大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

Stock Code : 626

Annual Report 2011

Excellence is Our Commitment

Public Financial Holdings Limited
Annual Report 2011

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

2/F, Public Bank Centre
120 Des Voeux Road Central
Central, Hong Kong
Telephone : (852) 2541 9222
Facsimile : (852) 2815 9232
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

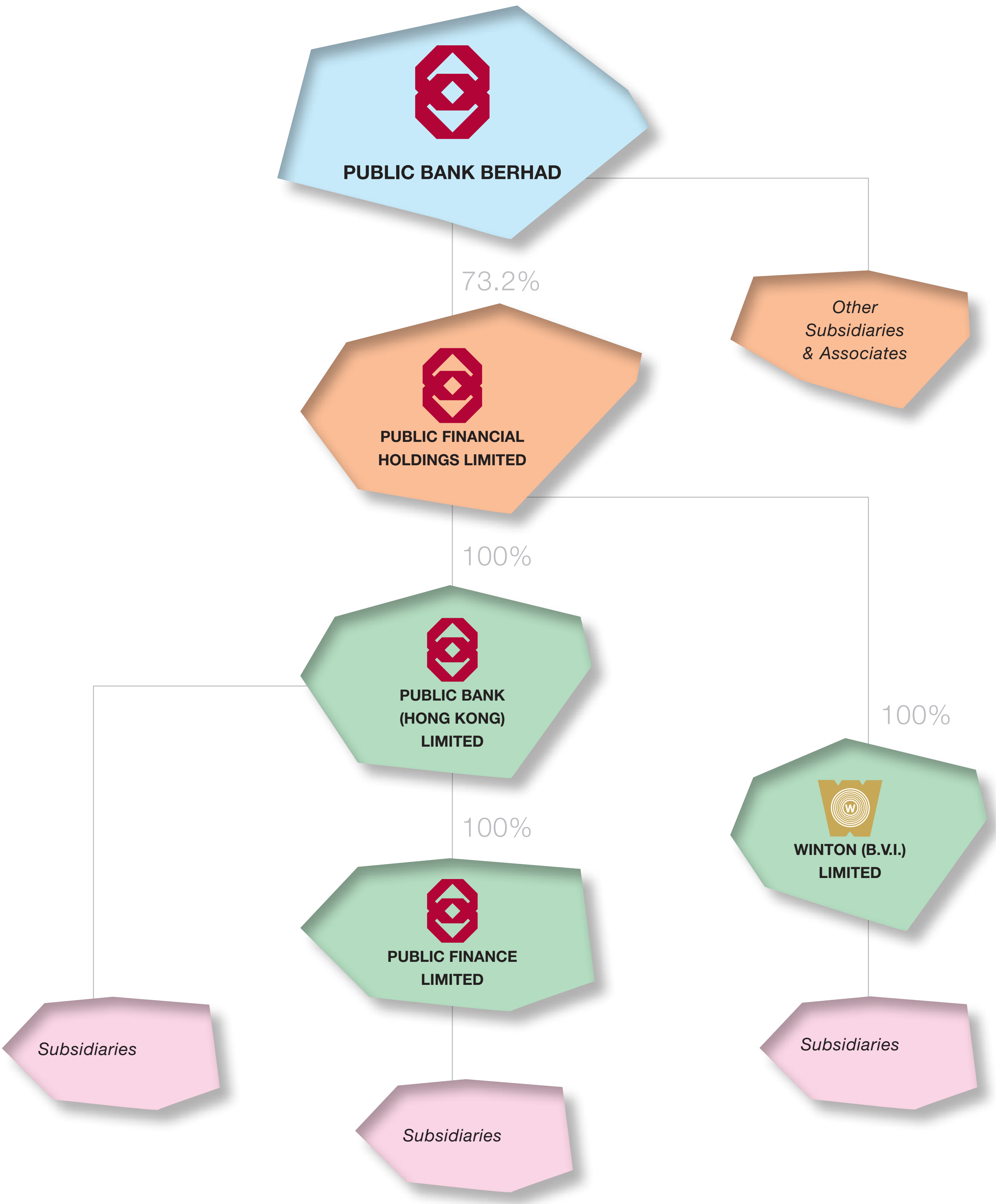
LEGAL ADVISERS

Charles Yeung Clement Lam Liu & Yip
Deacons
Siao, Wen and Leung
Woo Kwan Lee & Lo

PRINCIPAL BANKERS

Bangkok Bank Public Company Limited
Bank of East Asia, Limited
CIMB Bank Berhad
Malayan Banking Berhad
Mizuho Corporate Bank, Ltd
Oversea-Chinese Banking Corporation Limited
Public Bank Berhad
Public Bank (L) Ltd
Standard Bank of South Africa Limited
Standard Chartered Bank (Hong Kong) Limited
Tai Yau Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Group Structure



Public Bank (Hong Kong) Limited Branch Network

Head Office and Branches

Head Office
2/F, Public Bank Centre, 120 Des Voeux Road Central, Central

Tel : 2541 9222		**Telex : 73085 CBHK HKHH**	
P.O. Box : G.P.O. Box 824		**Fax : 2541 0009**	
Website : www.publicbank.com.hk			

Hong Kong Island

1 **Main Branch**
G/F, Public Bank Centre
120 Des Voeux Road Central, Central
Tel: 2541 9222 Fax: 2545 2866
Manager: So Wai Ming, Aubrey

2 **Western Branch**
Shop 2-3, G/F, Kam Kwan Building
163-173 Des Voeux Road West
Tel: 2858 2220 Fax: 2858 2638
Manager: Pang Ching Fan, Fanny

3 **Wanchai Commercial Centre**
Unit A, 9/F, China Overseas Building
139 Hennessy Road, Wanchai
Tel: 2891 4171 Fax: 2834 1012
Manager: Lee Yuk Tong, Tony

4 **North Point Branch**
Shop 2, G/F, Two Chinachem Exchange Square
338 King's Road, North Point
Tel: 2568 5141 Fax: 2567 0655
Manager: Ng Ngon Sum, Helen

5 **Shek Tong Tsui Branch**
Shop B1, G/F, Hong Kong Plaza
369-375 Des Voeux Road West
Tel: 2546 2055 Fax: 2559 7962
Manager: Ting Lai May, May

6 **Causeway Bay Branch**
G/F and M/F, 447 Hennessy Road
Causeway Bay
Tel: 2572 2363 Fax: 2572 3033
Manager: Leung Siu Ying, Fanny

7 **Central Branch**
Unit A, G/F, Wing On House
71 Des Voeux Road Central, Central
Tel: 2147 2140 Fax: 2147 2244

8 **Aberdeen Branch**
Shop C, G/F, Kong Kai Building
184 Aberdeen Main Road, Aberdeen
Tel: 2871 0928 Fax: 2871 0383
Manager: Wong Chun Hoi, Wilson

9 **Shau Kei Wan Branch**
Shop 2, G/F, Hong Tai Building
326-332 Shaukeiwan Road
Tel: 2884 3993 Fax: 2885 9283
Manager: Ngan Pui Shan, Sandy

10 **Quarry Bay Branch**
Shop 8, G/F, Oceanic Mansion
1010-1026 King's Road, Quarry Bay
Tel: 2856 3880 Fax: 2856 0833
Manager: Chui King Yan, Connie

Kowloon

11 **Yaumatei Branch**
Shop 6, G/F, Wing Kiu Building
530-538 Nathan Road
Tel: 2381 1678 Fax: 2395 6398
Manager: Wong Mun Yu, Moon

12 **Kowloon City Branch**
G/F, 15 Nga Tsin Wai Road, Kowloon City
Tel: 2382 0147 Fax: 2718 4281
Manager: Yan Yi Kam, Patrick

13 **Hung Hom Branch**
G/F, Hunghom Commercial Centre
37 Ma Tau Wai Road, Hung Hom
Tel: 2363 9213 Fax: 2363 3195
Manager: Lee Wai Kwan, Luceta

14 **Kwun Tong Branch**
Unit 2310, Tower 1, Millennium City 1
388 Kwun Tong Road
Tel: 2389 9119 Fax: 2389 9969

15 **Mongkok Branch**
G/F, JCG Building, 16 Mongkok Road
Tel: 2391 8393 Fax: 2391 6909
Manager: Chan Chun Chuen, Raymond

16 **San Po Kong Branch**
Shop B, G/F, Perfect Industrial Building
31 Tai Yau Street, San Po Kong
Tel: 2326 8318 Fax: 2326 9180
Manager: Kwong Hon Wun, Peter

17 **Cheung Sha Wan Branch**
Unit C2, G/F, 746 Cheung Sha Wan Road
Tel: 2786 9858 Fax: 2786 9506
Manager: Lai Siu Yee, Flora

18 **Wong Tai Sin Branch**
Shop 641-642, 6/F,
Tsz Wan Shan Shopping Centre
Wong Tai Sin
Tel: 2328 7332 Fax: 2328 7991
Manager: Lau Keung Fai, David

19 **To Kwa Wan Branch**
Shop D, G/F, In House, No. 307 To Kwa Wan Road
To Kwa Wan
Tel: 2362 0238 Fax: 2362 3999
Manager: Choi Kam Yee, Catalina

20 **Prince Edward Branch**
G/F, 751 Nathan Road
Tel: 2397 3830 Fax: 2397 1006
Manager: Leung Yuen Fan, Maggie

21 **Tai Kok Tsui Branch**
Shop 2B, G/F, Tai Chuen Building
88-102 Ivy Street, Tai Kok Tsui
Tel: 2392 1538 Fax: 2392 1101
Manager: So Tak Fai, Peter

22 **Tsim Sha Tsui Branch**
G/F, 27 Cameron Road
Tsim Sha Tsui
Tel: 2721 1218 Fax: 2721 1028
Manager: Yam Oi Yin, Pauline

New Territories

23 **Yuen Long Branch**
Shop 5, G/F, Fu Ho Building
3-7 Kau Yuk Road, Yuen Long
Tel: 2479 4265 Fax: 2473 3934
Manager: Fong Fung Mei, Marisa

24 **Tsuen Wan Branch**
G/F, Victory Court, 185-187 Castle Peak Road
Tsuen Wan
Tel: 2490 4191 Fax: 2490 4811
Manager: Kan Pak Ling, Lucia

25 **Kwai Chung Branch**
Shop 88B of Trendy Place, 3/F, Kwai Chung Plaza
7-11 Kwai Foo Road, Kwai Chung
Tel: 2480 0002 Fax: 2401 2367
Manager: Lau Yiu Fai, Lawrence

26 **Tai Po Branch**
Shop B, G/F, 18-24 Kwong Fuk Road, Tai Po
Tel: 2657 2861 Fax: 2657 7389
Manager: Tsang Wai Chor

27 **Fanling Branch**
G/F, 11 Wo Lung Street
Luen Wo Market, Fanling
Tel: 2669 1559 Fax: 2669 8780
Manager: Kee Ka Wai

28 **Sheung Shui Branch**
G/F, 73 San Fung Avenue, Sheung Shui
Tel: 2639 0307 Fax: 3124 0091
Manager: Chong Mei Kuen, Joe

29 **Tuen Mun Branch**
Shop E, G/F, Kam Lai Building
Nos. 1-7 Kai Man Path, Tuen Mun
Tel: 2440 1298 Fax: 2440 1398
Manager: Lam Wong Kan, Kent

30 **Sai Kung Branch**
G/F, 16 Yi Chun Street, Sai Kung
Tel: 2792 8588 Fax: 2791 0077

31 **Tseung Kwan O Branch**
G105-106, G/F, Metro City Plaza I, Tseung Kwan O
Tel: 2701 7688 Fax: 2701 7628
Manager: Lau Chi Kai, Thomas

32 **Shatin Branch**
Shop Nos. 4-6B, Lucky Plaza Commercial Centre, Shatin
Tel: 2601 6308 Fax: 2601 3686
Manager: Wong Sze Mui, Rhoda

Greater China

33 **Shenzhen Branch**
Shop No. 1, G/F, Carrianna Friendship Square
Renminnan Road, Shenzhen
People's Republic of China
Tel : (86-755) 2518 2822
Fax : (86-755) 2518 2327
Manager : Cheung Po Tung, David

34 **Futian Sub-branch**
1-3 Jinrun Mansion, No. 6019 Shennan Road
Futian District, Shenzhen
People's Republic of China
Tel : (86-755) 8280 0026
Fax : (86-755) 8280 0016
Manager: Ye Jun Liang, Leo

35 **Shekou Sub-branch**
Shop No.155-156, Coastal Building (East Block)
Hai De San Dao, Nanshan District, Shenzhen
People's Republic of China
Tel : (86-755) 8627 1388
Fax : (86-755) 8627 0699
Manager : Ying Wei Jun, Yoyo

Shenyang Representative Office
Unit A, 18/F, Sunwah Hi-tech Building
No. 262 Shifu Road, Shenhe District, Shenyang
Liaoning Province, People's Republic of China
Tel : (86-24) 2279 1368
Fax : (86-24) 2279 1369
Representative: Li Yu Jie

Shanghai Representative Office
Room G, 8/F, Majesty Building
138 Pu Dong Avenue, Shanghai
People's Republic of China
Tel : (86-21) 5887 8851
Fax : (86-21) 5887 9951
Representative: Chen Li Hang

Taipei Representative Office
Room 905, No. 18 Chan-An E. Road Section 1, Taipei, Taiwan
Tel : (886-2) 2563 8789
Fax : (886-2) 2564 2047
Representative: Lu Chia Nan, Deanna

Public Finance Limited
Branch Network

Head Office and Branches

Head Office
1105-7 Wing On House, 71 Des Voeux Road Central, Central
Tel : 2525 9351 Fax : 2845 0681
P.O. Box : G.P.O. Box 11102
Website : www.publicfinance.com.hk

Hong Kong Island

1 **World-Wide House Branch**
Rm 2, 3 and 5, 20/F, World-Wide House
19 Des Voeux Road Central, Central
Tel: 2522 4067 Fax: 2537 3623
Manager: Caponpon D.C. Felisa

2 **Queen Victoria Street Central Branch**
G/F, 14 Queen Victoria Street, Central
Tel: 2526 6415 Fax: 2877 9088
Manager: Louie Kin Cheong, Daniel

3 **Central Branch**
M/F, Chung Nam House
59 Des Voeux Rd Central, Central
Tel: 2524 8676 Fax: 2877 9084
Manager: Leung Kwok Fai Eric

4 **Wing On House Branch**
Room 1109-10, Wing On House
71 Des Voeux Road Central, Central
Tel: 2524 5603 Fax: 2537 2909
Manager: Sze Jane M

5 **Wanchai Branch**
G/F, 170 Hennessy Road
Tel: 2574 6245 Fax: 2893 6653
Manager: Li Kit Shing, Joe

6 **Tin Lok Lane Branch**
G/F, Foo Tak Building, 365 Hennessy Road
Tel: 2891 7028 Fax: 2893 3769
Manager: Lo Hau Fu, Rex

7 **Causeway Bay Branch**
G/F, 449 Hennessy Road, Causeway Bay
Tel: 2893 6575 Fax: 2893 2770
Manager: Chan Chiu Ming Peter

8 **North Point Branch**
Shop No. 1, G/F, Wah Hing Building
449-455 King's Road
Tel: 2561 0160 Fax: 2856 3647
Manager: Lai Yu Tong

9 **Shaukeiwan Branch**
G/F, 134 Shaukeiwan Road
Tel: 2567 0461 Fax: 2885 8501
Manager: Miu Ka Lok, Patrick

10 **Shek Tong Tsui Branch**
Shop G1, Hong Kong Plaza
188 Connaught Road West
Tel: 2817 6125 Fax: 2817 7618
Manager: Hui Kam Tong, Samson

11 **Western District Branch**
G/F, 161 Des Voeux Road West
Tel: 2547 9148 Fax: 2546 1142
Manager: Kong Tsan Wing, Murphy

12 **Aberdeen Branch**
Shop A, G/F, Kong Kai Bldg
184-188 Aberdeen Main Road
Tel: 2553 8231 Fax: 2554 3897
Manager: Tong Ka Ling, Tony

13 **Chai Wan Branch**
G/F, Flat B, 77 Walton Estate
341-343 Chai Wan Road
Tel: 2557 8003 Fax: 2557 4088
Manager: Choi Wai Man

14 **Quarry Bay Branch**
G/F, 14 Hoi Kwong Street
Tel: 2516 6368 Fax: 2579 0084
Manager: Chow Koon Ping, Danny

15 **Admiralty Branch**
Shop 2010, 2/F, United Centre
95 Queensway, Admiralty
Tel: 2520 1323 Fax: 2520 6889
Manager: Li Chu Wai, Frankie

Kowloon

16 **Star House Branch**
Basement, Shop B9-B10, Star House Plaza, TST
Tel: 2730 8395 Fax: 2730 2346
Manager: Lai Wing Yee, Maggie

17 **Tsimshatsui Branch**
Shop No. 51-53, 1/F, Harbour Crystal Centre
100 Granville Rd, TST East
Tel: 2369 3236 Fax: 2311 0433
Manager: Tong Woon Shing

18 **Jordan Road Branch**
Shop 2A, G/F, Kent Building, 39&39A Jordan Road
Tel: 2736 4711 Fax: 2314 8432
Manager: Li Wai Yin

19 **Nathan Road Branch**
G/F, 480 Nathan Road
Tel: 2771 5285 Fax: 2770 4127
Manager: Ho Kwok Sin Tom

20 **Mongkok Branch**
Flat B, 1/F, JCG Building, 16 Mongkok Rd
Tel: 2394 0253 Fax: 2787 5630
Manager: Cheng Ho Fat Ricky

21 **Shamshuipo Branch**
G/F, 27 Castle Peak Road
Tel: 2728 2347 Fax: 2729 9685
Manager: Wu Kin Sang Wilson

22 **Cheung Sha Wan Branch**
Unit C1, G/F, 746 Cheung Sha Wan Road
Tel: 2744 5416 Fax: 2785 3634

23 **Hunghom Branch**
G/F, 130 Ma Tau Wai Road
Tel: 2334 4307 Fax: 2764 4876
Manager: Cheung Chu Ming, Albert

24 **Sanpokong Branch**
G/F, 92 Shung Ling Street
Tel: 2328 3175 Fax: 2325 4504
Manager: Ng Chung Tak

25 **Kowloon City Branch**
Shop B, G/F, 45-47 Lung Kong Road, Kowloon City
Tel: 2382 4893 Fax: 2716 4819
Manager: Lau Kei Man, Paul

26 **Tokwawan Branch**
G/F, 289 Tokwawan Road
Tel: 2365 7061 Fax: 2764 2832
Manager: Man Wing Sun Ethan

27 **Kwun Tong Branch**
G/F, 367 Ngau Tau Kok Road
Tel: 2344 0264 Fax: 2763 5427
Manager: Lee Man Fai Eric

28 **Wong Tai Sin Branch**
G/F, 89 Fung Tak Road
Tel: 2320 5112 Fax: 2726 0106
Manager: Yuen Siu Tong, Tommy

29 **Prince Edward Branch**
G/F, 19 Ki Lung Street
Tel: 2380 3260 Fax: 2380 4100
Manager: Leung Sze Wan Irene

30 **Ngau Tau Kok Branch**
Shop 29, G/F, Wang Kwong House
33 Ngau Tau Kok Road
Tel: 2757 8299 Fax: 2757 8737

31 **Kowloon Bay Branch**
Shop No. 7, G/F, Exchange Tower
33 Wang Chiu Road, Kowloon Bay
Tel: 2756 7320 Fax: 2758 5706
Manager: Wong Shing To Alfred

32 **Tseung Kwan O Branch**
Shop No. S12A, G/F, Bauhinia Garden,
11 Tong Chun Street, Tseung Kwan O
Tel: 3194 4312 Fax: 3194 4377
Manager: Yip Hon Shing

