



大眾金融控股有限公司

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 626



Interim Report

2012

Excellence

is Our Commitment

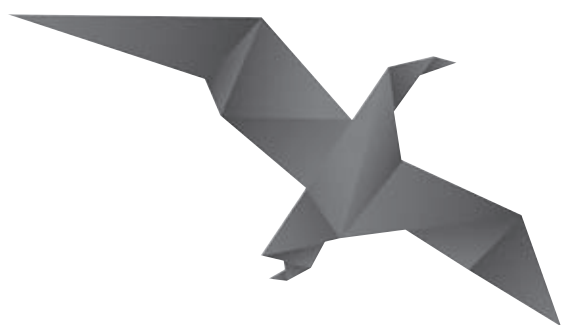


Public Financial Holdings Limited

Interim Report 2012

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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

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120 Des Voeux Road Central
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Website : www.publicfinancial.com.hk

Share Listing

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

Principal Registrar

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

Hong Kong Branch Registrar

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

Auditors

Ernst & Young
Certified Public Accountants

Condensed Consolidated Income Statement

		For the six months ended	
		30 June	
		2012	2011
	Notes	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
			(Restated)
Interest income	6	818,278	775,261
Interest expense	6	(212,392)	(169,658)
NET INTEREST INCOME		605,886	605,603
Other operating income	7	110,249	150,864
OPERATING INCOME		716,135	756,467
Operating expenses	8	(369,825)	(358,964)
Changes in fair value of investment properties		17,520	1,884
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		363,830	399,387
Impairment allowance written back in relation to the Lehman Brothers Minibonds repurchased		–	34,157
		363,830	433,544
Impairment allowances for loans and advances and receivables	9	(155,345)	(178,790)
PROFIT BEFORE TAX		208,485	254,754
Tax	10	(35,703)	(47,299)
PROFIT FOR THE PERIOD		172,782	207,455
ATTRIBUTABLE TO:			
Owners of the Company		172,782	207,455
EARNINGS PER SHARE (HK\$)	12		
Basic		0.157	0.189
Diluted		0.157	0.189

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

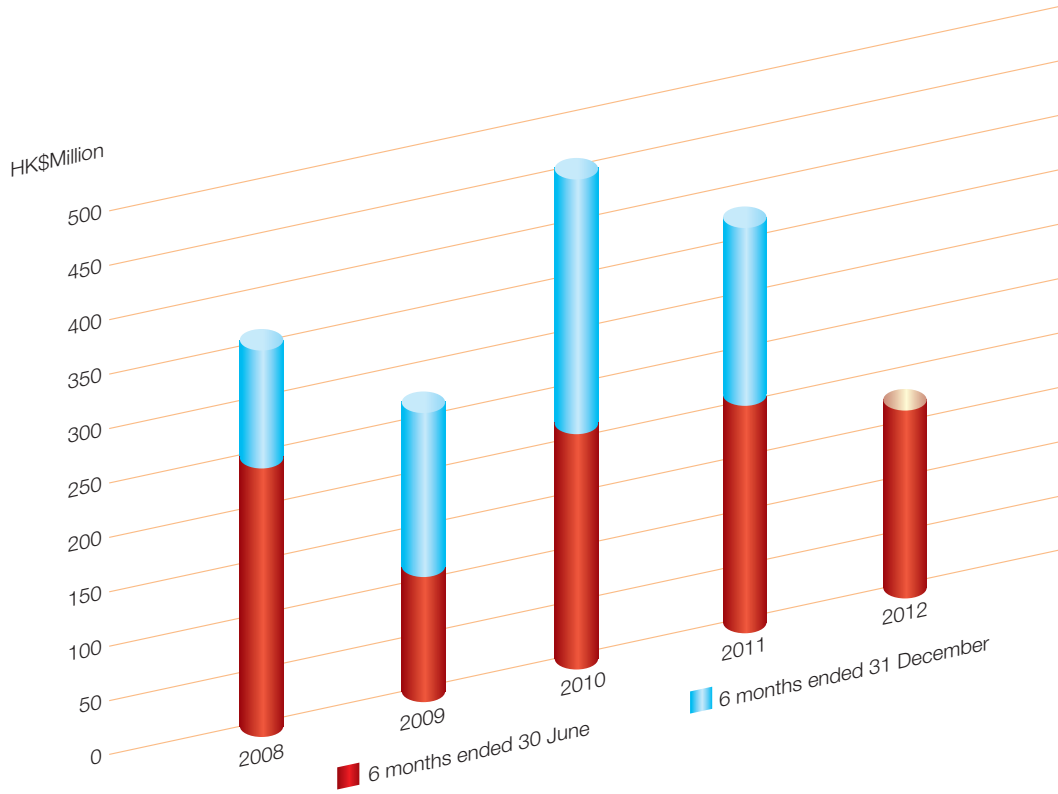
Condensed Consolidated Statement of Comprehensive Income



