific excluding Hong Kong, of which:	3,605	53	397	4,055
China	940	53	83	1,076
Japan	793	–	26	819
2. Western Europe, of which:	3,591	–	89	3,680
France	1,210	–	–	1,210

Supplementary Financial 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 follows:

	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 2011						
United States dollars	**4,265**	**4,300**	**416**	**377**	**4**	**–**
Renminbi	**442**	**466**	**3**	**–**	**(21)**	**602**
Australian dollars	**986**	**971**	**58**	**79**	**(6)**	**–**
Others	**1,191**	**1,022**	**192**	**363**	**(2)**	**–**
	6,884	**6,759**	**669**	**819**	**(25)**	**602**

	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 2010						
United States dollars	2,913	3,033	250	119	11	–
Renminbi	222	225	–	–	(3)	590
Others	2,067	2,106	290	257	(6)	–
	5,202	5,364	540	376	2	590

Liquidity ratios

	For the six months ended 30 June **2011**	2010
Average liquidity ratios:		
Public Bank (Hong Kong)	**39.5%**	42.1%
Public Finance	**76.0%**	128.4%

The average liquidity ratios are computed on a 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 economic condition of Hong Kong further improved with increased retail sales activities and lower unemployment rate. However, the uncertainty in global economic outlook and public financing crises in European Union countries continue to have a dampening impact on the Hong Kong economy, although there are encouraging signs of improved consumer confidence in Hong Kong.

After the withdrawal of the deposit guarantee scheme by the HKSAR Government at the end of 2010, competition for retail deposits intensified leading to higher cost of customer deposits and inter-bank funding. Escalating property prices in Hong Kong and in the People's Republic of China ("PRC") during the period under review remained a concern of the formation of an asset price bubble. Rising rentals and staff costs in Hong Kong and the PRC together with narrowing net interest margins, have contributed to the pressure on earnings of financial institutions in Hong Kong, including the Group's banking business and financial performance which were similarly affected.

Financial Review

Group performance

Revenue and Earnings

For the six months ended 30 June 2011, the Group recorded a profit after tax of HK$207.1 million, representing a marginal decrease of 5.1% or HK$11.1 million as compared to the profit after tax of HK$218.2 million for the corresponding period in 2010. The earnings of the Group for the period under review were affected by narrowing net interest margin due to increased funding cost and increase in impairment allowance for consumer financing loans.

The Group's basic earnings per share for the six months ended 30 June 2011 was HK$0.19. The directors had declared an interim dividend of HK$0.05 per share on 28 June 2011 which is payable on 29 July 2011.

Impairment allowance for consumer financing loans increased in the period under review, and caused an increase in the Group's impairment allowance for financial assets by 18.0% or HK$27.2 million to HK$178.8 million from HK$151.6 million in the corresponding period in 2010.

The Group's interest expense increased by 43.4% or HK$51.4 million to HK$169.7 million due to higher customer deposits and interbank funding costs, whilst interest income increased by only 4% or HK$29.8 million to HK$775.3 million, resulted in a decrease in net interest income and net interest margins of interest-bearing assets.

The Group's operating expenses increased marginally by 4.6% or HK$15.7 million to HK$359.0 million, mainly due to the increase in staff costs and premises related costs when compared to the corresponding period in 2010.

During the period under review, impairment allowance in relation to the settlement with Lehman Brothers Minibonds investors amounted to HK$34.2 million was written back due to the recovery of proceeds received from the underlying collateral for the Lehman Brothers Minibonds, net of the additional ex-gratia payments made to eligible Lehman Brothers Minibonds investors.

Total fee income from loan transactions, stockbroking and other businesses registered an increase of 17.2% or HK$22.1 million to HK$150.9 million in the period under review.

Loans and Advances, Customer Deposits and Total Assets

The Group's total loans and advances (including trade bills) further expanded by 4.1% or HK$1.09 billion to HK$27.97 billion as at 30 June 2011 from HK$26.88 billion as at 31 December 2010. Due to keen competition and aggressive pricing offered by banks, the Group's deposits from customers decreased by 1.5% or HK$0.45 billion to HK$29.22 billion as at 30 June 2011 from HK$29.67 billion as at 31 December 2010. Total assets of the Group stood at HK$41.61 billion as at 30 June 2011.

Financial Review (Continued)

Group performance (Continued)

Branch Network

During the period under review, Public Bank (Hong Kong) opened 2 new branches in Hong Kong, bringing its branch network to 32 branches in Hong Kong and 3 branches in Shenzhen in the PRC as at 30 June 2011. As at 30 June 2011, the Group had a combined branch network of 86 branches with 35 branches of Public Bank (Hong Kong), 42 branches of Public Finance which is a Deposit Taking Company, and 9 branches of Winton Financial Limited ("Winton") which operates under a money lenders licence.

Business performance

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 4.9% or HK$1.09 billion to HK$23.52 billion as at 30 June 2011 from HK$22.43 billion as at 31 December 2010. Deposits from customers decreased by 2.3% or HK$0.62 billion to HK$26.11 billion as at 30 June 2011 from HK$26.73 billion as at 31 December 2010. During the period under review, Public Bank (Hong Kong) diversified its sources of funding with an increase in certificates of deposit issued to banks and increase in deposits from financial institutions and banks.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) was strong at 18.5% as at 30 June 2011, and there were no exposures attributed to structured investment vehicles and to Portugal, Ireland, Italy, Greece and Spain as at 30 June 2011.