New Territories

33 **Kwai Chung Branch**
Shop 86A and 88A, 3/F, Kwai Chung Plaza
7-11 Kwai Foo Road
Tel: 2420 0121 Fax: 2485 0590
Manager: Chan Ching Yeung

34 **Tsuen Wan Branch**
G/F, 281 Sha Tsui Road
Tel: 2493 4187 Fax: 2417 4497
Manager: Kwan Wai Choi Samuel

35 **Tuen Mun Branch**
Shop 7, G/F, Mei Hang Bldg, Kai Man Path
Tel: 2457 2901 Fax: 2440 2503
Manager: Wong Wai Keung Thomas

36 **Yuen Long Branch**
G/F, 182 Main Road
Tel: 2476 2146 Fax: 2475 9903
Manager: Law Shue Sum, Dennis

37 **Tai Po Branch**
Shop B, G/F, 18-24 Kwong Fuk Road
Tel: 2656 5207 Fax: 2657 7019
Manager: Lau Lai Kan, Caren

38 **Shatin Branch**
Portion of Shop 4-6B, Lucky Plaza Commercial Centre
Tel: 2699 5633 Fax: 2691 4588
Manager: Cheng Man Kwong Ringo

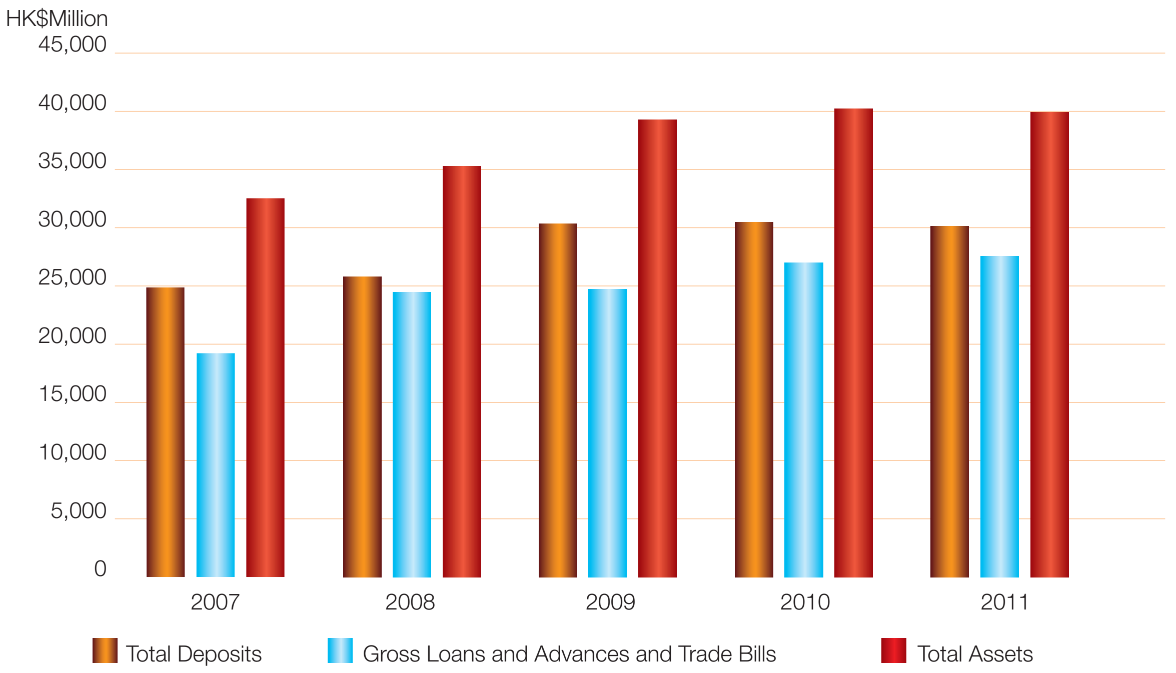
39 **Sheung Shui Branch**
G/F, 99 San Fung Avenue
Tel: 2673 2729 Fax: 2673 9278
Manager: Ho Kam Ming

40 **Tai Wai Branch**
Shop 2C, G/F, 11-13 Chik Fai Street
Tel: 2609 2611 Fax: 2609 4088
Manager: Cheung Wa Wai Victor

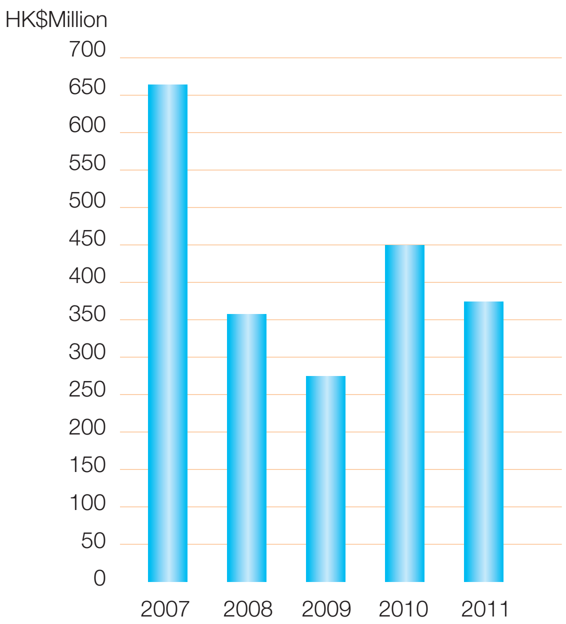
41 **Nan Fung Centre Branch**
Rm 1523, Nan Fung Centre
264-298 Castle Peak Road, Tsuen Wan
Tel: 2414 1198 Fax: 2413 1624
Manager: Chan Sze Mou Ken

42 **Fanling Branch**
Shop 1, G/F, Wo Fung Court
8 Wo Fung Street, Luen Wo Market
Tel: 2669 0260 Fax: 2669 1187
Manager: Law Man Yan

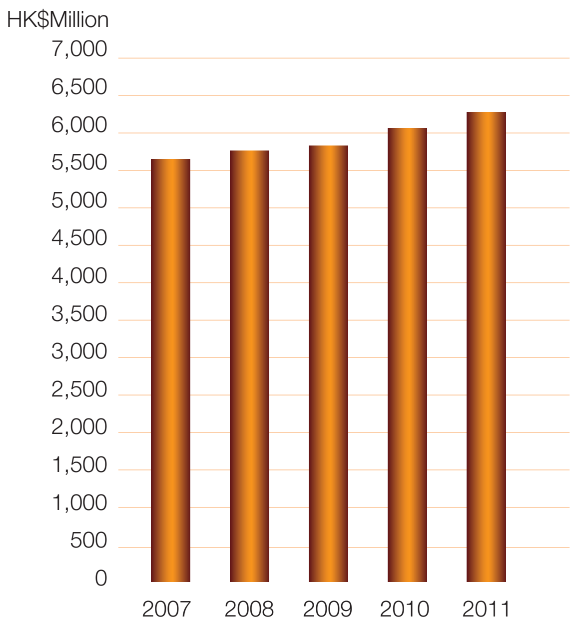
Five-year Financial Summary



Profit



Equity



2011 Financial Highlights

Profit for the year:	**HK$374.9 million**
Gross loans and advances and trade bills:	**HK$27,628.8 million**
Total deposits:	**HK$30,094.2 million**
Equity:	**HK$6,281.8 million**
Earnings per share:	
Basic	**HK$0.341**
Diluted	**HK$0.341**
Total dividends per share:	**HK$0.160**

A summary of the results and of the assets and liabilities of Public Financial Holdings Limited (the "Company") and its subsidiaries (the "Group") for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cash and short term placements, and placements with banks and financial institutions maturing after one month but not more than twelve months	**5,088,809**	6,745,080	6,474,103	5,958,371	6,323,774
Gross loans and advances and trade bills	**27,628,770**	26,882,121	24,587,228	24,428,368	19,114,048
Held-to-maturity investments	**3,421,503**	2,709,776	4,216,634	969,216	2,858,708
Other assets	**3,828,283**	3,992,661	4,095,089	3,973,710	4,382,282
Total assets	**39,967,365**	40,329,638	39,373,054	35,329,665	32,678,812
Deposits and balances of banks and other financial institutions at amortised cost	**1,246,092**	680,382	1,024,628	641,732	2,263,902
Customer deposits at amortised cost	**28,334,785**	29,670,825	29,364,238	24,184,416	20,501,549
Certificates of deposit issued at amortised cost	**513,315**	200,000	–	879,850	2,049,227
Dividend payable	**120,771**	175,667	142,729	197,625	273,474
Unsecured bank loans at amortised cost	**2,960,734**	3,038,991	2,178,679	3,249,219	1,100,000
Other liabilities	**509,869**	498,416	830,562	407,317	836,439
Total liabilities	**33,685,566**	34,264,281	33,540,836	29,560,159	27,024,591
Equity	**6,281,799**	6,065,357	5,832,218	5,769,506	5,654,221
Profit for the year	**374,869**	450,497	275,073	358,187	665,331
Basic earnings per share (HK$)	**0.341**	0.410	0.251	0.327	0.608
Diluted earnings per share (HK$)	**0.341**	0.410	0.251	0.327	0.608

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

I am pleased to present a review of the performance of the Group for the financial year ended 31 December 2011.

GROUP FINANCIAL PERFORMANCE

The Group recorded a profit after tax of HK$374.9 million for the financial year ended 31 December 2011, representing a decrease of HK$75.6 million or 16.8% when compared to the previous year. Total loans and advances (including trade bills) of the Group grew by HK$746.6 million or 2.8% to HK$27.63 billion as at 31 December 2011 from HK$26.88 billion as at 31 December 2010. Customer deposits of the Group decreased by HK$1.34 billion or 4.5% to HK$28.33 billion as at 31 December 2011 from HK$29.67 billion as at 31 December 2010.

The earnings of the Group for the year under review was affected by the narrowing net interest margins of the banking operations of the Group due to higher cost of customer deposits, and an increase in impairment allowances for the personal loans of the finance operations of the Group.

The Group's basic earnings per share for 2011 was HK$0.34. The Board of Directors had declared a first interim dividend in June 2011 and a second interim dividend in December 2011 of HK$0.05 per share and HK$0.11 per share respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend of HK$0.16 per share for 2011 (2010: HK$0.21 per share). The total dividend declared for the year amounted to HK$175.7 million, representing approximately 46.9% of the Group's net earnings attributable to shareholders for 2011.

BUSINESS DEVELOPMENT OF THE GROUP

In 2011, Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), a wholly-owned subsidiary of the Company which has a branch network of 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of China ("PRC"), continued to focus on its market segments and provide a broad range of commercial and retail banking services. Public Finance Limited ("Public Finance"), a wholly-owned subsidiary of Public Bank (Hong Kong), which has a branch network of 42 branches in Hong Kong, continued to focus on its core business in personal lending. Another subsidiary of the Company, Winton Financial Limited ("Winton Financial"), which operates under a money lenders licence, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined network of 83 branches in Hong Kong and 3 branches in the PRC.

During the year under review, Public Bank (Hong Kong) recorded a growth in total loans and advances (including trade bills) of HK$459.1 million or 2.0% to HK$22.89 billion as at 31 December 2011. Public Finance recorded a growth in total loans and advances of HK$268.7 million or 6.2% to HK$4.58 billion as at 31 December 2011.

The Group will continue to adopt prudent and flexible business strategies and adjust to market changes accordingly in the expansion of its customer base and business.

FINANCIAL REVIEW

For the year under review, the Group's net interest income decreased by HK$22.8 million or 1.8% to HK$1.21 billion from HK$1.23 billion in the previous year, due to narrowing net interest margins caused by higher cost of customer deposits without a corresponding increase in the yields of the Group's loan portfolio. Total operating income of the Group decreased by HK$23.0 million or 1.5% to HK$1.49 billion for 2011, whilst total operating expenses (before change in fair value of investment properties) increased by HK$33.4 million or 4.8%. The increase in operating expenses was mainly due to increase in staff costs and branch premises related costs.

LOANS AND DEPOSITS

The Group will continue to focus on expanding its retail and commercial banking and consumer loans businesses through the extensive branch network of the Group, offering innovative products and pursuing aggressive marketing activities and competitive pricing strategies whilst providing excellent customer service.

The Group will continue to seek further synergies in developing the Group's businesses as well as to enhance its operating costs efficiency through cross selling of the Group's products and services, and streamline the support services of the combined branch networks of Public Bank (Hong Kong) and Public Finance.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance, and sincere gratitude to our customers for their invaluable patronage, and to the shareholders for their continued confidence in and their support of the Group. I would also like to express our appreciation and gratitude to the Hong Kong Monetary Authority, the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman

BUSINESS REVIEW

Overview

During the year under review, global economic conditions were very challenging, with the European sovereign debt problems remaining unresolved. The slow economic recovery of the US economy and the low interest rate environment in the US continued to have an adverse effect on the economic and credit conditions in Hong Kong, leading to narrowing net interest margins for the banking sector in Hong Kong. Inflationary effects from increasing rental and staff costs in Hong Kong also impacted earnings growth of financial institutions in Hong Kong. The Group was adversely affected by these factors and recorded a decrease in earnings of HK$75.6 million or 16.8% to HK$374.9 million for the year ended 31 December 2011 as compared to the previous year.

FINANCIAL REVIEW

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) increased by HK$746.6 million or 2.8% to HK$27.63 billion as at 31 December 2011 from HK$26.88 billion as at 31 December 2010. Customer deposits, however, decreased by HK$1.34 billion or 4.5% to HK$28.33 billion as at 31 December 2011 from HK$29.67 billion as at 31 December 2010 due to keen competition for customer deposits in the banking industry, in particular in the last quarter of 2011.

As at 31 December 2011, the Group's total assets stood at HK$39.97 billion.

Revenue and earnings

For the year ended 31 December 2011, the Group recorded a profit after tax of HK$374.9 million, representing a decrease of HK$75.6 million or 16.8% when compared to the profit after tax of HK$450.5 million in the previous year. The decrease in profit after tax was mainly caused by narrowing net interest margins and an increase in impairment allowances from the Group's personal loans business.

The Group's basic earnings per share for 2011 was HK$0.34. The Board of Directors had declared a first interim dividend in June 2011 and a second interim dividend in December 2011 of HK$0.05 per share and HK$0.11 per share respectively. The Board of Directors does not recommend the payment of a final dividend, making a total dividend for the year of HK$0.16 per share (2010: HK$0.21 per share).

For the year under review, the Group recorded a decrease in net interest income caused by narrowing net interest margins with rising interest costs on customer deposits due to intensified competition for customer deposits amongst banks. The Group's net interest income decreased by HK$22.8 million or 1.8% to HK$1.21 billion. Interest income increased by HK$67.8 million or 4.5% to HK$1.59 billion but interest expense increased significantly by HK$90.6 million or 31.6% to HK$377.2 million.

Total operating expenses (before changes in the fair value of investment properties) increased by HK$33.4 million or 4.8%, mainly due to increase in staff costs and rental costs on branch premises. Gains from the change in fair value of investment properties decreased by HK$2.4 million to HK$6.6 million as compared to the previous year.

Impairment allowances for loans and advances increased by HK$47.1 million or 16.8% to HK$327.6 million in 2011 as compared to HK$280.5 million in the previous year caused by increase in impairment allowances on the personal loans business of the Group. Impairment allowance of HK$34.2 million in relation to the Lehman Brothers Minibonds was written back in the year from the recovery of proceeds received from the underlying collaterals.

FINANCIAL REVIEW (Continued)

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the PRC to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Winton Financial, another operating subsidiary of the Company, which operates under a money lenders licence, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, as at 31 December 2011, the Group has a combined branch network of 86 branches to serve its customers.

Business performance

Public Bank (Hong Kong)

During the year under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) recorded an increase of HK$459.1 million or 2.0% to HK$22.89 billion as at 31 December 2011 from HK$22.43 billion as at 31 December 2010. Customer deposits decreased by HK$1.65 billion or 6.2% to HK$25.08 billion as at 31 December 2011 from HK$26.73 billion as at 31 December 2010.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 19% as at 31 December 2011. It has no exposure attributed directly to structured investment vehicles, US-subprime mortgages and the five “PIIGS” countries namely Portugal, Italy, Ireland, Greece and Spain as at the end of 2011.

Public Bank (Hong Kong) will continue to identify suitable locations for the relocation of branches to better sites and plan to open 2 new branches in 2012 to expand its reach and further develop its banking and banking related financial services businesses and customer base.

Public Finance

Total loans and advances of Public Finance recorded a growth of HK$268.7 million or 6.2% to HK$4.58 billion as at 31 December 2011 from HK$4.31 billion as at 31 December 2010. Customer deposits increased by HK$332.0 million or 10.6% to HK$3.46 billion as at 31 December 2011 from HK$3.12 billion as at 31 December 2010. Public Finance’s capital adequacy ratio stood at 28.1% as at 31 December 2011.

Segmental information

The Group’s businesses comprise three main segments: (i) retail and commercial banking and lending, (ii) stockbroking and wealth management services, and (iii) other businesses. 92% of the Group’s operating income and 90% of the profit before tax were contributed by retail and commercial banking and lending in Hong Kong for the year under review. When compared to the previous year, the Group’s operating income from retail and commercial banking and lending business decreased by HK$20.5 million or 1.5% to HK$1,375.0 million. Profit before tax from retail and commercial banking and lending business for 2011 decreased by HK$45.6 million or 9.8% to HK$421.7 million mainly due to narrowing net interest margins and an increase in impairment allowances for impaired personal loans.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the year. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. As at 31 December 2011, there was no charge over the assets of the Group.

OPERATIONAL REVIEW

Funding and capital management

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

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and retail and commercial banking business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK$3.0 billion as at the end of 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 0.47 times as at 31 December 2011. The bank borrowings have remaining maturity periods of less than 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swap and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal during the year under review.

Asset quality

The Group's impaired loans to total loans ratio improved to 1.0% as at 31 December 2011 from 1.2% as at 31 December 2010. The Group will continue to adopt prudent credit underwriting standards, pursue the recovery of problem loans diligently, safeguard its capital adequacy and liquidity position, 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 2011, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 31 December 2011, options to subscribe for 26,413,000 shares in the Company remained unexercised.

As at 31 December 2011, the Group's staff force stood at 1,417 employees. For the year ended 31 December 2011, the Group's total staff-related costs amounted to HK$414.4 million.

PROSPECTS

The availability of credit in Hong Kong and funding costs may be affected by the potential outflow of funds from Hong Kong and rising credit risk premium if the European sovereign debt problems remain unresolved. Anticipated rising rental and staff costs in Hong Kong will continue to impact the profitability of financial institutions. The slow economic recovery in the US and signs of slower economic growth in the PRC will cast uncertainty on the economy growth outlook of Hong Kong.

Notwithstanding the aforesaid, the Group will continue to focus on expanding its retail and commercial banking business and consumer finance business cautiously with sound marketing strategies and excellent customer service quality. The Group will continue to seek greater synergies within its business operations to cross-sell the Group's products and services through the combined branch network of Public Bank (Hong Kong), Public Finance and Winton Financial.

Competition in the banking and financing industry in Hong Kong is expected to intensify with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment will continue to exert pressure on the pricing of banking and financing products. The Group will continue to pursue long-term business growth objectives, and take steps to align business strategies with future expansion plans and earnings growth with prudent capital and funding management in meeting the challenges ahead.