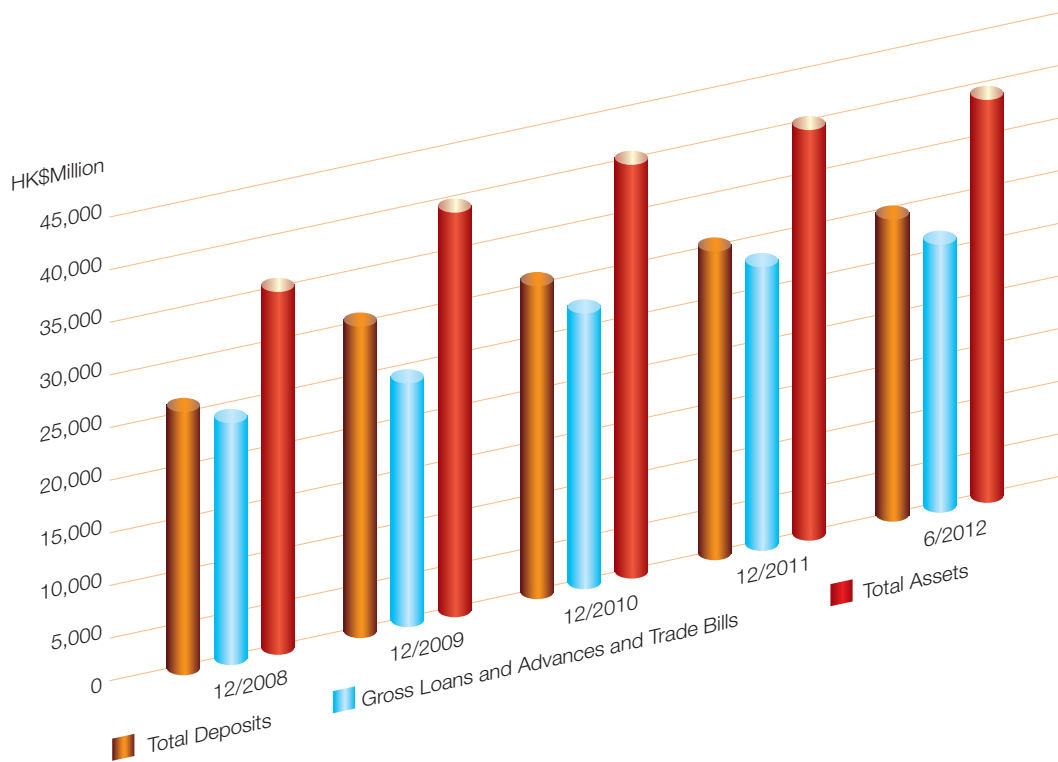
	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
PROFIT FOR THE PERIOD	172,782	207,455
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Exchange (loss)/gain on translating foreign operations, net of tax	<u>(5,920)</u>	<u>12,300</u>
TOTAL COMPREHENSIVE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

Five-year Financial Summary

Profit



Financial Position



Condensed Consolidated Statement of Financial Position



	Notes	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000 (Restated)
ASSETS			
Cash and short term placements	13	4,533,656	4,575,282
Placements with banks and financial institutions maturing after one month but not more than twelve months	14	848,892	513,527
Derivative financial instruments		11,373	3,220
Loans and advances and receivables	15	26,047,508	27,575,499
Available-for-sale financial assets	16	6,804	6,804
Held-to-maturity investments	17	3,841,746	3,421,503
Inventories of taxi licences		2,676	2,676
Investment properties	18	203,245	195,309
Property and equipment	19	111,242	111,517
Land held under finance leases	20	663,279	657,900
Interests in a jointly-controlled entity		1,513	1,513
Deferred tax assets		34,158	21,610
Goodwill		2,774,403	2,774,403
Intangible assets	21	718	718
Other assets	22	138,431	105,884
TOTAL ASSETS		39,219,644	39,967,365
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		816,596	1,246,092
Derivative financial instruments		4,786	2,051
Customer deposits at amortised cost	23	28,471,657	28,334,785
Certificates of deposit issued at amortised cost		154,867	513,315
Dividends payable		54,896	120,771
Unsecured bank loans at amortised cost	24	3,001,048	2,960,734
Current tax payable		28,462	33,832
Deferred tax liabilities	25	20,061	19,599
Other liabilities	26	263,521	444,402
TOTAL LIABILITIES		32,815,894	33,675,581
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	27	6,293,958	6,181,992
TOTAL EQUITY		6,403,750	6,291,784
TOTAL EQUITY AND LIABILITIES		39,219,644	39,967,365

Condensed Consolidated Statement of Changes in Equity

For the six months ended
30 June

2012	2011
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000
	(Restated)

TOTAL EQUITY

Balance at the beginning of the period	6,291,784	6,074,246
Profit for the period	172,782	207,455
Other comprehensive income	(5,920)	12,300
Total comprehensive income for the period	166,862	219,755
Dividends declared on shares	(54,896)	(54,896)
Balance at the end of the period	6,403,750	6,239,105