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

Public Finance

Total loans and advances of Public Finance recorded a small decline of 0.1% or HK$4.3 million to HK$4.31 billion as at 30 June 2011 from the position as at 31 December 2010. Deposits from customers increased by 5.6% or HK$176.1 million to HK$3.30 billion as at 30 June 2011, from HK$3.12 billion as at 31 December 2010.

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

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. 91% of the Group's operating income and 87% of the 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 2010, the Group's operating income from retail and commercial banking and lending decreased by 2.3% or HK$16.4 million to HK$688.9 million. The increase in impairment allowance in consumer financing loans and narrowing net interest income have resulted in the decline in the Group's profit before tax from retail and commercial banking and lending by 5.8% or HK$13.6 million to HK$222.2 million when compared to the corresponding period in 2010.

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 activities and 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$3.0 billion as at 30 June 2011. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.5 times as at 30 June 2011, which is the same gearing ratio as at 31 December 2010. The Group's bank borrowings have remaining maturity periods of less than 4 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange and interest rates arising from such foreign exchange contracts and interest rate swaps and forward contracts were immaterial.

Asset quality

The Group's impaired loans and advances to total loans and advances ratio improved from 1.2% as at 31 December 2010 to 1.0% as at 30 June 2011, due to improved asset quality of the Group's 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 capital adequacy position, manage risks cautiously and set prudent yet flexible business development strategies to strike a balance between business growth and prudent risk management.

Human resources management

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

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's employees' share option scheme approved by shareholders on 28 February 2002. In the first half year of 2011, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2011, options to subscribe for 27,667,000 shares in the Company remained unexercised.

As at 30 June 2011, the Group's staff force stood at 1,406 employees. For the six months ended 30 June 2011, the Group's total staff and staff-related costs amounted to HK$201.8 million.

Management Discussion and Analysis

Prospects

The economic outlook of Hong Kong remains uncertain due to the uncertain global economic outlook and public financing crises in European Union countries, but is anticipated to show improvement in the second half of 2011. The close economic ties between Hong Kong and the PRC will continue to benefit Hong Kong from the continuing robust economic growth in the PRC. The positive economic growth in the PRC will benefit the retail businesses in Hong Kong, and lead to improved demand for banking and financing services in Hong Kong and 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.

Competition in the banking and financing industry is expected to remain keen with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment and additional prudential measures introduced by the regulatory authority in Hong Kong will add further pressure on the cost of customer deposits and inter-bank borrowings. However, the Group will continue to safeguard its financial strength, manage risks cautiously and set prudent yet flexible business development strategies with diversified 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, offering of innovative products and aggressive marketing strategies. The Group will continue to target selected market segments of Public Bank (Hong Kong), Public Finance and Winton to grow its retail and commercial banking and lending and consumer financing businesses.

Barring unforeseen circumstances, the Group expects to register growth in its banking and financing businesses and improvement in its financial performance in the second half of 2011.

Other Information

Interim dividend

The board of directors has on 28 June 2011 declared an interim dividend of HK$0.05 (2010: HK$0.05) per share payable on 29 July 2011 to shareholders whose names appear on the register of members of the Company on 18 July 2011.

Directors' interests and short positions in shares and underlying shares

As at 30 June 2011, 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

	Interests in	Name of director	Number of ordinary shares: 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 Datuk Seri Utama 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	750,028	–	–	750,028	0.0212
		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.

Directors' interests and short positions in shares and underlying shares (Continued)

(b) Long positions in underlying shares of the Company

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

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 2011.

	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	21,061,000	–	842,000	20,219,000	6.35
	28,509,000	–	842,000	27,667,000	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 of directors 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 27,667,000 outstanding options was 3.94 years as at 30 June 2011.

(d) The share options outstanding as at 30 June 2011 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 2011, 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	99,474,000	9.0602

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 at the end of the reporting period.

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

In August 2010, the Company entered into a facility agreement (the "Facility Agreement") with a total of eight banks as the original lenders, Mizuho Corporate Bank, Ltd. as mandated lead arranger and Mizuho Corporate Bank, Ltd., Hong Kong Branch as the agent (the "Agent") for a transferable term loan facility in an aggregate amount of up to HK$870,000,000 (the "Facility") to refinance the Company's indebtedness under the facility agreement dated 27 May 2009 relating to a HK$1,500,000,000 term loan facility and finance the general corporate funding requirements. The final maturity date of the Facility shall be 48 months after the date of utilisation of the Facility.

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, and shall if so directed, by the Majority Lenders (as defined in the Facility Agreement), 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.

The aggregate level of facilities entered into with the Company and its subsidiaries which may be affected by such a breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to HK$2,270,000,000.

Other Information

Purchase, sale or redemption of listed shares of the Company
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2011.

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 2011 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 of directors is of the view that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

The board of directors will keep on reviewing the relevant Bye-laws and propose any 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 2011 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, 18 July 2011