Barring unforeseen circumstances, the Group expects to register growth in its businesses and in its financial performance. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained to safeguard the interests of our shareholders, investors, customers and staff. The Company has applied the principles and complied with the requirements of the code provisions ("Code Provisions") in the Code on Corporate Governance Practices (the "Code on CGP") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year, except for the deviation in respect of a fixed service term for Non-executive Directors as required under Code Provision A.4.1 of the Listing Rules. However, the Non-executive Directors are subject to retirement by rotation and re-election at annual general meeting ("AGM") of the Company. In view of the latest amendments to the Listing Rules and the Code on CGP, the Board has taken actions and measures to make sure that the Company is in all aspects in strict compliance. The current practices will be reviewed and updated regularly to be in line with the local and international corporate governance practices.

Public Bank (Hong Kong) and Public Finance, both being major subsidiaries of the Company, are a licensed bank and a deposit taking company respectively. They are incorporated in Hong Kong and are under the supervision of the Hong Kong Monetary Authority ("HKMA"). The respective Boards are fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the guidelines on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the Boards have been set up by Public Bank (Hong Kong) and Public Finance.

BOARD OF DIRECTORS

Board Composition

The Board of the Company for the year comprises:

Non-executive Directors	:	Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman* 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
Executive Directors	:	Tan Yoke Kong Lee Huat Oon

The Non-executive Directors provide the Group with a wide range of expertise and knowledge in the banking and finance sector. The Independent Non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Independent Non-executive Directors do not participate in the day-to-day management of the Company and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. In staying clear of any potential conflict of interest, the Independent Non-executive Directors remain in a position to fulfill their responsibility to provide check and balance to the Board of the Company. All the Independent Non-executive Directors who served in 2011 have given annual confirmations of their independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

BOARD OF DIRECTORS (Continued)
Board Composition (Continued)

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment and controls over business operations. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Board Process

The schedule of Board meetings for a year is planned in the preceding year. At least 14 days' notice of all Board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Board in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of Board meeting so that the Directors have the time to review the documents.

The Board meetings are chaired by the Independent Non-executive Co-Chairman, Tan Sri Datuk Seri Utama Thong Yaw Hong, who has the responsibility of ensuring that each of the agenda items is adequately reviewed and thoroughly deliberated within a reasonable time frame.

Minutes of each Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting. The Directors may request for clarification or raise comments before the minutes are tabled for confirmation. Upon receiving confirmation from all the members at the Board meetings, the minutes will be signed by the Chairman of the meeting as a correct record of the proceedings of the meeting and kept by the Company Secretary.

Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively, and has the liberty to seek external professional advice if so required. The cost of procuring these professional services will be borne by the Company. The Board also has direct access to the senior management and has unrestricted and immediate access to any information relating to the Company's business and affairs in the discharge of their duties. The Directors may request to be furnished with additional information or clarification, particularly in respect of complex and technical issues tabled to the Board. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

During the year, eleven full Board meetings were held. All Directors remain fully committed in carrying out their duties and responsibilities as reflected by their attendance at the Board meetings held during the financial year ended 31 December 2011 as follows:

Name of director	**Number of meetings attended in 2011**	**Attendance rate**
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*	10/11	91%
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Co-Chairman*	11/11	100%
Tan Yoke Kong	11/11	100%
Chong Yam Kiang	11/11	100%
Lee Huat Oon	11/11	100%
Tan Sri Dato' Sri Tay Ah Lek	11/11	100%
Dato' Chang Kat Kiam	11/11	100%
Lee Chin Guan	11/11	100%
Quah Poh Keat	11/11	100%

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive

The Chairman and the Chief Executive of the Company are Tan Sri Dato' Sri Dr. Teh Hong Piow and Mr. Tan Yoke Kong respectively.

The roles of the Chairman and the Chief Executive are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive has been clearly established and set out in writing.

Appointment and Re-election of Directors

The Company has not fixed a specific term of appointment for Non-executive Directors. However, they are appointed subject to retirement by rotation and re-election at the AGM of the Company in accordance with the provision of the Bye-laws. This deviates from the Code Provision A.4.1 of the Code on CGP which requires that Non-executive Directors be appointed for a specific term. The Board is of the view that the current practice of appointing Non-executive Directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does not intend to change the current practice at the moment.

Directors' Code of Ethics

The Directors observe a code of ethics (the "Code of Ethics") which is formulated and adopted to enhance the standard of corporate governance and corporate behaviour. The principles on which the Code of Ethics rely are those that concern transparency, integrity, accountability and corporate social responsibility taking into account the relevant provisions/requirements by the governing authorities.

Directors' Securities Transactions

The Company has adopted the code of conduct regarding Directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

Indemnification of Directors and Officers

Directors and officers are indemnified under a Directors' and Officers' Liability Insurance against any liability incurred by them in the discharge of their duties while holding office as Directors and officers of the Company. The Directors and officers shall not be indemnified where there is any negligence, fraud, breach of duty or breach of trust proven against them.

BOARD COMMITTEES

Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors and one Non-executive Director.

The major roles and functions of the Audit Committee are as follows:

1. To draw up, review and update periodically a written charter for the Board's approval.

2. To appoint a suitably qualified Head of Internal Audit.

3. To approve the Audit Charter drawn up and updated periodically by the Head of Internal Audit.

4. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

5. To discuss with the external auditors the nature and scope of the audit.

BOARD COMMITTEES (Continued)
Audit Committee (Continued)

6. To review the interim and annual financial statements before submission to the Board.

7. To discuss problems and reservations arising from the interim audit review and final audits, and any matters the auditors may wish to discuss.

8. To review the Group's financial controls, internal control and risk management systems.

9. To approve the audit plan and review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group.

10. To consider the major findings of internal investigations and management's response and significant recommendations made by Internal Audit Department.

11. To review the external auditors' management letters and management's response.

12. To report to the Board on the matters set out in the "Code on CGP" under the Listing Rules and on the work performed by the Audit Committee and its significant findings.

13. To review arrangements by which employees of the Group may raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure fair and independent investigations and appropriate follow-up actions on such matters.

The terms of reference of the Audit Committee are posted on the Company's website.

The Audit Committee meets at least twice a year. Eight meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2011	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	8/8	100%
Tan Sri Dato' Sri Tay Ah Lek	8/8	100%
Lee Chin Guan	8/8	100%
Quah Poh Keat	8/8	100%

During the meetings held in 2011, the Audit Committee had performed the following work:

(i) Reviewed the financial reports for the year ended 31 December 2010 and for the six months ended 30 June 2011;

(ii) Reviewed the findings and recommendations of the Internal Audit Department on the operations and performance of the branches and departments of Public Bank (Hong Kong), Public Finance and other subsidiaries of the Group;

(iii) Approved the audit plan of the Group companies for 2011 prepared by Internal Audit Department;

(iv) Reviewed the effectiveness of internal control system;

(v) Reviewed the examination reports issued by the HKMA in 2011;

(vi) Reviewed the external auditors' statutory audit plan and engagement letters;

(vii) Reviewed and recommended for approval by the Board the 2011 interim and annual audit scope and fees;

BOARD COMMITTEES (Continued)
Audit Committee (Continued)

(viii) Reviewed the external auditors' reports issued pursuant to Sections 63(3) and 63(3A) of the Banking Ordinance;

(ix) Reviewed the external auditors' management letter regarding the audit of Public Securities Limited for the year ended 31 December 2010; and

(x) Reviewed the minutes of the Audit Committee of Public Bank (Hong Kong).

Public Bank (Hong Kong) has established its own Audit Committee, with the same composition of members and similar terms of reference as those of the Company's Audit Committee, pursuant to the requirements of the HKMA. It also held eight meetings during the year to discuss the audit findings, audit plan, financial statements, etc. of Public Bank (Hong Kong) and its subsidiaries. The minutes of the Audit Committee meetings of Public Bank (Hong Kong) are tabled for discussion and noting at the Audit Committee meetings of the Company.

Remuneration Committee

The Remuneration Committee of the Company comprises three Independent Non-executive Directors and two Non-executive Directors.

The major roles and functions of the Company's Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors, Chief Executive and key senior management officers.

2. To review annually the performance of Executive Directors, Chief Executive and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration for Non-executive Directors and Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Boards of the respective companies in the Group.

4. To keep abreast of the terms and conditions of service of the Executive Directors, Chief Executive and key senior management officers. Review and recommend changes to the Board whenever necessary.

5. To review and approve the compensation payable to Executive Directors, Chief Executive and key senior management officers in connection with any loss or termination of their office or appointment.

6. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

7. To ensure that no Director or any of his associates is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee meets at least once a year. The attendance of each member at the Remuneration Committee meetings held in 2011 is set out as follows:

Name of member	Number of meetings attended in 2011	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*	2/2	100%
Tan Sri Datuk Seri Utama Thong Yaw Hong	2/2	100%
Tan Sri Dato' Sri Tay Ah Lek	2/2	100%
Lee Chin Guan	2/2	100%
Quah Poh Keat	2/2	100%

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The annual salary increment for staff was tabled and discussed at the meetings.

The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

Public Bank (Hong Kong) and Public Finance established their respective Remuneration Committees in 2011, with the same composition of members and similar terms of reference as those of the Company's Remuneration Committee, pursuant to the requirements of CG-5 "Guideline on a Sound Remuneration System" under the Supervisory Policy Manual issued by the HKMA.

Nomination Committee

The Nomination Committee of the Company comprises three Independent Non-executive Directors and two Non-executive Directors.

The major roles and functions of the Company's Nomination Committee are as follows:

1. To assess and recommend the appointment and re-appointment of Directors and Chief Executive.

2. To oversee the overall composition of the respective Boards of the Company, Public Bank (Hong Kong) and Public Finance, in terms of the appropriate size and skills, and the balance between Executive Directors, Non-executive Directors and Independent Non-executive Directors through annual review.

3. To assess the independence of Independent Non-executive Directors.

4. To establish a mechanism for the formal assessment on the effectiveness of the respective Boards as a whole and the performance of each Director, Chief Executive and other key senior management officers.

5. To oversee the appointment, management succession planning and performance evaluation of key senior management officers.

The terms of reference of the Nomination Committee are posted on the Company's website.

The Nomination Committee meets at least once a year. The attendance of each member at the Nomination Committee meetings held in 2011 is set out as follows:

Name of member	Number of meetings attended in 2011	Attendance rate
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*	2/2	100%
Tan Sri Datuk Seri Utama Thong Yaw Hong	2/2	100%
Tan Sri Dato' Sri Tay Ah Lek	2/2	100%
Lee Chin Guan	2/2	100%
Quah Poh Keat	2/2	100%

At the meetings held during the year, the movement of senior staff in the Group and results of annual assessment on effectiveness of the Board as a whole and each of the Non-executive Directors for the year 2010 were reviewed and noted.

Risk Management Committee

The Risk Management Committee of the Company comprises three Independent Non-executive Directors, two Non-executive Directors and one Executive Director.

The major roles and functions of the Company's Risk Management Committee are as follows:

1. To oversee the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management.

2. To review and approve risk management policies and risk tolerance limits.

3. To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.

BOARD COMMITTEES (Continued)
Risk Management Committee (Continued)

4. To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

5. To evaluate risks under stress test scenarios.

6. To ensure infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the risk taking activities.

7. To ensure cultivation of a proactive risk management culture so that risk management processes are applied in the day-to-day business and activities.

The terms of reference of the Risk Management Committee are posted on the Company's website.

The Risk Management Committee meets at least four times a year. The attendance of each member at the Risk Management Committee meetings held in 2011 is set out as follows:

Name of member	Number of meetings attended in 2011	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	4/4	100%
Tan Yoke Kong	4/4	100%
Tan Sri Dato' Sri Tay Ah Lek	4/4	100%
Dato' Chang Kat Kiam	4/4	100%
Lee Chin Guan	4/4	100%
Quah Poh Keat	4/4	100%

At the meetings held during the year, the interest rate risk, liquidity risk, market risk, credit risk and operation risk were assessed.

ACCOUNTABILITY AND AUDIT
Financial Reporting

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the performance of the Group.

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The Directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2011, the Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going-concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2011 Annual Report.

ACCOUNTABILITY AND AUDIT (Continued)

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/ payable HK$'000
Audit services	3,372
Non-audit services*	753
Total:	4,125

* The non-audit service fees paid/payable to the external auditors were for advice on accounting and taxation matters and for preparation, review and submission of tax returns. The provision of these services by external auditors to the Company and the Group were cost effective and efficient due to their knowledge and understanding of the operations of the Company and the Group.

Internal Control

The Board has overall responsibility for maintaining a system of internal controls that provides reasonable assurance of effective and efficient operations and compliance with the applicable laws and regulations, as well as the internal procedures and guidelines. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines. The effectiveness of the system of internal controls of the Group is reviewed by the Audit Committee during its meetings. This review covers the financial, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Company and the Group. Internal Audit Department checks for compliance with policies and standards and the effectiveness of internal control structures across the Company and the Group. The Board also reviews annually the effectiveness of the system of internal control of the Group and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets. The resources, qualifications and experience of staff of the Group's accounting and financial functions, and their training programmes and budget are adequate.

Audit Committee

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal control, risk management and governance processes of the Group.

The Heads of Internal Audit Departments from Public Bank (Hong Kong) and Public Finance attend Audit Committee meetings by invitation.

The minutes of the Audit Committee meetings are tabled to the Board for noting and for action by the Board where appropriate.

The activities carried out by the Audit Committee during the year are set out in this Corporate Governance Report on pages 19 to 20 of this Annual Report.

ACCOUNTABILITY AND AUDIT (Continued)

Other Committees Established in the Group

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls in the Group include the following:

- Board Executive Committees under Public Bank (Hong Kong) and Public Finance consist of Executive Directors and Non-executive Directors and are responsible for the management of the businesses of Public Bank (Hong Kong) and Public Finance in all aspects and the implementation of strategic business plans and policies approved and formulated by the respective Boards.

- Management Committees are established by the respective Boards of Public Bank (Hong Kong) and Public Finance to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- Audit Committees are established at the group level as well as at the bank level to review internal control issues identified by Internal Audit Department, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Group's risk management and internal control systems. They also conduct review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of Internal Audit Department. The minutes of Audit Committee meetings are tabled to the respective Boards for noting and further action, where appropriate.

- Internal Audit Departments of Public Bank (Hong Kong) and Public Finance monitor compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non-compliance. Audits are carried out on all branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on the operational and management activities of these branches. The annual audit plans are reviewed and approved by the respective Audit Committees and the findings of the audits are submitted to the respective Audit Committees for review.

- Credit Committees under Public Bank (Hong Kong) and Public Finance are responsible for making decision on loan applications for all types of loan facilities within their discretionary powers, assisting the respective Boards in formulating policy guidelines for Public Bank (Hong Kong)'s banking business and Public Finance's lending business, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committees to the respective Boards for approval.

- Credit Risk Management Committee under Public Bank (Hong Kong) reviews and assesses independently the credit risk profile, conducts stress-testing and post-mortem analysis on credit risk, sets concentration risk limits of Public Bank (Hong Kong), provides advice to Public Finance and other group companies, and implements credit risk management policies approved by the Board of Public Bank (Hong Kong).

- Assets and Liabilities Management Committees under Public Bank (Hong Kong) and Public Finance review and assess the market risk profile, capital adequacy and capital structure of Public Bank (Hong Kong) and Public Finance, set the objectives for the asset and liability management function and implement the risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

ACCOUNTABILITY AND AUDIT (Continued)

Other Committees Established in the Group (Continued)

- Operational Risk Management Committees under Public Bank (Hong Kong) and Public Finance review and assess operational risk profile, impact of operational loss events and set operational risk limits, if applicable, of Public Bank (Hong Kong) and Public Finance, and implement operational risk management policies approved by the respective Boards of Public Bank (Hong Kong) and Public Finance.

- Operational committees have also been established under Public Bank (Hong Kong) and Public Finance with appropriate authorities to ensure effective management and supervision of the Group's core areas of business operations. These committees include Human Resources Committees and Information Technology Committees.

  Human Resources Committees assist the respective Boards in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff.

  Information Technology (I.T.) Steering Committee under Public Bank (Hong Kong) and Information Technology Committee under Public Finance are responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the respective Boards on major acquisitions of computer hardware and software, and monitoring the progress of implementation of all information technology related projects.

- Finance Committees under Public Bank (Hong Kong) and Public Finance assist the respective Boards in the financial planning and budgeting process of the business of Public Bank (Hong Kong) and Public Finance and the review of the business performance, statutory and half year accounts.

- Compliance Review Group and Compliance Department of Public Bank (Hong Kong) and Compliance Working Group of Public Finance are established to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities, to assess the impact of the relevant regulatory requirements on Public Bank (Hong Kong) and Public Finance and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments.

- Remuneration Committees of Public Bank (Hong Kong) and Public Finance are established to review the overall remuneration policy of the Directors, Chief Executive and key personnel and to establish a formal and transparent procedure for developing policy on such remuneration of Public Bank (Hong Kong) and Public Finance and their subsidiaries; and to review and approve the remuneration policies applicable to all employees of the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with its shareholders and investors. The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders and to answer questions shareholders may raise. Separate resolutions are proposed at general meetings for each substantial issue, including the re-election and election of individual Directors. The detailed procedures of conducting a poll are explained to shareholders at the commencement of the AGM, to ensure that shareholders are familiar with such procedures.

The Company's last AGM was held on Friday, 4 March 2011 at 3:00 p.m. at Kowloon Room, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. All the resolutions proposed at that meeting were approved by shareholders of the Company by poll. Details of the poll results are available under the investor relations section of the Company's website at www.publicfinancial.com.hk.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS (Continued)

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner within 20 days after the end of the relevant periods in 2010 and 2011, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The market capitalisation of the Company as at 30 December 2011 was HK$3,809,774,134 (issued share capital: 1,097,917,618 shares at closing market price: HK$3.47 per share). The public float is around 26.8%.

The 2012 AGM will be held at Kowloon Room, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Wednesday, 14 March 2012 at 10:00 a.m.

Brief Biography of Directors and Senior Management

Tan Sri Dato' Sri Dr. Teh Hong Piow

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 81, is the Founder and Chairman and a substantial shareholder of Public Bank Berhad ("Public Bank"), a commercial bank listed on the Malaysian stock exchange, and the holding company of the Company. He has 62 years of experience in the banking and finance industry. He was appointed a Non-executive Director and the Chairman of the Company in September 1991. He is currently the Chairman of the Remuneration Committee and Nomination Committee of the Company. He is also the Chairman of Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group and is the Chairman of LPI Capital Berhad which is a public listed company in Malaysia.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh Hong Piow had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993; a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council of Malaysia. He is a Fellow of several institutes which include the Institute of Bankers Malaysia; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; the Institute of Chartered Secretaries and Administrators, Australia; and the Malaysian Institute of Management.

Tan Sri Datuk Seri Utama Thong Yaw Hong

Tan Sri Datuk Seri Utama Thong Yaw Hong, aged 81, was appointed an Independent Non-executive Co-Chairman of the Company in July 2006 and is the Chairman of the Audit Committee and Risk Management Committee, and a member of the Remuneration Committee and Nomination Committee. He is the Independent Non-executive Co-Chairman of Public Bank, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Tan Sri Datuk Seri Utama Thong Yaw Hong's directorships in other public listed companies are in Berjaya Sports Toto Berhad (Chairman), LPI Capital Berhad (Co-Chairman), Batu Kawan Berhad (Director), Kuala Lumpur Kepong Berhad (Director) and Glenealy Plantations (Malaya) Berhad (Director) which are listed in Malaysia.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In September 2006, he was conferred the Doctor of Economics (Honorary) from University Putra Malaysia.

Tan Sri Datuk Seri Utama Thong Yaw Hong has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance. He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

Mr. Tan Yoke Kong

Mr. Tan Yoke Kong, aged 59, has 30 years of experience in the banking and finance industry. He is currently the Chief Executive/Executive Director of Public Bank (Hong Kong). Mr. Tan was appointed an Executive Director of the Company in February 1992 and is a member of the Risk Management Committee of the Company. Prior to his transfer to the current appointment in Public Bank (Hong Kong), Mr. Tan was the Chief Executive of Public Finance, and had served as the Vice Chairman of The DTC Association and as a member of The Deposit-taking Companies Advisory Committee for several years. Mr. Tan is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and an Associate of the Institute of Chartered Secretaries and Administrators, United Kingdom.

Mr. Chong Yam Kiang

Mr. Chong Yam Kiang, aged 61, has 42 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 2009 and is an Executive Director of Public Bank (Hong Kong) and a Non-executive Director of Public Finance. He is currently the Alternate Chief Executive of Public Bank (Hong Kong).

Mr. Lee Huat Oon

Mr. Lee Huat Oon, aged 49, has 24 years of experience in the banking and finance industry. He was appointed an Executive Director of the Company in June 1996 and is currently the General Manager/Chief Executive and Executive Director of Public Finance. He holds a degree in Accounting from the University of Malaya and is a Chartered Accountant of the Malaysian Institute of Accountants.

He is currently a Vice Chairman of The DTC Association, a member of The Deposit-taking Companies Advisory Committee, and a member of the Banking and Finance Industry Training Board in Hong Kong.

Tan Sri Dato' Sri Tay Ah Lek

Tan Sri Dato' Sri Tay Ah Lek, aged 69, has 51 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in January 1995 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is the Managing Director/ Chief Executive Officer of Public Bank and a Non-executive Director of Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Tan Sri Dato' Sri Tay Ah Lek holds a Master's degree in Business Administration from Henley, United Kingdom and attended the Advanced Management Program at Harvard Business School. He is a Fellow of CPA Australia, the Financial Services Institute of Australasia, the Institute of Bankers Malaysia and the Malaysian Institute of Management.

He is presently the Chairman of the Association of Hire Purchase Companies Malaysia and a member of the National Payments Advisory Board in Malaysia.

Dato' Chang Kat Kiam

Dato' Chang Kat Kiam, aged 57, has 37 years of experience in the banking and finance industry. He was appointed a Non-executive Director of the Company in March 2004. He is also a Non-executive Director of Public Bank (Hong Kong) and Public Finance and a member of the Risk Management Committee of the Company. He is currently a Chief Operating Officer of Public Bank. He also holds directorships in several other companies in the Public Bank Group. He holds a Master's degree in Business Administration.

Mr. Lee Chin Guan

Mr. Lee Chin Guan, aged 53, has 19 years of experience in the legal practice, principally in commercial and corporate matters. He was appointed an Independent Non-executive Director of the Company in September 2004 and is a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank (Hong Kong) and Public Finance. He qualified as a Barrister-at-Law from the Middle Temple, United Kingdom in 1982. He also holds a Bachelor Degree in Science (Hons) from the University of Manchester Institute of Science and Technology, England and Degrees in Law from Cambridge University, Oxford University and Chicago-Kent College of Law.

Mr. Quah Poh Keat

Mr. Quah Poh Keat, aged 59, has 35 years of experience in auditing, tax and insolvency practices and had worked in Malaysia and United Kingdom. He was appointed a Non-executive Director of the Company in July 2008 and was re-designated as an Independent Non-executive Director on 13 January 2009. He is currently a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee. He is also an Independent Non-executive Director of Public Bank, Public Bank (Hong Kong) and Public Finance. He also holds directorships in several other companies in the Public Bank Group.

Mr. Quah is also an Independent Non-executive Director of LPI Capital Berhad, IOI Corporation Berhad and Telekom Malaysia Berhad, which are public listed companies in Malaysia. His previous directorships in public listed companies over the last 3 years were in IOI Properties Berhad (resigned on 15 May 2009) and PLUS Expressways Berhad (resigned on 23 December 2011).

Mr. Quah is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants. He is also a member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. He was a partner of KPMG Malaysia since 1 October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

Our Corporate Family

Corporate Events & Recreational Activities

Mr. Tan addressing the press reporters at the conclusion of the 2011 Annual General Meeting.

Opening of a new branch of Public Bank (Hong Kong) in Tsim Sha Tsui in March 2011.

The Company's 2011 Annual General Meeting held at Kowloon Shangri-La Hotel on 4 March 2011.

Opening of a new branch of Public Bank (Hong Kong) in Tai Kok Tsui in January 2011.

Branch Managers and Head of Business Units participated at the business dialogue with members of the senior management of Public Bank, Malaysia during their visit to Hong Kong in October 2011.

An outing to the Giant Buddha in Lantau Island organised by the Group's Sports Club in July 2011.

Staff performing "Beating the drums in unison" at the Group's Annual Dinner 2011.

Chief Executive Mr. Tan took a photo for the album with the staff performers at the Group's Annual Dinner 2011.

Participants took part in "Ready to Stand Up as One" exercise at the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).

Representatives of Public Bank (Hong Kong) at the National Sales Convention 2011 of the Public Bank Group held in Kuala Lumpur, Malaysia.

Participants taking part in the team building activity on "Fire Fighting" in the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).

A group photo for the album of the participants of the Sales Leadership & Motivation Programme 2011 of Public Bank (Hong Kong).

Our Corporate Family

Marketing & Promotions


大眾銀行(香港)
新開證券戶口/網上證券交易服務
首月$0佣金優惠
(買入及沽出)
第2至6個月佣金只需
0.1%/0.15%
(網上交易) (非網上交易)
優惠期長達6個月
成功申請證券戶口/網上證券交易服務之客戶即獲贈
350股票積分獎賞
換取網上即時股票報價服務
大眾銀行(香港)
PUBLIC BANK (HONG KONG)
8107 0818
www.publicbank.com.hk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細意享受高回報之選
高息外幣投資存款的優點：
利息回報優厚
多種貨幣以供選擇
彈性存款期
特低存款金額
靈活透支服務
港元 HKD
美元 USD
澳元 AUD
紐元 NZD
立即行動
大眾銀行(香港)
PUBLIC BANK (HONG KONG)
8107 0818
www.publicbank.com.hk


大眾財務
My Cash 循環貸款
幾時用錢
一切由我作主
• 利息特低
• 自訂每月還款額
• 電話指示提款或轉賬至指定銀行戶口
大眾財務 大眾首選
大眾財務有限公司
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大眾財務
公務員低息私人貸款
3大貸款優惠
每月平息低至 0.18%
全新客戶專享貸款額0.5%之即時現金獎賞
結餘轉戶即可獲贈高達HK$2,000超市購物禮券
大眾財務 大眾首選
大眾財務有限公司
PUBLIC FINANCE LIMITED
貸款即批熱線 2848 1888
www.publicfinance.com.hk

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment and property holding company. The principal activities of its subsidiaries during the year were the provision of retail and commercial banking and lending services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 23 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 43 to 126.

The first interim dividend of HK$0.05 (2010: HK$0.05) per ordinary share was paid on 29 July 2011. The second interim dividend of HK$0.11 (2010: HK$0.16) per ordinary share was declared on 27 December 2011 and will be payable on 20 February 2012 to shareholders of the Company whose names appear on the register of members on 31 January 2012. The directors do not recommend the payment of a final dividend for the year (2010: Nil).

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9.

INVESTMENT PROPERTIES, PROPERTY AND EQUIPMENT AND LAND HELD UNDER FINANCE LEASES

Details of movements in the investment properties, property and equipment and land held under finance leases of the Company and of the Group are set out in notes 20, 21, and 22 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements of the Company's share capital and share options are set out in notes 33 and 34 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2011, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK$1,344,878,000 (inclusive of the Company's contributed surplus) are set out in note 36 to the financial statements as computed in accordance with generally accepted accounting principles of Hong Kong Special Administrative Region. In addition, the Company's share premium account in the amount of approximately HK$4,013,344,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS

During the year, the five largest customers of the Group accounted for less than 30% of the total interest income and other operating income of the Group.

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Non-executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*
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

Executive Directors:
Tan Yoke Kong
Lee Huat Oon

In accordance with the Bye-laws, Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Sri Tay Ah Lek and Mr. Chong Yam Kiang shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 9 and 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 39 to the financial statements, no director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

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 Berhad ("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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 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") in the Listing Rules were as follows:

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

		Number of ordinary shares					
Interests in	Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	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 Yoke Kong	290,000	–	–	*250,000	540,000	0.0492
	Chong Yam Kiang	20,000	–	–	–	20,000	0.0018
	Lee Huat Oon	20,000	–	–	–	20,000	0.0018
	Tan Sri Dato' Sri Tay Ah Lek	350,000	–	–	–	350,000	0.0319
	Dato' Chang Kat Kiam	300,000	–	–	–	300,000	0.0273
2. 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 Yoke Kong	40,588	–	–	–	40,588	0.0011
	Chong Yam Kiang	17,128	–	–	–	17,128	0.0005
	Lee Huat Oon	57,402	–	–	–	57,402	0.0016
	Tan Sri Dato' Sri Tay Ah Lek	6,898,951	208,739	145,576	–	7,253,266	0.2054
	Dato' Chang Kat Kiam	114,215	–	–	–	114,215	0.0032
	Lee Chin Guan	100,028	–	–	–	100,028	0.0028

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

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

		Number of ordinary shares					
Interests in	Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests	Total	Percentage of interests in the issued share capital %
3. Winsure Company, Limited, a subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	15,500	–	15,500	96.8750
4. Campu Lonpac Insurance Plc, a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	–	–	3,850,000	–	3,850,000	55.0000

* Jointly held with another person

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

	Number of ordinary shares attached to the share options					
Name of director	**At the beginning of the year**	**Granted during the year**	**Exercised during the year**	**At the end of the year**	**Exercise price HK$**	**Exercise period**
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
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	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
Lee Chin Guan	350,000	–	–	350,000	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 year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the heading "Directors' interests and short positions in shares and underlying shares" above and set out in note 34 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

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

At 31 December 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 year.

CORPORATE GOVERNANCE

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 16 to 26 in the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Tan Yoke Kong
Director

Hong Kong
17 January 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Public Financial Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Public Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

17 January 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Interest income	5	**1,589,621**	1,521,866
Interest expense	5	**(377,220)**	(286,617)
NET INTEREST INCOME		**1,212,401**	1,235,249
Other operating income	6	**276,759**	276,939
OPERATING INCOME		**1,489,160**	1,512,188
Operating expenses	7	**(734,176)**	(700,805)
Changes in fair value of investment properties		**6,644**	9,031
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**761,628**	820,414
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		**34,157**	–
		795,785	820,414
Impairment allowances for loans and advances and receivables	8	**(327,574)**	(280,486)
PROFIT BEFORE TAX		**468,211**	539,928
Tax	11	**(93,342)**	(89,431)
PROFIT FOR THE YEAR		**374,869**	450,497
ATTRIBUTABLE TO:			
Owners of the Company	12	**374,869**	450,497
EARNINGS PER SHARE (HK$)	14		
Basic		**0.341**	0.410
Diluted		**0.341**	0.410

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
PROFIT FOR THE YEAR	**374,869**	450,497
OTHER COMPREHENSIVE INCOME FOR THE YEAR		
Exchange gain on translating foreign operations, net of tax	**17,240**	13,205
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**392,109**	463,702
ATTRIBUTABLE TO:		
Owners of the Company	**392,109**	463,702

Consolidated Statement of Financial Position

31 December 2011

		Group		Company	
		31/12/2011	31/12/2010	**31/12/2011**	31/12/2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS					
Cash and short term placements	15	**4,575,282**	6,021,365	**54,779**	35,082
Placements with banks and financial institutions maturing after one month but not more than twelve months	16	**513,527**	723,715	**–**	–
Derivative financial instruments		**3,220**	10,167	**–**	–
Loans and advances and receivables	17	**27,575,499**	26,817,872	**–**	–
Available-for-sale financial assets	18	**6,804**	6,804	**–**	–
Held-to-maturity investments	19	**3,421,503**	2,709,776	**–**	–
Inventories of taxi licences		**2,676**	15,084	**–**	–
Investment properties	20	**195,309**	188,665	**1,161,860**	1,132,190
Property and equipment	21	**111,517**	119,615	**564**	490
Land held under finance leases	22	**657,900**	665,400	**–**	–
Investment in subsidiaries	23	**–**	–	**6,622,495**	6,663,710
Interest in a jointly-controlled entity	24	**1,513**	1,513	**–**	–
Deferred tax assets	31	**21,610**	10,810	**9**	19
Goodwill	26	**2,774,403**	2,774,403	**–**	–
Intangible assets	27	**718**	718	**–**	–
Other assets	25	**105,884**	263,731	**512**	1,329
TOTAL ASSETS		**39,967,365**	40,329,638	**7,840,219**	7,832,820
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits and balances of banks and other financial institutions at amortised cost		**1,246,092**	680,382	**–**	–
Derivative financial instruments		**2,051**	5,435	**–**	–
Customer deposits at amortised cost	29	**28,334,785**	29,670,825	**–**	–
Certificates of deposit issued at amortised cost		**513,315**	200,000	**–**	–
Dividends payable	13	**120,771**	175,667	**120,771**	175,667
Unsecured bank loans at amortised cost	30	**2,960,734**	3,038,991	**2,162,660**	2,160,052
Current tax payable		**33,832**	40,907	**947**	12
Deferred tax liabilities	31	**29,584**	23,165	**36,810**	28,137
Other liabilities	32	**444,402**	428,909	**5,252**	4,968
TOTAL LIABILITIES		**33,685,566**	34,264,281	**2,326,440**	2,368,836

Consolidated Statement of Financial Position

31 December 2011

		Group		Company	
		31/12/2011	31/12/2010	**31/12/2011**	31/12/2010
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Issued capital	33	**109,792**	109,792	**109,792**	109,792
Reserves	36	**6,172,007**	5,955,565	**5,403,987**	5,354,192
TOTAL EQUITY		**6,281,799**	6,065,357	**5,513,779**	5,463,984
TOTAL EQUITY AND LIABILITIES		**39,967,365**	40,329,638	**7,840,219**	7,832,820

Tan Yoke Kong
Director

Lee Huat Oon
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
TOTAL EQUITY		
Balance at the beginning of the year	**6,065,357**	5,832,218
Profit for the year	**374,869**	450,497
Other comprehensive income	**17,240**	13,205
Total comprehensive income for the year	**392,109**	463,702
Dividends declared on shares	**(175,667)**	(230,563)
Balance at the end of the year	**6,281,799**	6,065,357

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**468,211**	539,928
Adjusted for:		
Depreciation of property and equipment and land held under finance leases	**32,014**	31,626
Net losses on disposal of property and equipment	**199**	108
Decrease in impairment allowances for loans and advances and receivables	**(11,862)**	(66,746)
Dividend income from listed investments	**(13)**	(13)
Dividend income from unlisted investments	**(500)**	(980)
Increase in fair value of investment properties	**(6,644)**	(9,031)
Exchange differences	**30,209**	14,175
Profits tax paid	**(114,808)**	(44,223)
Operating profit before changes in operating assets and liabilities	**396,806**	464,844
Increase in operating assets:		
Decrease in cash and short term placements	**–**	411,634
Decrease in placements with banks and financial institutions	**297,825**	120,535
Increase in loans and advances and receivables	**(748,724)**	(2,307,316)
(Increase)/decrease in held-to-maturity investments	**(203,755)**	275,524
Decrease in other assets	**157,847**	170,331
Decrease in derivative financial instruments	**6,947**	1,490
Decrease in inventories of taxi licences	**12,408**	–
	(477,452)	(1,327,802)
Decrease in operating liabilities:		
Increase/(decrease) in deposits and balances of banks and other financial institutions at amortised cost	**565,710**	(344,246)
(Decrease)/increase in customer deposits at amortised cost	**(1,336,040)**	306,587
Increase in certificates of deposit issued at amortised cost	**313,315**	200,000
(Decrease)/increase in derivative financial instruments	**(3,384)**	3,767
Increase/(decrease) in other liabilities	**15,493**	(375,697)
	(444,906)	(209,589)
Net cash outflow from operating activities	**(525,552)**	(1,072,547)

	Note	2011 HK$'000	2010 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		**(525,552)**	(1,072,547)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exchange differences		**53**	41
Purchases of property and equipment		**(16,668)**	(19,362)
Dividends received from listed investments		**13**	13
Dividends received from unlisted investments		**500**	980
Net cash outflow from investing activities		**(16,102)**	(18,328)
CASH FLOWS FROM FINANCING ACTIVITIES			
New unsecured bank loans		**–**	2,338,991
Repayment of unsecured bank loans		**(78,257)**	(1,478,679)
Dividends paid on shares		**(230,563)**	(197,625)
Net cash (outflow)/inflow from financing activities		**(308,820)**	662,687
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(850,474)**	(428,188)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**8,543,344**	8,971,532
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**7,692,870**	8,543,344
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	41	**1,030,256**	684,703
Money at call and short notice with original maturity within three months		**3,545,026**	5,336,662
Placements with banks and financial institutions with original maturity within three months		**246,506**	158,869
Held-to-maturity investments with original maturity within three months		**2,871,082**	2,363,110
		7,692,870	8,543,344

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company is a limited liability company and its shares are listed on the Stock Exchange (stock code: 626).

During the year, the Group's principal activities were the provision of banking, financial and related services, stockbroking, the letting of investment properties, the provision of financing to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis.

Details of the principal activities of the Company's subsidiaries are set out in note 23 to the financial statements.

In the opinion of the directors, the ultimate holding company of the Company is Public Bank, which is incorporated in Malaysia.

2.1 ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The preparation of the consolidated financial statements has also made reference to the Guideline on the Application of the Banking (Disclosure) Rules and Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority (the "HKMA").

2.2 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting year as the Group, using consistent accounting policies.

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

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if 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.

2.2 BASIS OF PREPARATION (Continued)
Basis of consolidation (Continued)

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

The subsidiaries consolidated for accounting purposes are as follows:

– Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)"), Public Finance Limited ("Public Finance"), Winton (B.V.I.) Limited and their subsidiaries and a jointly-controlled entity set out in note 24 to the financial statements.

Basis of capital disclosures

The Group has complied with the capital requirements during the reporting period related to capital base and the capital adequacy ratio as stipulated by the 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.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2011 which are pertinent to its operations and relevant to these financial statements.

• HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
• HKAS 24 (Revised)	*Related Party Disclosures*
• HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
• HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
• HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
• *Improvements to HKFRSs 2010*	Amendments to a number of HKFRSs issued in May 2010

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

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

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures in HKFRS 7 Amendments. As the Group is not a first-time adopter of HKFRSs, the amendment has no financial impact on the Group.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the financial statements.

HKAS 32 Amendment addresses 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 amendment contained in this update requires 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 amendment has no financial impact on the Group.

HK(IFRIC)-Int 14 Amendments 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 have no 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.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

(a) HKFRS 1 Amendment 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 Amendment clarifies 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 arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All 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 amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(c) HKFRS 7 Amendment is intended to simplify the disclosures by reducing the volume of disclosures on collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

(d) HKAS 1 Amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

(e) HKAS 27 Amendment 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.

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

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

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

• HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
• HKFRS 9	*Financial Instruments*[6]
• HKFRS 10	*Consolidated Financial Statements*[4]
• HKFRS 11	*Joint Arrangements*[4]
• HKFRS 12	*Disclosure of Interests in Other Entities*[4]
• HKFRS 13	*Fair Value Measurement*[4]
• HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
• HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
• HKAS 19 (2011)	*Employee Benefits*[4]
• HKAS 27 (2011)	*Separate Financial Statements*[4]
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
• HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

[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 July 2012
[4] effective for annual periods beginning on or after 1 January 2013
[5] effective for annual periods beginning on or after 1 January 2014
[6] effective for annual periods beginning on or after 1 January 2015

HKFRS 1 Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. The amendments will not have any financial impact on the Group.

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. The Group expects to adopt HKFRS 7 Amendments from 1 January 2012. As the Group does not have continuing involvement in the derecognised assets, the amendments will not have any financial impact on the Group.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalent to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The interpretation has no financial impact on the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Foreign currency translation (Continued)

(i) Transactions and balances (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gain or loss on disposal.

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Derivatives are recognised on the trade date basis.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivative financial instruments

Derivatives include interest rate swaps and futures, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in "Net gain or loss on derivative financial instruments".

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host contract are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(iv) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are held for trading or are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

(v) Held-to-maturity investments

Held-to-maturity investments at amortised cost are those which carry fixed or determinable payments and have fixed maturity and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as "Impairment allowances for held-to-maturity investments".

(vi) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Impairment allowances for loans and advances and receivables".

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Financial instruments – initial recognition and subsequent measurement (Continued)

(vii) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity investments or loans and advances. They include equity instruments, investments in mutual funds and money markets and other debt instruments.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale financial asset revaluation reserve".

When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in "Other operating income" or "Other operating expenses". Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in, first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method. Dividends earned whilst holding available-for-sale financial assets are recognised in the consolidated income statement as "Other operating income" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated income statement in "Impairment allowances for available-for-sale financial assets" and removed from the "Available-for-sale financial asset revaluation reserve".

(viii) Certificates of deposit

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under "Certificates of deposit issued at amortised cost" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number or own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(ix) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process using effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements in "Other liabilities" at fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement in "Net fees and commission income" under "Other operating income" on a straight line basis over the life of the guarantee.

(4) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

(5) Determination of fair value

The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow analysis, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has/have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has/have an impact on the present value of estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is/are experiencing significant financial difficulty, default or delinquency in interest or principal payments, that it is possible that he/they will enter bankruptcy or other financial reorganisation and that there are observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

(i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the Group collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to "Impairment losses and allowances" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets (Continued)

(i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment allowances for held-to-maturity investments", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(iii) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of financial assets (Continued)

(iii) Available-for-sale financial assets (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement.

(7) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as “Property and equipment” but represented on a separate line with the corresponding liability to the lessor included in “Other liabilities”. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in “Interest expense” in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in “Operating expenses”.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years but not more than 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(7) Leases (Continued)

(ii) Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(8) Recognition of revenue and expenditure

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Recognition of revenue and expenditure (Continued)

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(iv) Net trading income

Net trading income arising from trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading. Gains and losses on foreign exchange trading and other transactions are also reported as "Net trading income" except for those gains and losses on translation of foreign currencies recognised in the translation reserve.

(v) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

(9) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-maturity investments with original maturity within three months.

(10) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as gain on bargain purchase.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(11) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's consolidated income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(12) Joint venture companies and jointly-controlled entities

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Joint venture companies and jointly-controlled entities (Continued)

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity is eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interest in jointly-controlled entities is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The result of jointly-controlled entity is included in the Group's consolidated income statement to the extent of dividends received and receivable. The Group's interest in jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

(13) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Property and equipment, and depreciation

The building component of owner-occupied properties and other property and equipment, other than investment properties, is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 4%
Leasehold improvements:	
Own leasehold buildings	20% to $33^1/_3$%
Others	Over the shorter of the remaining lease terms and 7 years
Furniture, fixtures and equipment	10% to $33^1/_3$%
Motor vehicles	20% to 25%
Land held under finance leases	Over the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years to 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(16) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and it is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(17) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined as the actual cost for taxi cabs and taxi licences. Net realisable value is based on estimated selling prices less any estimated costs to be incurred on disposal.

(18) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill, deferred tax assets and inventories of taxi licences, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment was recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title with control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(20) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Operating expenses" in the consolidated income statement.

(21) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Income tax (Continued)

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(22) Employee benefits

(a) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions are made based on a percentage of the participating employees' relevant monthly income from the Group, and are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Occupational Retirement Scheme Ordinance Scheme prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. When an employee leaves the Mandatory Provident Fund, the Group's mandatory contributions vest fully with the employee.

(b) Share option scheme

The Company operates an employees' share option scheme (the "ESOS") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions whereby employees render services as consideration for equity-settled transactions.

For share options granted under the ESOS, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At the end of each reporting period, the Group revises its estimates of the number of options that is expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Employee benefits (Continued)

(b) Share option scheme (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(c) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(23) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared because the Bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables, and held-to-maturity investments

The Group reviews its portfolios of loans and advances and receivables and held-to-maturity investments to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and advances and receivables and held-to-maturity investments before the decrease can be identified with an individual loan or held-to-maturity investment in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group.

3. SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment allowances on loans and advances and receivables, and held-to-maturity investments (Continued)

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 and 2010 was HK$2,774,403,000, of which HK$1,942,082,000 was attributed to Public Finance and HK$832,321,000 was attributed to Public Bank (Hong Kong). Further details are set out in note 26 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of deferred tax assets are contained in note 31 to the financial statements.

4. 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. A summary of the operating segments is as follows:

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

- the wealth management services, stockbroking and securities management segment comprises management of investments in debt and equity securities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and

- other businesses segments comprise taxi trading and the leasing of taxis and letting of investment properties.

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

4. SEGMENT INFORMATION (Continued)

The following table represents revenue and profit information for operating segments for the years ended 31 December 2011 and 2010, and certain asset and liability information regarding operating segments as at 31 December 2011 and 2010.

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Segment revenue										
External:										
Net interest income	1,212,342	1,235,209	59	40	–	–	–	–	1,212,401	1,235,249
Other operating income:										
Fees and commission income	150,736	144,691	93,783	101,703	437	425	–	–	244,956	246,819
Others	11,917	15,570	–	–	19,886	14,550	–	–	31,803	30,120
Inter-segment transactions:										
Fees and commission income	–	–	–	–	336	714	(336)	(714)	–	–
Operating income	1,374,995	1,395,470	93,842	101,743	20,659	15,689	(336)	(714)	1,489,160	1,512,188
Profit before tax	421,746	467,319	21,621	50,620	24,844	21,989	–	–	468,211	539,928
Tax									(93,342)	(89,431)
Profit for the year									374,869	450,497
Segment assets other than interests in a jointly-controlled entity and intangible assets	36,718,085	36,958,536	236,279	377,117	199,034	205,640	–	–	37,153,398	37,541,293
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
	39,494,001	39,734,452	236,997	377,835	199,034	205,640	–	–	39,930,032	40,317,927
Unallocated assets:										
Deferred tax assets and tax recoverable									37,333	11,711
Total assets									39,967,365	40,329,638
Segment liabilities	33,429,739	33,731,692	64,984	228,923	6,656	63,927	–	–	33,501,379	34,024,542
Unallocated liabilities:										
Deferred tax liabilities and tax payable									63,416	64,072
Dividends payable									120,771	175,667
Total liabilities									33,685,566	34,264,281
Other segment information										
Additions to non-current assets – capital expenditure	16,668	19,362	–	–	–	–	–	–	16,668	19,362
Depreciation of property and equipment and land held under finance leases	32,014	31,626	–	–	–	–	–	–	32,014	31,626
Changes in fair value of investment properties	–	–	–	–	(6,644)	(9,031)	–	–	(6,644)	(9,031)
Impairment allowances for loans and advances and receivables	327,574	280,486	–	–	–	–	–	–	327,574	280,486
Net losses on disposal of property and equipment	199	108	–	–	–	–	–	–	199	108

4. SEGMENT INFORMATION (Continued)

Geographical information

Over 90% of the Group's operating income, profit before tax, 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.

5. INTEREST INCOME AND EXPENSE

	2011	2010
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**1,483,273**	1,419,480
Short term placements and placements with banks	**46,682**	29,319
Held-to-maturity investments	**59,666**	73,067
	1,589,621	1,521,866
Interest expense on:		
Deposits from banks and financial institutions	**27,654**	18,176
Deposits from customers	**318,103**	218,146
Bank loans	**31,463**	50,295
	377,220	286,617

Interest income and interest expenses for the year ended 31 December 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$1,589,621,000 and HK$377,220,000 (2010: HK$1,521,866,000 and HK$286,617,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2011 amounted to HK$5,256,000 (2010: HK$10,850,000).

6. OTHER OPERATING INCOME

	2011 HK$'000	2010 HK$'000
Fees and commission income:		
Retail and commercial banking	**152,307**	146,213
Wealth management services, stockbroking and securities management	**93,783**	101,703
	246,090	247,916
Less: Fees and commission expenses	**(1,134)**	(1,097)
Net fees and commission income	**244,956**	246,819
Gross rental income	**12,514**	12,880
Less: Direct operating expenses	**(79)**	(77)
Net rental income	**12,435**	12,803
Gains less losses arising from dealing in foreign currencies	**6,129**	6,958
Net losses on disposal of property and equipment	**(199)**	(108)
Dividend income from listed investments	**13**	13
Dividend income from unlisted investments	**500**	980
Net gain on derivative financial instruments	**1,169**	4,710
Others	**11,756**	4,764
	276,759	276,939

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the years ended 31 December 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.

7. OPERATING EXPENSES

	2011 HK$'000	2010 HK$'000
Staff costs:		
Salaries and other staff costs	**396,105**	371,055
Pension contributions	**18,264**	16,640
Less: Forfeited contributions	**(18)**	(44)
Net retirement benefit schemes	**18,246**	16,596
	414,351	387,651
Other operating expenses:		
Operating lease rentals on leasehold buildings	**54,412**	49,872
Depreciation of property and equipment and land held under finance leases	**32,014**	31,626
Auditors' remuneration	**3,580**	3,409
Administrative and general expenses	**69,122**	67,005
Others	**160,697**	161,242
Operating expenses before changes in fair value of investment properties	**734,176**	700,805

As at 31 December 2011 and 2010, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

8. IMPAIRMENT ALLOWANCES

	2011 HK$'000	2010 HK$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	**329,965**	278,172
– trade bills, accrued interest and receivables	**(2,391)**	2,314
	327,574	280,486
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	**330,672**	357,407
– collectively assessed	**(3,098)**	(76,921)
	327,574	280,486
Of which:		
– new impairment losses and allowances (including any amount directly written off during the year)	**490,897**	514,834
– releases and recoveries	**(163,323)**	(234,348)
Net charge to the consolidated income statement	**327,574**	280,486

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2011 and 2010.

9. DIRECTORS' REMUNERATION

The remuneration of each director for the years ended 31 December 2011 and 2010 is set out below:

Group

	2011				
Name of director	**Fees**	**Salaries and other benefits**	**Bonuses**	**Retirement benefit contributions**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
		(Note 1)			
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Datuk Seri Utama Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,709	619	187	2,615
Chong Yam Kiang	100	1,558	382	82	2,122
Lee Huat Oon	50	1,268	453	140	1,911
Tan Sri Dato' Sri Tay Ah Lek	285	–	–	–	285
Dato' Chang Kat Kiam	150	–	–	–	150
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat	200	–	–	–	200
	1,650	4,535	1,454	409	8,048

9. DIRECTORS' REMUNERATION (Continued)

Group

	2010				
Name of director	Fees HK$'000	Salaries and other benefits HK$'000 (Note 1)	Bonuses HK$'000	Retirement benefit contributions HK$'000	Total HK$'000
Tan Sri Dato' Sri Dr. Teh Hong Piow	325	–	–	–	325
Tan Sri Datuk Seri Utama Thong Yaw Hong	240	–	–	–	240
Tan Yoke Kong (Note 2)	100	1,630	565	178	2,473
Chong Yam Kiang	100	1,440	338	75	1,953
Lee Huat Oon	50	1,179	411	131	1,771
Tan Sri Dato' Sri Tay Ah Lek	285	–	–	–	285
Dato' Chang Kat Kiam	150	–	–	–	150
Lee Chin Guan	200	–	–	–	200
Quah Poh Keat	200	–	–	–	200
	1,650	4,249	1,314	384	7,597

Notes:

1. Salaries and other benefits included basic salaries, housing allowances, other allowances, benefits in kind and employee share option benefits. No employee share option benefits were paid in 2011 (2010: Nil) and the employee share option benefits represented the fair value at the date of share options granted and accepted under the ESOS amortised to the consolidated income statement in the prior year disregarding whether the options have been exercised or not.

2. The director occupies a property of the Group at rent free. The estimated monetary value of the accommodation provided to him during the year which was not charged to the consolidated income statement was HK$839,160 (2010: HK$780,000).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included three (2010: three) directors, details of whose remuneration are set out in note 9 above.

Details of the remaining two (2010: two) highest paid individuals' remuneration are as follows:

	Group 2011 HK$'000	2010 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,800**	2,518
Bonuses paid and payable	**443**	337
Retirement benefit scheme contributions	**150**	142
	3,393	2,997

The number of highest paid individuals whose remuneration fell within the bands set out below is as follows:

	Group 2011 Number of Individuals	2010 Number of individuals
Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**2**	1
	2	2

11. TAX

	Group 2011 HK$'000	2010 HK$'000
Current tax charge:		
Hong Kong	**71,674**	84,203
Elsewhere	**18,892**	5,324
Underprovisions/(overprovisions) in prior years	**7,157**	(7,123)
Deferred tax (credit)/charge, net (note 31)	**(4,381)**	7,027
	93,342	89,431

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 year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

11. TAX (Continued)

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:

	2011					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**462,643**		**5,568**		**468,211**	
Tax at the applicable tax rate	**76,336**	**16.5**	**1,336**	**24.0**	**77,672**	**16.6**
Effect on change in tax rates	**–**	**–**	**74**	**1.3**	**74**	**–**
Estimated tax effect of net expenses that is not deductible	**5,262**	**1.1**	**–**	**–**	**5,262**	**1.1**
Estimated tax losses from previous periods utilised	**(5)**	**–**	**–**	**–**	**(5)**	**–**
Adjustments in respect of deferred tax of previous periods	**3,531**	**0.8**	**(349)**	**(6.3)**	**3,182**	**0.7**
Adjustments in respect of current tax of previous periods	**6,500**	**1.4**	**657**	**11.8**	**7,157**	**1.5**
Tax charge at the Group's effective rate	**91,624**	**19.8**	**1,718**	**30.8**	**93,342**	**19.9**

	2010					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	507,912		32,016		539,928	
Tax at the applicable tax rate	83,806	16.5	7,044	22.0	90,850	16.8
Effect on change in tax rate	–	–	40	0.1	40	–
Estimated tax effect of net expenses/(income) that is not deductible/(taxable)	6,809	1.3	(420)	(1.3)	6,389	1.2
Estimated tax losses not recognised	3	–	–	–	3	–
Estimated tax losses from previous periods utilised	(14)	–	–	–	(14)	–
Adjustments in respect of deferred tax of previous periods	(714)	(0.1)	–	–	(714)	(0.1)
Adjustments in respect of current tax of previous periods	(3,696)	(0.7)	(3,427)	(10.7)	(7,123)	(1.3)
Tax charge at the Group's effective rate	86,194	17.0	3,237	10.1	89,431	16.6

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 included a profit of HK$225,462,000 (2010: HK$216,069,000) which has been dealt with in the financial statements of the Company (note 36).

13. DIVIDENDS

	2011 HK$ per ordinary share	2010 HK$ per ordinary share	2011 HK$'000	2010 HK$'000
Interim:				
First	**0.05**	0.05	**54,896**	54,896
Second	**0.11**	0.16	**120,771**	175,667
	0.16	0.21	**175,667**	230,563

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$374,869,000 (2010: HK$450,497,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2010: 1,097,917,618) during the year.

(b) Diluted earnings per share

The share options outstanding during the years ended 31 December 2011 and 2010 had nil dilutive effect on the basic earnings per share for these years. The calculation of diluted earnings per share for the year ended 31 December 2011 was based on the profit for the year of HK$374,869,000 (2010: HK$450,497,000) 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 in issue of 1,097,917,618 (2010: 1,097,917,618) during the year as used in the basic earnings per share calculation.

15. CASH AND SHORT TERM PLACEMENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**185,538**	123,469	**–**	–
Placements with banks and financial institutions	**844,717**	561,234	**54,779**	35,082
Money at call and short notice	**3,545,027**	5,336,662	**–**	–
	4,575,282	6,021,365	**54,779**	35,082

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.

16. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS MATURING AFTER ONE MONTH BUT NOT MORE THAN TWELVE MONTHS

	Group	
	2011	2010
	HK$'000	HK$'000
Placements with banks and financial institutions	**513,527**	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.

17. LOANS AND ADVANCES AND RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
Loans and advances to customers	**27,621,506**	26,850,951
Trade bills	**7,264**	31,170
Loans and advances, and trade bills	**27,628,770**	26,882,121
Accrued interest	**90,602**	83,672
	27,719,372	26,965,793
Other receivables	**52,098**	56,953
Gross loans and advances and receivables	**27,771,470**	27,022,746
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	**(166,162)**	(171,967)
– collectively assessed	**(29,809)**	(32,907)
	(195,971)	(204,874)
Loans and advances and receivables	**27,575,499**	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.

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	Group 2011 HK$'000	2010 HK$'000
Neither past due nor impaired loans and advances and receivables	**27,071,390**	26,150,795
Past due but not impaired loans and advances and receivables	**410,608**	540,761
Individually impaired loans and advances	**276,090**	315,715
Individually impaired receivables	**13,382**	15,475
Total loans and advances and receivables	**27,771,470**	27,022,746

About 64% of "Neither past due nor impaired loans and advances and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by cash, properties, taxi licences and vehicles.

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

	Group			
	2011		2010	
	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	**106,732**	**0.39**	90,673	0.34
One year or less but over six months	**2,630**	**0.01**	5,790	0.02
Over one year	**131,836**	**0.48**	175,927	0.66
Loans and advances overdue for more than three months	**241,198**	**0.88**	272,390	1.02
Rescheduled loans and advances overdue for three months or less	**31,404**	**0.11**	39,413	0.15
Impaired accounts overdue for three months or less	**3,488**	**0.01**	3,912	0.01
Total overdue and impaired loans and advances	**276,090**	**1.00**	315,715	1.18

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group 2011 HK$'000	2010 HK$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**328**	12
One year or less but over six months	**1**	1,778
Over one year	**13,049**	13,683
Trade bills, accrued interest and other receivables overdue for more than three months	**13,378**	15,473
Impaired accounts overdue for three months or less	**4**	2
Total overdue and impaired trade bills, accrued interest and other receivables	**13,382**	15,475

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

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group					
	2011			2010		
	Hong Kong	**Mainland China**	**Total**	Hong Kong	Mainland China	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	**102,789**	**151,787**	**254,576**	154,018	133,845	287,863
Individual impairment allowances	**70,502**	**75,111**	**145,613**	92,671	55,942	148,613
Current market value and fair value of collateral			**203,239**			252,189
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**137,685**	**151,787**	**289,472**	197,345	133,845	331,190
Individual impairment allowances	**91,051**	**75,111**	**166,162**	116,025	55,942	171,967
Current market value and fair value of collateral			**205,728**			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.

17. 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:

	Group 2011 HK$'000	2010 HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**203,239**	252,189
Covered portion of overdue loans and advances	**75,741**	88,701
Uncovered portion of overdue loans and advances	**165,457**	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 corporations
– Individual shareholders and directors of corporate customers

(d) Repossessed assets

As at 31 December 2011, the total value of repossessed assets of the Group amounted to HK$3,100,000 (2010: HK$26,190,000).

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group 2011 Gross amount HK$'000	2011 Percentage of total loans and advances %	2010 Gross amount HK$'000	2010 Percentage of total loans and advances %
Loans and advances overdue for less than three months	**409,960**	**1.48**	539,829	2.01
Rescheduled but not impaired loans and advances	**–**	**–**	–	–
	409,960	**1.48**	539,829	2.01
Trade bills, accrued interest and other receivables overdue for less than three months	**648**		932	

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

Group

	2011 Individual impairment allowance HK$'000	2011 Collective impairment allowance HK$'000	2011 Total HK$'000
At 1 January 2011	**171,967**	**32,907**	**204,874**
Amount written off	**(491,755)**	**–**	**(491,755)**
Impairment losses and allowances charged to the consolidated income statement	**488,129**	**2,768**	**490,897**
Impairment losses and allowances released to the consolidated income statement	**(157,457)**	**(5,866)**	**(163,323)**
Net charge of impairment losses and allowances	**330,672**	**(3,098)**	**327,574**
Loans and advances and receivables recovered	**152,319**	**–**	**152,319**
Exchange difference	**2,959**	**–**	**2,959**
At 31 December 2011	**166,162**	**29,809**	**195,971**
Deducted from:			
Loans and advances	**164,220**	**29,778**	**193,998**
Trade bills, accrued interest and other receivables	**1,942**	**31**	**1,973**
	166,162	**29,809**	**195,971**

17. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

Group

	2010 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

(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:

	Group **2011** **Minimum lease payments** **HK$'000**	2010 HK$'000	**2011** **Present value of minimum lease payments** **HK$'000**	2010 HK$'000
Amounts receivable under finance leases:				
Within one year	**409,076**	437,537	**319,864**	340,354
In the second to fifth years, inclusive	**1,079,293**	1,157,354	**824,110**	889,179
Over five years	**3,510,259**	3,853,487	**2,986,859**	3,287,420
	4,998,628	5,448,378	**4,130,833**	4,516,953
Less: Unearned finance income	**(867,795)**	(931,425)		
Present value of minimum lease payments receivable	**4,130,833**	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.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the 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.

19. HELD-TO-MATURITY INVESTMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Unlisted:		
Certificates of deposit held	**1,042,281**	147,767
Treasury bills (including Exchange Fund Bills)	**1,489,901**	1,099,681
Other debt securities	**889,321**	1,462,328
	3,421,503	2,709,776
Analysed by type of issuers:		
– Central government	**1,489,901**	1,099,681
– Banks and other financial institutions	**1,931,602**	1,610,095
	3,421,503	2,709,776

Impairment allowances of held-to-maturity investments were nil as at 31 December 2011 and 2010. There were no movements in impairment allowances for the years ended 31 December 2011 and 2010.

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

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

20. INVESTMENT PROPERTIES

	Group HK$'000	Company HK$'000
At valuation:		
At 1 January 2010	184,342	1,078,190
Transfer to property and equipment	(443)	–
Transfer to land held under finance leases	(4,265)	–
Changes in fair value	9,031	54,000
At 31 December 2010 and 1 January 2011	**188,665**	**1,132,190**
Changes in fair value	**6,644**	**29,670**
At 31 December 2011	**195,309**	**1,161,860**

The Group's investment properties are all situated in Hong Kong and are held under the following lease terms:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At valuation:				
Medium term leases	**185,725**	179,995	**330,760**	322,798
Long term leases	**9,584**	8,670	**831,100**	809,392
	195,309	188,665	**1,161,860**	1,132,190

At 31 December 2011, investment properties with a carrying amount of HK$188,665,000 (2010: HK$179,634,000) were revalued at HK$195,309,000 (2010: HK$188,665,000) according to revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value and existing use basis. The increase in fair value of HK$6,644,000 (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 37(a) to the financial statements.

21. PROPERTY AND EQUIPMENT

	Group Buildings HK$'000	Group Leasehold improvements, furniture, fixtures and equipment HK$'000	Group Motor vehicles HK$'000	Group Total HK$'000	Company Leasehold improvements, furniture, fixtures and equipment HK$'000
Cost:					
At 1 January 2010	71,057	161,252	2,984	235,293	485
Additions	–	19,362	–	19,362	434
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**	**919**
Additions	**–**	**16,518**	**150**	**16,668**	**235**
Disposals/write-off	**–**	**(807)**	**(1,136)**	**(1,943)**	**–**
At 31 December 2011	**71,500**	**179,170**	**1,998**	**252,668**	**1,154**
Accumulated depreciation:					
At 1 January 2010	12,446	95,891	2,826	111,163	257
Provided during the year	1,586	22,565	20	24,171	172
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**	**429**
Provided during the year	**1,578**	**22,898**	**38**	**24,514**	**161**
Exchange difference	**53**	**–**	**–**	**53**	**–**
Disposals/write-off	**–**	**(608)**	**(1,136)**	**(1,744)**	**–**
At 31 December 2011	**15,704**	**123,699**	**1,748**	**141,151**	**590**
Net carrying amount:					
At 31 December 2011	**55,796**	**55,471**	**250**	**111,517**	**564**
At 31 December 2010	57,427	62,050	138	119,615	490

No valuation has been made for the above items of property and equipment for the years ended 31 December 2011 and 2010.

22. LAND HELD UNDER FINANCE LEASES

	Group HK$'000
Cost:	
At 1 January 2010	720,745
Transfer from investment properties	4,265
At 31 December 2010, 1 January 2011 and 31 December 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 year	**7,500**
At 31 December 2011	**67,110**
Net carrying amount:	
At 31 December 2011	**657,900**
At 31 December 2010	665,400

The land held under finance leases at net carrying amount are held under the following lease terms:

	Group	
	2011 HK$'000	2010 HK$'000
Leaseholds:		
Held in Hong Kong		
– On long term lease	**418,878**	419,824
– On medium term lease	**215,993**	221,779
Held outside Hong Kong		
– On medium term lease	**23,029**	23,797
	657,900	665,400

Land leases are 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.

23. INVESTMENT IN SUBSIDIARIES

	Company	
	2011 HK$'000	2010 HK$'000
Unlisted shares, at cost	**6,593,507**	6,593,507
Amounts due from subsidiaries	**28,988**	70,203
	6,622,495	6,663,710

23. INVESTMENT IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries were unsecured, and had no fixed terms of repayment. No interest-bearing amounts were due from subsidiaries as at 31 December 2011 and 2010. The non-interest-bearing amounts due from subsidiaries of HK$28,988,000 (2010: HK$70,203,000) were non-current in nature.

Particulars of the Company's subsidiaries are as follows:

Name	Nominal value of issued ordinary share capital HK$	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Public Bank (Hong Kong) Limited	1,481,600,000	100	–	Provision of banking, financial and related services
Public Bank (Nominees) Limited	100,000	–	100	Provision of nominee services
Public Investments Limited	200	–	100	Dormant
Public Realty Limited	100,000	–	100	Dormant
Public Credit Limited	5,000,000	–	100	Dormant
Public Futures Limited	2	–	100	Dormant
Public Pacific Securities Limited	12,000,000	–	100	Dormant
Public Financial Securities Limited	48,000,000	–	100	Securities brokerage
Public Finance Limited	258,800,000	–	100	Deposit-taking and financing
Public Financial Limited	10,100,000	–	100	Investment holding
Public Securities Limited	10,000,000	–	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	–	100	Provision of nominee services
Winton (B.V.I.) Limited	61,773	100	–	Investment holding
Winton Holdings (Hong Kong) Limited	20	–	100	Dormant
Winton Financial Limited	4,000,010	–	100	Provision of financing for licensed public vehicles and provision of personal and short term loans and mortgage loans
Winton Motors, Limited	78,000	–	100	Trading of taxi licences and taxi cabs, and leasing of taxis
Winsure Company, Limited	1,600,000	–	96.9	Dormant

Note: Except for Winton (B.V.I.) Limited, which was incorporated in the British Virgin Islands, all subsidiaries were incorporated in Hong Kong. Except for Public Bank (Hong Kong) Limited, which operates in Hong Kong, Mainland China and Taiwan, all subsidiaries operate in Hong Kong.

24. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2011 HK$'000	2010 HK$'000
Share of net assets other than goodwill	**1,513**	1,513

Particulars of the Group's jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership, interest and profit sharing %	Voting power	Principal activity
Net Alliance Co. Limited	Corporate	Hong Kong	17.6	2 out of 8*	Provision of electronic banking support services

* Representing the number of votes on the board of directors attributable to the Group

The following table illustrates the summarised financial information of the Group's interest in the jointly-controlled entity which is accounted for using the equity method:

	Group 2011 HK$'000	2010 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Assets	**1,898**	1,774
Liabilities	**(385)**	(261)
Net assets	**1,513**	1,513
Share of the jointly-controlled entity's profit or loss:		
Total income	**1,481**	1,614
Total expenses	**(1,481)**	(1,614)
Profit/(loss) after tax	**–**	–

25. OTHER ASSETS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest receivables from authorised institutions	**4,105**	3,108	**–**	–
Other debtors, deposits and prepayments	**86,056**	259,722	**512**	1,329
Tax recoverable	**15,723**	901	**–**	–
	105,884	263,731	**512**	1,329

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

26. GOODWILL

	Group	
	2011	2010
	HK$'000	HK$'000
Cost and net carrying amount:		
At the beginning and the end of the year	**2,774,403**	2,774,403

Impairment test of goodwill

There are two cash-generating units (the "CGUs"), namely Public Finance and Public Bank (Hong Kong), which represent the main operating entities within the business segment "Retail and commercial banking and lending businesses" identified by the Group. Goodwill acquired through business combinations is allocated on a pro-rata basis to the two CGUs based on the ratio of recoverable amounts of a CGU to those of the other CGU at the date of acquisition. The recoverable amounts of the CGUs at each subsequent reporting date are determined based on the value in use using the present value of cash flows taking into account the expected operating synergy and profitability and growth of businesses arising from the acquisition of Public Bank (Hong Kong) and its subsidiaries. The cash flow projections are based on financial budgets approved by management covering a 10-year period and assumed growth rates are used to extrapolate the cash flows in the following 40 years. The financial budgets are prepared based on a 10-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments, long term economic cycle and achievement of business targets extrapolated from a track record of financial results. All cash flows are discounted at discount rates of 4% and 7% under baseline and stressed scenarios, respectively. Management's financial model assumes an average growth rate of 5% to 6% per annum from the eleventh to fiftieth year taking into account long term gross domestic product growth and other relevant economic factors. The discount rates used are based on the rates which reflect specific risks relating to the CGUs.

No impairment loss has been recognised in respect of goodwill for the years ended 31 December 2011 and 2010 as its value in use exceeds the carrying amount.

27. INTANGIBLE ASSETS

	Group 2011 HK$'000	2010 HK$'000
Cost:		
At the beginning of the year and the end of the year	**1,085**	1,085
Accumulated impairment:		
At the beginning of the year and the end of the year	**367**	367
Net carrying amount:		
At the beginning of the year and the end of the year	**718**	718

Intangible assets represents trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives, as the trading rights have no expiry date. They comprise five units (2010: five units) of Stock Exchange Trading Right and one unit (2010: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

28. LOANS TO DIRECTORS AND OFFICERS

Loans granted by the Group to directors and officers disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group 2011 HK$'000	2010 HK$'000
Aggregate amount of principal and interest outstanding at the end of the year	**540**	634
Maximum aggregate amount of principal and interest outstanding during the year	**1,144**	1,173

The loans to directors and officers are granted on essentially the same terms as those offered to other customers, and/or at prevailing market rates and have no fixed terms of repayment, apart from a loan of HK$456,355 to a director, which is repayable on 25 December 2015 and was secured by a property at a fair value of HK$4,500,000 as at 31 December 2011.

The carrying amounts of these loans approximate to their fair values.

29. CUSTOMER DEPOSITS AT AMORTISED COST

	Group	
	2011	2010
	HK$'000	HK$'000
Demand deposits and current accounts	**2,094,578**	2,012,896
Savings deposits	**3,665,146**	4,528,561
Time, call and notice deposits	**22,575,061**	23,129,368
	28,334,785	29,670,825

30. UNSECURED BANK LOANS AT AMORTISED COST

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unsecured bank loans	**2,960,734**	3,038,991	**2,162,660**	2,160,052
Repayable:				
On demand or within a period not exceeding one year	**1,498,074**	1,578,939	**700,000**	700,000
Within a period of more than one year but not exceeding two years	**598,996**	–	**598,996**	–
Within a period of more than two years but not exceeding five years	**863,664**	1,460,052	**863,664**	1,460,052
	2,960,734	3,038,991	**2,162,660**	2,160,052

The amount repayable on demand of the Group was nil as at 31 December 2011 (2010: HK$80,000,000). The term loan as at 31 December 2010 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.

31. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets:

	At 1 January 2010 HK$'000	Effect of change in tax rates charged to income statement HK$'000	Deferred tax credited/ (charged) to income statement HK$'000	**At 31 December 2010 and 1 January 2011 HK$'000**	**Effect of change in tax rates charged to income statement HK$'000**	**Deferred tax credited/ (charged) to income statement HK$'000**	**At 31 December 2011 HK$'000**
Impairment allowances for loans and advances and receivables	8,218	71	1,405	**9,694**	**–**	**11,596**	**21,290**
Recoverable tax loss	7,774	–	(6,939)	**835**	**–**	**(545)**	**290**
Unrealised profit in inventories	242	–	(21)	**221**	**–**	**(221)**	**–**
Decelerated tax depreciation of property and equipment	–	–	60	**60**	**–**	**(30)**	**30**
	16,234	71	(5,495)	**10,810**	**–**	**10,800**	**21,610**

Deferred tax liabilities:

	At 1 January 2010 HK$'000	Effect of change in tax rates charged to income statement HK$'000	Deferred tax charged to income statement HK$'000	**At 31 December 2010 and 1 January 2011 HK$'000**	**Effect of change in tax rates charged to income statement HK$'000**	**Deferred tax charged to income statement HK$'000**	**At 31 December 2011 HK$'000**
Accelerated tax depreciation and revaluation surplus of investment properties	21,562	111	1,492	**23,165**	**74**	**6,345**	**29,584**

31. DEFERRED TAX (Continued)

Company

Deferred tax assets:

	At 1 January 2010 HK$'000	Deferred tax charged to income statement HK$'000	**At 31 December 2010 and 1 January 2011 HK$'000**	**Deferred tax charged to income statement HK$'000**	**At 31 December 2011 HK$'000**
Recoverable tax loss	2,129	(2,110)	**19**	**(10)**	**9**

Deferred tax liabilities:

	At 1 January 2010 HK$'000	Deferred tax charged to income statement HK$'000	**At 31 December 2010 and 1 January 2011 HK$'000**	**Deferred tax charged to income statement HK$'000**	**At 31 December 2011 HK$'000**
Accelerated tax depreciation and revaluation surplus of investment properties	19,227	8,910	**28,137**	**8,673**	**36,810**

The Group has tax losses arising in Hong Kong of HK$36,494,000 (2010: HK$36,524,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have incurred losses for some time and it is not considered probable that taxable profit will be available against which tax losses can be utilised.

There are no significant income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. OTHER LIABILITIES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Creditors, accruals and interest payable	**444,402**	428,909	**5,252**	4,968

33. SHARE CAPITAL

	2011	2010
	HK$'000	HK$'000
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
1,097,917,618 (2010: 1,097,917,618) ordinary shares of HK$0.10 each	**109,792**	109,792

34. 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. Each share option gives the holder the right to subscribe for one ordinary share. 65,976,000 share options were accepted by the directors and employees of the Group. The Group is not legally bound or obliged to repurchase or settle the options in cash.

Pursuant to the terms of the ESOS, an adjustment was required to be made to the exercise price and/or the number of shares falling to be issued upon exercise of the outstanding share options as a result of a rights issue. After the completion of the one for two rights issue in April 2006, the exercise price of the outstanding share options was adjusted from HK$7.29 per share to HK$6.35 per share on 14 June 2006 and there was no adjustment to the number of shares falling to be issued.

34. SHARE OPTION SCHEME (Continued)

Particulars in relation to the ESOS of the Company that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and HKAS 19 "Employee Benefits" are as follows:

(a) Summary of the ESOS

Purpose	:	To attract, retain and motivate talented eligible participants.
Participants	:	Eligible participants include: (i) any employee and director of the Company or any subsidiary or any associate or controlling shareholder; (ii) any discretionary trust whose discretionary objects include person(s) belonging to the aforesaid participants; (iii) a company beneficially owned by person(s) belonging to the aforesaid participants; and (iv) any business partner, agent, consultant, representative, customer or supplier of any member of the Group or controlling shareholder determined by the board of directors as having contributed or may contribute to the development and growth of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of this annual report	:	109,389,661 ordinary shares which represent 9.96% of the issued share capital.
Maximum entitlement of each participant	:	Shall not exceed 1% of the ordinary shares of the Company in issue in the 12-month period up to and including the date of grant.
Period within which the ordinary shares must be taken up under an option	:	Exercisable within open exercise periods determined by the board of directors within 10 years from the commencement date on which the option is granted and accepted.
Amount payable on acceptance	:	HK$1.00
Basis of determining the exercise price	:	Determined by the directors at their discretion based on the highest of: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date; (ii) the average closing price of the ordinary shares on the Stock Exchange for 5 business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
Vesting condition	:	Nil, subject to open exercise periods to be determined by the board of directors or the Share Option Committee.
The remaining life of the ESOS	:	The ESOS remains in force until 27 February 2012.

34. SHARE OPTION SCHEME (Continued)
(b) Movement of share options

	2011 Number of share options				
Name	**Outstanding at the beginning of the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at the end of the year**	**Exercise price HK$**
Directors					
Tan Yoke Kong	**1,318,000**	**–**	**–**	**1,318,000**	**6.35**
Lee Huat Oon	**3,170,000**	**–**	**–**	**3,170,000**	**6.35**
Tan Sri Dato' Sri Tay Ah Lek	**1,230,000**	**–**	**–**	**1,230,000**	**6.35**
Dato' Chang Kat Kiam	**1,380,000**	**–**	**–**	**1,380,000**	**6.35**
Lee Chin Guan	**350,000**	**–**	**–**	**350,000**	**6.35**
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	**21,061,000**	**–**	**2,096,000**	**18,965,000**	**6.35**
	28,509,000	**–**	**2,096,000**	**26,413,000**	**6.35**

	2010 Number of share options				
Name	Outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Outstanding at the end of the year	Exercise price HK$
Directors					
Tan Yoke Kong	1,318,000	–	–	1,318,000	6.35
Lee Huat Oon	3,170,000	–	–	3,170,000	6.35
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	–	–	1,230,000	6.35
Dato' Chang Kat Kiam	1,380,000	–	–	1,380,000	6.35
Lee Chin Guan	350,000	–	–	350,000	6.35
Employees working under "continuous contracts" for the purposes of the Employment Ordinance other than the directors as disclosed above	21,877,000	–	816,000	21,061,000	6.35
	29,325,000	–	816,000	28,509,000	6.35

34. SHARE OPTION SCHEME (Continued)

(b) Movement of share options (Continued)

Notes:

(i) 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.

(ii) There was no open exercise period during the years 2011 and 2010.

(iii) There were no options granted during the years 2011 and 2010.

(iv) The remaining contractual life of the 26,413,000 (2010: 28,509,000) outstanding options was 3.44 (2010: 4.44) years as at 31 December 2011.

(v) The share options outstanding as at the end of 2011 and 2010 could only be exercised in future open exercise periods.

(c) Had all the outstanding share options been fully exercised on 30 December 2011, the last trading date of 2011, the Group would have received proceeds of HK$167,722,550 (2010: HK$181,032,150). The market value of the shares issued based on the closing price of HK$3.47 (2010: HK$5.64) per share on that date would have been HK$91,653,110 (2010: HK$160,790,760). The directors and employees concerned under the ESOS would have made no gain from the exercise of the share options (2010: Nil).

35. EMPLOYEE SHARE-BASED COMPENSATION RESERVE

	Group	
	2011	2010
	HK$'000	HK$'000
Employee share option benefits	**45,765**	45,765

There was no movement in the reserve for the years ended 31 December 2011 and 2010.

36. RESERVES

Group

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	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 (note 13)	–	–	–	–	–	(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 year	**–**	**–**	**–**	**–**	**–**	**374,869**	**–**	**374,869**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**17,240**	**17,240**
Transfer from retained profits	**–**	**–**	**–**	**–**	**86,171**	**(86,171)**	**–**	**–**
Dividends for 2011 (note 13)	**–**	**–**	**–**	**–**	**–**	**(175,667)**	**–**	**(175,667)**
At 31 December 2011	**4,013,296**	**829**	**96,116**	**45,765**	**408,495**	**1,542,081**	**65,425**	**6,172,007**

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2010	4,013,344	829	194,176	45,765	1,114,572	5,368,686
Dividends for 2010 (note 13)	–	–	–	–	(230,563)	(230,563)
Profit for the year	–	–	–	–	216,069	216,069
At 31 December 2010 and 1 January 2011	**4,013,344**	**829**	**194,176**	**45,765**	**1,100,078**	**5,354,192**
Dividends for 2011 (note 13)	**–**	**–**	**–**	**–**	**(175,667)**	**(175,667)**
Profit for the year	**–**	**–**	**–**	**–**	**225,462**	**225,462**
At 31 December 2011	**4,013,344**	**829**	**194,176**	**45,765**	**1,149,873**	**5,403,987**

36. RESERVES (Continued)

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation in September 1991 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Deducted from the contributed surplus of the Group as at 31 December 2011 was positive goodwill of HK$98,406,000 (2010: HK$98,406,000), which arose from the acquisition of certain subsidiaries in prior years.

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 31 December 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.

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**8,002**	5,951	**44,446**	17,059
In the second to fifth years, inclusive	**2,805**	4,107	**12,680**	8,300
	10,807	10,058	**57,126**	25,359

(b) As lessee

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

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**42,606**	41,839	**–**	–
In the second to fifth years, inclusive	**32,350**	22,521	**–**	–
	74,956	64,360	**–**	–

38. 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 year:

Group

	2011				
	Contractual amount HK$'000	Credit equivalent amount HK$'000	Credit risk-weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	184,720	184,720	24,824	–	–
Transaction-related contingencies	19,554	9,777	272	–	–
Trade-related contingencies	152,314	30,463	28,166	–	–
Forward forward deposits placed	66,200	66,200	13,240	–	–
Forward asset purchases	5,233	5,233	1,047	–	–
	428,021	296,393	67,549	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	906,270	10,458	92	3,220	2,051
Interest rate swaps	–	–	–	–	–
	906,270	10,458	92	3,220	2,051
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	134,394	67,197	67,197	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,054,708	–	–	–	–
	4,523,393	374,048	134,838	3,220	2,051
Capital commitments contracted for, but not provided in the financial statements	11,264				

38. OFF-BALANCE SHEET EXPOSURE (Continued)

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

Group

	2010				
	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 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				

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

38. OFF-BALANCE SHEET EXPOSURE (Continued)

(b) Derivative financial instruments

The Group uses the following derivative financial instruments:

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

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

39. RELATED PARTY TRANSACTIONS

During the year, 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:

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Related party transactions included in the consolidated income statement:			
Interest income from the ultimate holding company	(a)	**2**	1,311
Rental income from the ultimate holding company	(b)	**–**	20
Interest paid and payable to fellow subsidiaries and an affiliated company	(c)&(i)	**18,032**	9,770
Deposit interest and commitment fee paid to the ultimate holding company	(c)	**5,924**	1,574
Key management personnel compensation:	(d)		
– short term employee benefits		**7,639**	7,213
– post-employment benefits		**409**	384
		8,048	7,597
Interest income received from key management personnel	(e)	**12**	9
Interest expense paid to key management personnel	(f)	**3**	47
Commission fee income from key management personnel	(g)	**15**	17
Post-employment benefits for employees other than key management personnel	(h)	**17,837**	16,212

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(a)	**6,291**	13,070
Deposits from the ultimate holding company, the fellow subsidiaries and an affiliated company	(c)	**1,909,275**	697,065
Bank loan from a fellow subsidiary	(i)	**700,000**	700,000
Interest payable to the ultimate holding company, the fellow subsidiaries and an affiliated company	(c)&(i)	**813**	521
Loans to key management personnel	(e)	**540**	634
Deposits from key management personnel	(f)	**3,867**	4,610

39. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) The Group placed deposits with Public Bank, the ultimate holding company, at prevailing market rates. Interest income was received/receivable by the Group for the year from Public Bank in respect of the placements which was included in cash and short term placements in the consolidated statement of financial position.

(b) Rental income was derived from property rented to Public Bank as its office under a lease arrangement which was extended from 1 January 2010 to 17 January 2010 charged pro-rata on the monthly rental of HK$35,775.

(c) Fixed deposits were also accepted from PB Trust (L) Ltd ("PB Trust"), Public Bank and an affiliated company in the ordinary course of business by Public Bank (Hong Kong). Interest was paid/payable to PB Trust, Public Bank and the affiliated company by Public Bank (Hong Kong) in respect of the placements. Balances of the said fixed deposits accepted from PB Trust, Public Bank and the affiliated company and interest payable were included in customer deposits, deposits from banks and financial institutions and other liabilities, respectively, in the consolidated statement of financial position. Interest was also paid/payable to Public Bank (L) Ltd, a fellow subsidiary, for the year for a loan granted to the Group and interest payable was included in other liabilities in the consolidated statement of the position.

During the year, commitment fee was paid/payable to Public Bank in order to obtain standby facilities from Public Bank to Public Bank (Hong Kong) and Public Finance.

(d) Further details of the post-employment benefits and directors' remuneration are included in notes 7 and 9 to the financial statements, respectively.

(e) The balance represented a mortgage loan granted to a director of Public Finance and a tax loan and credit card receivables due from directors of Public Bank (Hong Kong). Interest income was received in respect of the mortgage loan and tax loan.

(f) During the year, fixed deposits and deposits to savings accounts were accepted from a director of Public Bank (Hong Kong). Interests were paid to the director.

(g) Commission income was received from key management personnel of the Group for securities dealings through the Group companies.

(h) The Group's post-employment benefit plan for the benefits of employees was detailed in note 7 to the financial statements.

(i) During the year, a bank loan was borrowed from Public Bank (L) Ltd. Interest was paid/payable to Public Bank (L) Ltd for the year by the Group and interest payable was included in other liabilities in the consolidated statement of financial position.

In addition, certain banking facilities of the Group are supported by letters of comfort issued by the ultimate holding company.

40. 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.

Group

	2011			2010		
	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	**4,575,282**	**4,575,282**	**–**	6,021,365	6,021,365	–
Placements with banks and financial institutions maturing after one month but not more than twelve months	**513,527**	**513,527**	**–**	723,715	723,715	–
Derivative financial instruments	**3,220**	**3,220**	**–**	10,167	10,167	–
Loans and advances and receivables	**27,575,499**	**27,575,499**	**–**	26,817,872	26,817,872	–
Available-for-sale financial assets	**6,804**	**6,804**	**–**	6,804	6,804	–
Held-to-maturity investments	**3,421,503**	**3,421,169**	**(334)**	2,709,776	2,708,954	(822)
Other assets	**105,884**	**105,884**	**–**	263,731	263,731	–
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	**1,246,092**	**1,246,092**	**–**	680,382	680,382	–
Derivative financial instruments	**2,051**	**2,051**	**–**	5,435	5,435	–
Customer deposits at amortised cost	**28,334,785**	**28,334,785**	**–**	29,670,825	29,670,825	–
Certificates of deposit issued at amortised cost	**513,315**	**513,315**	**–**	200,000	200,000	–
Unsecured bank loans at amortised cost	**2,960,734**	**2,960,734**	**–**	3,038,991	3,038,991	–
Other liabilities	**444,402**	**444,402**	**–**	428,909	428,909	–
Total unrecognised loss			**(334)**			(822)

(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.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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 inputs 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:

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets:				
Derivative financial instruments	**–**	**3,220**	**–**	**3,220**
Available-for-sale financial assets	**–**	**–**	**6,804**	**6,804**
	–	**3,220**	**6,804**	**10,024**
Financial liabilities:				
Derivative financial instruments	**–**	**2,051**	**–**	**2,051**

	2010			
	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

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

The movements in fair value measurement in Level 3 during the year are as follows:

	2011 HK$'000	2010 HK$'000
Available-for-sale financial assets:		
At 1 January	**6,804**	6,804
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased recognised in the consolidated income statement	**34,157**	–
Disposals	**(34,157)**	–
At 31 December	**6,804**	6,804

For the years ended 31 December 2011 and 2010, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

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

There were no financial assets and financial liabilities that offset against each other as at 31 December 2011 and 2010.

41. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows an analysis of financial assets and financial liabilities analysed by principal according to the period that they are expected to be recovered or settled. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 42 to the financial statements.

Group

	2011							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	1,030,256	3,545,026	–	–	–	–	–	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	310,526	203,001	–	–	–	513,527
Loans and advances and receivables	484,465	961,726	1,819,034	3,250,393	8,048,363	13,084,580	122,909	27,771,470
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	2,597,828	811,216	9,991	2,468	–	–	3,421,503
Other assets	143	56,528	667	1,930	–	–	46,616	105,884
Foreign exchange contracts (gross)	–	783,428	80,699	42,143	–	–	–	906,270
Net interest rate swaps	–	–	–	–	–	–	–	–
Total financial assets	1,514,864	7,944,536	3,022,142	3,507,458	8,050,831	13,084,580	176,329	37,300,740
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	48,414	935,062	167,616	95,000	–	–	–	1,246,092
Customer deposits at amortised cost	6,070,069	10,514,240	8,982,624	2,665,694	102,158	–	–	28,334,785
Certificates of deposit issued at amortised cost	–	–	413,845	99,470	–	–	–	513,315
Unsecured bank loans at amortised cost	–	–	–	1,498,074	1,462,660	–	–	2,960,734
Other liabilities	1,727	192,375	35,695	15,693	4,902	–	194,010	444,402
Foreign exchange contracts (gross)	–	782,021	80,849	42,231	–	–	–	905,101
Total financial liabilities	6,120,210	12,423,698	9,680,629	4,416,162	1,569,720	–	194,010	34,404,429

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

Group

	2010							
	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

42. 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.

Interest rate risk exposures in the banking book:

The relevant interest rate risk arises from repricing risk and basis risk.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Repricing risk is one of the sources of interest rate risk which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase/decrease by 200 basis points and the positive net interest gap be HK$1,202 million (2010: HK$1,337 million) up to 12 months, profit before tax in 2011 would increase/decrease by HK$48 million or 0.77% of equity (2010: HK$35 million or 0.57% of equity). Profit before tax would increase/decrease by HK$54 million or 0.85% of equity (2010: HK$37 million or 0.62% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$3,035 million (2010: HK$3,086 million) up to five years, the economic value would increase positively by HK$42 million (2010: HK$56 million).

Basis risk is one of the sources of interest rate risk which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for the sensitivity analysis:

(i) Interest rates on managed-rate assets would decrease by 200 basis points whilst interest rates on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK$225 million or 3.58% of equity (2010: HK$270 million or 4.45% of equity) for the year ended 31 December 2011. Profit before tax would decrease by HK$236 million or 3.76% of equity (2010: HK$238 million or 3.92% of equity) for the next 12 months after the reporting date.

(ii) Interest rates on interest-bearing assets and liabilities, except for interest rates on fixed rate assets and managed-rate assets, would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK$354 million or 5.63% of equity (2010: HK$430 million or 7.09% of equity) for the year ended 31 December 2011. Profit before tax would decrease by HK$349 million or 5.56% of equity (2010: HK$389 million or 6.42% of equity) for the next 12 months after the reporting date.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Market risk management (Continued)

(a) Interest rate risk (Continued)

The carrying amounts, or notional amounts if applicable, of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2011 and 2010 are detailed as follows:

Group

	2011							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	3,545,026	-	-	-	-	-	1,030,256	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	513,527	-	-	-	-	-	-	513,527
Derivative financial instruments	-	-	-	-	-	-	3,220	3,220
Loans and advances and receivables	2,315,350	1,051,257	593,197	245,499	42,933	63,677	132,801	4,444,714
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	3,419,035	2,468	-	-	-	-	-	3,421,503
Interest rate swap (notional amount)	-	-	-	-	-	-	-	-
	9,792,938	1,053,725	593,197	245,499	42,933	63,677	1,173,081	12,965,050
Floating rate financial assets								
Loans and advances and receivables	23,232,472	-	-	-	-	-	94,284	23,326,756
Held-to-maturity investments	-	-	-	-	-	-	-	-
	23,232,472	-	-	-	-	-	94,284	23,326,756
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	1,197,678	-	-	-	-	-	48,414	1,246,092
Certificate of deposit issued at amortised cost	513,315	-	-	-	-	-	-	513,315
Derivative financial instruments	-	-	-	-	-	-	2,051	2,051
Customer deposits at amortised cost	22,368,157	91,677	7,343	204	2,934	-	-	22,470,315
	24,079,150	91,677	7,343	204	2,934	-	50,465	24,231,773
Floating rate financial liabilities								
Customer deposits at amortised cost	4,783,568	-	-	-	-	-	1,080,902	5,864,470
Unsecured bank loans at amortised cost	2,960,734	-	-	-	-	-	-	2,960,734
Interest rate swap (notional amount)	-	-	-	-	-	-	-	-
	7,744,302	-	-	-	-	-	1,080,902	8,825,204
Total interest sensitivity gap	1,201,958	962,048	585,854	245,295	39,999	63,677	135,998	3,234,829

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

Group

	2010							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short term placements	5,336,662	–	–	–	–	–	684,703	6,021,365
Placements with banks and financial institutions maturing after one month but not more than twelve months	723,715	–	–	–	–	–	–	723,715
Derivative financial instruments	–	–	–	–	–	–	10,167	10,167
Loans and advances and receivables	2,295,405	1,082,033	571,325	193,241	39,707	36,474	135,449	4,353,634
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	2,659,962	–	2,359	–	–	–	–	2,662,321
Interest rate swap (notional amount)	200,000	–	–	–	–	–	–	200,000
	11,215,744	1,082,033	573,684	193,241	39,707	36,474	837,123	13,978,006
Floating rate financial assets								
Loans and advances and receivables	22,564,871	–	–	–	–	–	104,241	22,669,112
Held-to-maturity investments	47,455	–	–	–	–	–	–	47,455
	22,612,326	–	–	–	–	–	104,241	22,716,567
Less:								
Liabilities:								
Fixed rate financial liabilities								
Deposits and balances of banks and other financial institutions at amortised cost	561,132	–	–	–	–	–	119,250	680,382
Certificate of deposit issued at amortised cost	200,000	–	–	–	–	–	–	200,000
Derivative financial instruments	–	–	–	–	–	–	5,435	5,435
Customer deposits at amortised cost	22,879,752	136,372	2,204	–	195	–	–	23,018,523
	23,640,884	136,372	2,204	–	195	–	124,685	23,904,340
Floating rate financial liabilities								
Customer deposits at amortised cost	5,611,651	–	–	–	–	–	1,040,651	6,652,302
Unsecured bank loans at amortised cost	3,038,991	–	–	–	–	–	–	3,038,991
Interest rate swap (notional amount)	200,000	–	–	–	–	–	–	200,000
	8,850,642	–	–	–	–	–	1,040,651	9,891,293
Total interest sensitivity gap	1,336,544	945,661	571,480	193,241	39,512	36,474	(223,972)	2,898,940

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk management (Continued)

(a) Interest rate risk (Continued)

The table below summarises the effective average interest rates as at 31 December for monetary financial instruments:

	Group	
	2011	2010
	Rate	Rate
	%	%
Assets		
Cash and short term placements	**1.00**	0.55
Placements with banks and financial institutions	**4.74**	1.25
Loans and advances and receivables (including trade bills)	**5.50**	5.31
Held-to-maturity investments	**1.66**	1.99
Liabilities		
Deposits and balances of banks and other financial institutions at amortised cost	**0.79**	0.48
Customer deposits at amortised cost	**1.44**	1.01
Certificates of deposit issued at amortised cost	**1.06**	0.73
Unsecured bank loans at amortised cost	**1.73**	1.30

(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 limited foreign currency risk as the Group's assets and liabilities are mainly denominated in Hong Kong dollars ("HKD") and United States dollars ("USD"), except for net structural position of Renminbi ("RMB") denominated operating capital.

At 31 December 2011, if RMB had strengthened or weakened by 100 basis points against HKD with all other variables held constant, the Group's equity would have increased or decreased by HK$6 million (2010: HK$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

42. 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 the established credit policies and procedures are complied with.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management (Continued)

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 the "special mention" grade for management oversight.

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 collaterals such as cash, properties, taxi licences and vehicles and securities.

The "Neither past due nor impaired loans and advances and receivables" are shown in note 17 to the financial statements.

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

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Credit related contingent liabilities	**356,588**	365,331
Loan commitments and other credit related commitments	**3,189,102**	4,427,072

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flows, is as follows:

Group

	2011							
	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
Forward assets purchase	-	5,233	-	-	-	-	-	5,233
Forward Forward Deposits Placed	-	23,010	43,190	-	-	-	-	66,200
Foreign currency contracts (gross)	-	782,021	80,849	42,231	-	-	-	905,101
Credit related contingent liabilities	114,619	14,081	59,817	168,067	4	-	-	356,588
Loan commitments and other credit related commitments	2,527,659	491,434	35,615	-	134,394	-	-	3,189,102
Customer deposits at amortised cost	6,071,298	10,537,299	9,028,281	2,699,761	112,255	-	-	28,448,894
Deposits and balances of banks and other financial institutions at amortised cost	48,414	936,579	167,997	95,426	-	-	-	1,248,416
Certificates of deposit issued at amortised cost	-	-	417,184	100,000	-	-	-	517,184
Unsecured bank loans at amortised cost	-	-	-	1,515,979	1,510,094	-	-	3,026,073
Other liabilities	-	170,053	-	-	-	-	194,010	364,063
	8,761,990	12,959,710	9,832,933	4,621,464	1,756,747	-	194,010	38,126,854

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
Liquidity risk management (Continued)

Group

	2010							
	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
Forward assets purchase	–	9,356	–	–	–	–	–	9,356
Foreign currency contracts (gross)	–	568,229	6,281	–	–	–	–	574,510
Credit related contingent liabilities	80,653	35,790	49,201	193,683	6,004	–	–	365,331
Loan commitments and other credit related commitments	2,707,238	1,339,303	114,746	67,281	198,504	–	–	4,427,072
Customer deposits at amortised cost	6,553,492	11,296,724	9,308,584	2,450,310	146,789	–	–	29,755,899
Deposits and balances of banks and other financial institutions at amortised cost	199,252	291,397	115,212	75,115	–	–	–	680,976
Certificates of deposit issued at amortised cost	–	–	201,600	–	–	–	–	201,600
Unsecured bank loans at amortised cost	80,020	–	–	1,507,054	1,461,641	–	–	3,048,715
Other liabilities	–	213,851	–	–	–	–	168,898	382,749
	9,620,655	13,754,650	9,795,624	4,293,443	1,812,938	–	168,898	39,446,208

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, 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 the monitoring and control of operational risk.

42. 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 subordinated 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

	2011	2010
Group:		
Consolidated capital adequacy ratio	**12.7%**	11.9%
Consolidated core capital ratio	**11.7%**	11.0%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	**19.4%**	18.8%
Consolidated core capital ratio	**18.4%**	17.7%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 January 2012.

Supplementary Financial Information (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

Group

	31 December 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	556,884	332	281	196	970	486,341	87.3	281	281
Building and construction, property development and investment									
Property development	491,638	281	-	-	-	42,890	8.7	-	-
Property investment	6,174,634	3,526	-	-	-	5,604,306	90.8	-	-
Civil engineering works	112,686	62	-	-	-	23,028	20.4	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	1,788	1	-	-	-	1,737	97.1	-	-
Information technology	29,973	17	-	-	-	1,953	6.5	-	-
Wholesale and retail trade	104,614	69	-	84	89	91,146	87.1	-	-
Transport and transport equipment	4,105,536	2,059	538	314	1,931	4,033,749	98.3	572	365
Hotels, boarding houses and catering	335,292	192	-	-	-	36,002	10.7	-	-
Financial concerns	672,015	397	-	199	-	647,012	96.3	-	-
Stockbrokers									
Margin lending	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	32,781	19	-	-	-	2,233	6.8	-	-
Others	31,898	18	-	-	-	31,898	100.0	-	-
Professional & 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	149,679	85	-	-	-	149,679	100.0	290	-
Loans for the purchase of other residential properties	7,984,157	4,267	-	-	-	7,909,549	99.1	2,208	2,208
Loans for credit card advances	16,764	10	41	455	428	-	-	41	41
Loans for other business purposes	1,607	1	-	1	-	841	52.3	-	-
Loans for other private purposes	3,980,569	11,925	89,785	455,106	456,596	178,454	4.5	134,057	99,662
Trade finance	480,696	275	-	393	12,838	368,078	76.6	-	-
Other loans and advances	96,732	55	-	-	-	79,953	82.7	-	-
Sub-total	25,359,943	23,591	90,645	456,748	472,852	19,688,849	77.6	137,449	102,557
Loans and advances for use outside Hong Kong	2,261,563	6,187	73,575	30,689	15,348	1,315,658	58.2	138,641	138,641
Total loans and advances (excluding trade bills and other receivables)	27,621,506	29,778	164,220	487,437	488,200	21,004,507	76.0	276,090	241,198

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

Group

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.

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:

Group

	On-balance sheet exposure HK$'million	**Off-balance sheet exposure HK$'million**	**Total exposure HK$'million**	**Individual impairment allowance HK$'million**
As at 31 December 2011				
Mainland China entities	**1,315**	**28**	**1,343**	**74**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**573**	**46**	**619**	**–**
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	**–**	**–**	**–**	**–**
	1,888	**74**	**1,962**	**74**

Group

	On-balance sheet exposure HK$'million	Off-balance sheet exposure HK$'million	Total exposure 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

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.

Group

	Banks and other financial institutions HK$'million	**Public sector entities HK$'million**	**Others HK$'million**	**Total HK$'million**
As at 31 December 2011				
1. Asia Pacific excluding Hong Kong,				
of which:	**3,140**	**120**	**475**	**3,735**
China	**1,163**	**120**	**231**	**1,514**
Japan	**666**	**–**	**–**	**666**
Malaysia	**749**	**–**	**103**	**852**
2. Western Europe	**2,538**	**–**	**33**	**2,571**

Group

	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

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:

Group

	Spot assets HK$'million	**Spot liabilities HK$'million**	**Forward purchases HK$'million**	**Forward sales HK$'million**	**Net short position HK$'million**	**Structural assets HK$'million**
As at 31 December 2011						
RMB	**907**	**963**	**–**	**–**	**(56)**	**617**
Others	**5,702**	**5,656**	**597**	**655**	**(12)**	**–**
	6,609	**6,619**	**597**	**655**	**(68)**	**617**

Group

	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						
USD	2,913	3,033	250	119	11	–
RMB	222	225	–	–	(3)	590
Others	2,067	2,106	290	257	(6)	–
	5,202	5,364	540	376	2	590

LIQUIDITY RATIOS

	2011	2010
Average liquidity ratios for the year:		
Public Bank (Hong Kong)	**39.4%**	43.5%
Public Finance	**71.6%**	115.9%

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 year.

CAPITAL DISCLOSURES

The components of the Group's total capital base include the following items:

Group

	2011 HK$'000	2010 HK$'000
Core capital:		
Paid up ordinary share capital	**109,792**	109,792
Share premium account	**4,013,296**	4,013,296
Published reserves	**1,332,447**	1,223,933
Consolidated income statement	**165,001**	177,442
Deduct:		
Goodwill	**(2,774,403)**	(2,774,403)
Net deferred tax assets	**–**	–
Core capital before deductions	**2,846,133**	2,750,060
Less: Deductions from shareholdings in subsidiaries	**(33,053)**	(33,749)
Other deductions	**(31,148)**	(40,253)
Total core capital after deductions	**2,781,932**	2,676,058
Supplementary capital:		
Regulatory reserve	**269,186**	273,610
Collective impairment allowances	**29,796**	32,876
Supplementary capital before deductions	**298,982**	306,486
Less: Deductions from shareholdings in subsidiaries	**(33,053)**	(33,749)
Other deductions	**(31,148)**	(40,253)
Total supplementary capital after deductions	**234,781**	232,484
Capital base	**3,016,713**	2,908,542

CAPITAL DISCLOSURES (Continued)

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.

Group

	2011					
	Exposures*			Risk-weighted amounts		
Class of exposures	**Rated#**	**Unrated**	**Total**	**Rated**	**Unrated**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
On-balance sheet:						
Sovereign	2,102,494	–	2,102,494	–	–	–
Public sector entity	–	222,914	222,914	–	44,583	44,583
Bank	6,235,642	5,682	6,241,324	1,404,870	1,136	1,406,006
Securities firm	–	9,647	9,647	–	4,824	4,824
Corporate	49,879	6,095,610	6,145,489	49,879	6,095,610	6,145,489
Cash items	–	1,060,837	1,060,837	–	161,485	161,485
Regulatory retail	–	8,559,587	8,559,587	–	6,419,691	6,419,691
Residential mortgage	–	10,529,716	10,529,716	–	4,614,978	4,614,978
Past due exposures	–	122,717	122,717	–	183,073	183,073
Other non-past due exposures	–	1,938,014	1,938,014	–	1,938,014	1,938,014
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	837,689	837,689	–	92	92
Other off-balance sheet items	–	3,617,123	3,617,123	–	134,746	134,746
	8,388,015	32,999,536	41,387,551	1,454,749	19,598,232	21,052,981

CAPITAL DISCLOSURES (Continued)

Group

	2010					
		Exposures*			Risk-weighted amounts	
Class of exposures	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	1,290,889	–	1,290,889	–	–	–
Public sector entity	–	275,409	275,409	–	55,082	55,082
Bank	7,604,827	476,229	8,081,056	1,703,329	134,223	1,837,552
Securities firm	–	154,423	154,423	–	77,212	77,212
Corporate	500,079	5,827,187	6,327,266	500,079	5,827,187	6,327,266
Cash items	–	736,862	736,862	–	79,367	79,367
Regulatory retail	–	8,422,116	8,422,116	–	6,316,587	6,316,587
Residential mortgage	–	9,802,049	9,802,049	–	4,585,036	4,585,036
Past due exposures	–	154,412	154,412	–	226,730	226,730
Other non-past due exposures	–	2,012,690	2,012,690	–	2,012,691	2,012,691
Off-balance sheet:						
OTC derivative transactions						
– foreign exchange contracts	–	480,047	480,047	–	47	47
Other off-balance sheet items	–	5,001,759	5,001,759	–	180,861	180,861
	9,395,795	33,343,183	42,738,978	2,203,408	19,495,023	21,698,431

The Group did not enter into OTC derivative transactions other than foreign exchange contracts and interest rate swaps and futures with counterparties during 2011 and 2010.

* Principal amount or credit equivalent amount, net of individual impairment allowance before and after credit risk mitigation.

\# Exposures are rated by the Group's External Credit Assessment Institutions ("ECAI"), Moody's, with ECAI issue-specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Banking (Capital) Rules.

CAPITAL DISCLOSURES (Continued)

Group

	2011		2010	
	Risk-weighted exposures HK$'000	**Capital requirements/ charge HK$'000**	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000
Credit risk	**21,052,981**	**1,684,238**	21,698,431	1,735,875
Market risk – foreign exchange exposures	**561,838**	**44,947**	587,600	47,008
Operational risk	**2,303,775**	**184,302**	2,232,838	178,627
Deduction	**(139,310)**	**–**	(48,714)	–
	23,779,284	**1,913,487**	24,470,155	1,961,510

The Group has adopted a standardised approach for the calculation of credit risk-weighted exposures and market risk-weighted exposures. The Group has adopted a basic indicator approach and a standardised approach for the calculation of operational risk-weighted exposures of Public Bank (Hong Kong) and Public Finance, respectively, for the years ended 31 December 2011 and 2010.

List of Properties

LIST OF PROPERTIES OWNED BY THE GROUP AS AT 31 DECEMBER 2011

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2011 (HK$'000)
Shop 7, on Ground Floor Mei Hang Building Nos. 15/17, 21/25, 29/33, 37/41 & 45 Kai Man Path Tuen Mun New Territories Hong Kong	A shop unit on the ground floor of a 5-storey composite building	Public Finance's Tuen Mun Branch	Leasehold 149 Years	36 Years (30-6-2047)	38 Years	84	30-6-1980	1,309
Shop A, on Ground Floor Kong Kai Building No. 184 Aberdeen Main Road Aberdeen Hong Kong	A shop unit on the ground floor of a 22-storey residential building built on a 2-storey commercial podium	Public Finance's Aberdeen Branch	Leasehold 999 Years	848 Years (26-12-2859)	22 Years	68	9-3-1990	3,846
Ground Floor Yue Yee Mansion No. 92 Shung Ling Street San Po Kong Kowloon Hong Kong	Ground floor of a 7-storey Chinese tenement building	Public Finance's San Po Kong Branch	Leasehold 149 Years	36 Years (30-6-2047)	47 Years	94	9-6-1990	2,197
Flat F, 29th Floor Pine Mansion Harbour View Gardens No. 26 Taikoo Wan Road Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 30-storey residential building	Leased to a staff	Leasehold 999 Years	888 Years (18-4-2899)	28 Years	91	3-10-1990 (R)	9,584
Units 1003-1005 10th Floor Fortress Tower No. 250 King's Road North Point Hong Kong	3 office units on the 10th floor of a 20-storey office building built on a 4-storey commercial podium	Public Finance's IT Centre	Leasehold 150 Years	115 Years (26-8-2126)	28 Years	293	18-3-1992	7,704

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2011 (HK$'000)
Apartment A on 14th Floor of Tower II and Car Parking Space Nos. 4 and 66 on 4th Level Regent on The Park No. 9A Kennedy Road Wanchai Hong Kong	A residential unit on the 14th floor of a 34-storey residential building	Staff quarters for the Group	Leasehold 150 Years	119 Years (19-10-2130)	26 Years	253	5-3-1993	8,855
Ground Floor & Open Yard No. 751 Nathan Road Mongkok Kowloon Hong Kong	Ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Prince Edward Branch	Leasehold 150 Years	68 Years (18-8-2079)	41 Years	130	24-5-1993	12,848
11th Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	11th floor of a 31-storey office building built on a 2-storey podium	The Group's office	Leasehold 999 Years	891 Years (14-8-2902)	44 Years	1,464	11-6-1993	88,879
Shop B, Ground Floor and Office B 1st to 17th Floors JCG Building No. 16 Mongkok Road Mongkok Kowloon Hong Kong	A shop unit on the ground floor and all B units on the 1st to 17th floors of a 18-storey commercial building with shops and offices	Public Bank (Hong Kong)'s and Public Finance's Mongkok Branch; the Group's storeroom; office space leased to third parties	Leasehold 150 Years	39 Years (27-5-2050)	24 Years	2,215	30-6-1994 (R)	102,977
Flat F, 24th Floor Ngan Sing Mansion Sing Fai Terrace No. 1 Tai Fung Avenue Taikoo Shing Quarry Bay Hong Kong	A residential unit of a 26-storey residential building built on a podium	Staff quarters for Winton Financial	Leasehold 999 Years	888 Years (18-4-2899)	27 Years	76	1-8-1995	4,520
Ground Floor Ruby Commercial Building No. 480 Nathan Road Yau Ma Tei Kowloon Hong Kong	Ground floor of a 16-storey commercial building	Public Finance's Nathan Road Branch	Leasehold 150 Years	56 Years (22-10-2067)	29 Years	110	14-1-2000	10,036

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2011 (HK$'000)
Shop Nos. 51 to 53 1st Floor Harbour Crystal Centre No. 100 Granville Road Tsimshatsui Kowloon Hong Kong	3 commercial units on the 1st floor of a 16-storey commercial building	Public Finance's Tsimshatsui Branch	Leasehold 150 Years	117 Years (10-12-2128)	29 Years	131	1-11-2000	2,341
Ground Floor Section B of Lot No. 3704 in DD120 Yuen Long New Territories Hong Kong	Ground floor of a 5-storey composite building	Public Finance's Yuen Long Branch	Leasehold 149 Years	36 Years (30-6-2047)	54 Years	102	23-4-2001	13,332
Shop A, Ground Floor Wing On House No. 71 Des Voeux Road Central Central Hong Kong	Ground floor of a 31-storey office building built on a 2-storey podium	Public Bank (Hong Kong)'s Central Branch	Leasehold 999 Years	891 Years (14-8-2902)	44 Years	113	15-10-2003	52,679
Workshops A, B and C Ground Floor and Flat E, 9th Floor Hung Cheong Factory Building No. 742-748 Cheung Sha Wan Road No. 3 Kwong Cheung Street Cheung Sha Wan Kowloon Hong Kong	3 workshop units on the ground floor and a unit on the 9th floor of a 12-storey industrial building	A portion of workshops on the ground floor is leased to third parties and another portion and whole Flat E on the 9th floor being occupied by the Group as office	Leasehold 149 Years	36 Years (27-6-2047)	46 Years	Workshops A, B and C 682 Flat E 68	24-7-1992 (R)	21,159
Workshops E1 and F1 10th Floor Hang Fung Industrial Building Phase 1 2G Hok Yuen Street Hunghom Kowloon Hong Kong	2 workshops on the 10th floor of a 13-storey industrial building	Occupied by the Group as storeroom	Leasehold 150 Years	36 Years (15-9-2047)	32 Years	962	24-7-1992	1,297
11th Floor Argyle Centre, Phase 1 No. 688 Nathan Road No. 65 Argyle Street Mongkok Kowloon Hong Kong	Office space on the 11th floor of a 21-storey commercial building	The Group's office; office space leased to third parties	Leasehold 150 Years	49 Years (18-5-2060)	29 Years	1,465	2-5-1994 (R)	137,016

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2011 (HK$'000)
4th Floor 581 Nathan Road Mongkok Kowloon Hong Kong	4th floor of a 7-storey composite building with shops and residential flats	Leased to third parties	Leasehold 150 Years	26 Years (25-12-2037)	42 Years	55	14-6-1984 (R)	3,500
Unit 3, 5th Floor Telford House No. 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	An office unit on the 5th floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	36 Years (30-6-2047)	17 Years	90	30-5-2006** (R)	6,874
Shop 3C, 1st Floor Telford House 16 Wang Hoi Road Kowloon Bay Kowloon Hong Kong	A shop unit on the 1st floor of a 23-storey commercial building	Leased to third parties	Leasehold 149 Years	36 Years (30-6-2047)	17 Years	47	30-5-2006** (R)	15,927
Ground Floor 17 South Wall Road and the whole block of 19 South Wall Road Kowloon Hong Kong	A shop unit on the ground floor of a 5-storey tenement block and the whole block of a 5-storey tenement block	Public Bank (Hong Kong)'s Kowloon City Branch on the ground floor; and another portion as Public Bank (Hong Kong)'s staff quarters	Leasehold 149 Years	36 Years (30-6-2047)	34 Years	432	30-5-2006**	16,769
Shop 5, Ground Floor Fu Ho Building Nos. 3-7 Kau Yuk Road Yuen Long New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Yuen Long Branch	Leasehold 149 Years	36 Years (30-6-2047)	32 Years	82	30-5-2006**	10,780
Shop B, Ground Floor Victory Court Nos. 185-187 Castle Peak Road Tsuen Wan New Territories Hong Kong	A shop unit on the ground floor of a 14-storey composite building	Public Bank (Hong Kong)'s Tsuen Wan Branch	Leasehold 149 Years	36 Years (30-6-2047)	31 Years	149	30-5-2006**	11,550
Units 801, 808-812 on Level 8 Metroplaza, Tower 2 No. 223 Hing Fong Road Kwai Fong New Territories Hong Kong	6 office units on level 8 of a 35-storey office building on a 9-storey commercial carpark podium	Public Bank (Hong Kong)'s Backup office, Personal Loan Centre and Direct Sales office	Leasehold 149 Years	36 Years (30-6-2047)	19 Years	527	30-5-2006**	19,935

List of Properties

Location	Description	Current Use	Tenure	Remaining Lease Period (Expiry Date)	Age of Property	Built-up Area (sq m)	Date of Last Revaluation/ Acquisition	Carrying Amount as at 31 December 2011 (HK$'000)
Units 1-5, 24th Floor Luen Cheong Can Centre No. 8 Yip Wong Road Tuen Mun New Territories Hong Kong	5 industrial units on the 24th floor of a 26-storey industrial building	Public Bank (Hong Kong)'s warehouse	Leasehold 149 Years	36 Years (30-6-2047)	19 Years	1,053	30-5-2006**	2,225
Basement, Ground Floor 1st-12th Floors, Flats A & B on 14th Floor, 17th Floor Flat A on 19th Floor 21st Floor and Main Roof Public Bank Centre No. 120 Des Voeux Road Central Central Hong Kong	A shop unit on the ground floor and basement and office floors of a 23-storey commercial building	Public Bank (Hong Kong)'s Main Branch and administrative office	Leasehold 999 Years	831 Years (26-6-2842)	34 Years	5,451	30-5-2006**	246,727
Units 40-41, Ground Floor Hung Hom Commercial Centre Nos. 37-39 Ma Tau Wai Road Kowloon Hong Kong	2 shop units on the ground floor of a 14-storey commercial building	Public Bank (Hong Kong)'s Hung Hom Branch	Leasehold 149 Years	36 Years (15-9-2047)	29 Years	184	30-5-2006**	13,700
Shop B1, Ground Floor Hong Kong Plaza Nos. 369-375 Des Voeux Road West Hong Kong	A shop unit on the ground floor of a 42-storey commercial building	Public Bank (Hong Kong)'s Shek Tong Tsui Branch	Leasehold 150 Years (for Lot No. 289)	43 Years (27-12-2054)	28 Years	180	30-5-2006**	13,267
			Leasehold 999 Years (for Lot No. 302)	891 Years (3-9-2902)				
Shop 1, on Level 1, Carrianna Friendship Square Renminnan Road/Chunfeng Road, Luohu District Shenzhen PRC	A shop unit on the ground floor of a 33-storey composite building	Public Bank (Hong Kong)'s Shenzhen Branch	Leasehold 50 Years	30 Years (17-12-2041)	14 Years	168	30-5-2006**	24,064
Shops Nos. 4, 5A, 5B, 6A and 6B on Level 1 of Shatin New Town, Nos.1-15 Wang Pok Street Shatin New Territories Hong Kong	5 shops on level 1 of a commercial podium under eight blocks of 22-storey residential buildings	Public Bank (Hong Kong) and Public Finance's Shatin Branch	Leasehold 149 Years	36 Years (30-6-2047)	28 Years	203	1-12-2008	43,108

Notes:

(R) Revaluation was conducted as at 31 December 2011.

** The acquisition date for those properties vested over from Public Bank (Hong Kong) is 30 May 2006.

The Group holds the land portion of all the properties above by means of leases in the HKSAR.