Condensed Consolidated Statement of Cash Flows



	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	(386,368)	724,444
INVESTING ACTIVITIES	(10,280)	(12,769)
FINANCING ACTIVITIES	(80,457)	(223,501)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(477,105)	488,174
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	7,692,870	8,543,344
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7,215,765	9,031,518
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	666,920	680,655
Money at call and short notice with an original maturity within three months	3,866,736	4,268,620
Placements with banks and financial institutions with an original maturity within three months	537,582	70,000
Held-to-maturity investments with an original maturity within three months	2,144,527	4,012,243
	7,215,765	9,031,518

Notes to Financial Statements

1. Basis of preparation

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

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

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

2. Basis of consolidation

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

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

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

The subsidiaries consolidated for accounting purposes are as follows:

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



3. Basis of capital disclosures

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

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

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

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

4. Accounting policies Changes in accounting policies and disclosures

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Hong Kong (International Financial Reporting Interpretations Committee) Interpretations ("HK(IFRIC)-Int"), which are generally effective for accounting periods beginning on or after 1 January 2012. The Group has adopted the following new and revised HKFRSs and HKAS issued up to 30 June 2012 which are pertinent to its operations and relevant to these financial statements.

- | | |
|----------------------|---|
| • HKFRS 1 Amendment | Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> |
| • HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> |
| • HKAS 12 Amendments | Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> |

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

HKFRS 1 Amendment introduces a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendment also removes the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. As the Group is not a first time adopter of HKFRSs, the amendment has no financial impact on the Group.

HKFRS 7 Amendments require an entity to disclose both quantitative and qualitative information for the derecognition of financial assets where the entity has a continuing involvement in the derecognised assets. As the Group does not have continuing involvement in the derecognised assets, the amendments have no financial impact on the Group.

4. Accounting policies (Continued)

Changes in accounting policies and disclosures (Continued)

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in Hong Kong (Standing Interpretations Committee) Interpretation (“HK(SIC)-Int”) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The effect of the above changes is summarised below:

Previously, the Group measured deferred tax on the fair value gains from its investment properties assuming that the carrying amount of these properties would be recovered through use. The change in accounting policy has been applied retrospectively. It reduced the deferred tax liability and increased the retained earnings by HK\$8.9 million and by HK\$10.0 million as at 1 January 2011 and as at 31 December 2011 respectively.

The effect on the condensed consolidated statement of comprehensive income was that it reduced the tax expense and increased profit for the current period by HK\$2.9 million (six months ended 30 June 2011: HK\$0.3 million). The change in accounting policy had an immaterial impact on the basic and diluted earnings per share for the current and comparative periods.

Impact of issued but not yet effective HKFRSs

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

- HKFRS 1 Amendments Amendments to HKFRS 1 *First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans*²
- HKFRS 7 Amendments Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*²
- HKFRS 9 *Financial Instruments*⁴
- HKFRS 10 *Consolidated Financial Statements*²
- HKFRS 11 *Joint Arrangements*²
- HKFRS 12 *Disclosure of Interests in Other Entities*²
- HKFRS 13 *Fair Value Measurement*²
- HKAS 1 Amendments *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*¹
- HKAS 19 (2011) *Employee Benefits*²
- HKAS 27 (2011) *Separate Financial Statements*²
- HKAS 28 (2011) *Investments in Associates and Joint Ventures*²
- HKAS 32 Amendments Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*³
- HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine*²
- Annual Improvements
2009 – 2011 Cycle Amendments to a number of HKFRSs issued in June 2012²

- 1 effective for annual periods beginning on or after 1 July 2012
2 effective for annual periods beginning on or after 1 January 2013
3 effective for annual periods beginning on or after 1 January 2014
4 effective for annual periods beginning on or after 1 January 2015



4. Accounting policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

HKFRS 1 Amendments add an exception to the retrospective application of HKFRSs to require that first-time adopters apply the requirements in HKFRS 9 *Financial Instruments* and HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to HKFRSs. This means that first-time adopters shall not recognise the corresponding benefit of government loans at a below-market rate of interest as government grants. However, entities may choose to apply the requirements of HKFRS 9 and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time when that loan was initially accounted for. These amendments give first-time adopters the same relief as existing preparers of HKFRS financial statements. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

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

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

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

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

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

4. Accounting policies (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

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

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

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

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

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

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

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

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



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

Annual Improvements 2009 – 2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013 and none of these amendments are expected to have a material financial impact on the Group:

- (a) HKFRS 1 (Revised): It clarifies that an entity that has stopped applying HKFRSs may resume reporting under HKFRSs by either:
 - (i) re-applying HKFRS 1, even if the entity applied HKFRS 1 in a previous reporting period; or
 - (ii) applying HKFRS retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (i.e., as if it had never stopped applying HKFRSs).

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

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

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

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

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

In addition, the opening statement of financial position (the “third balance sheet”) must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications; and that change has a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to accompany the third balance sheet.

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

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

- (d) HKAS 32: It clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*.

The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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

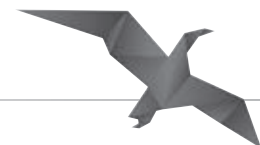
Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable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

5. Segment information Operating segment information

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

- the retail and commercial banking and lending segment mainly comprises the provision of deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management and the overall funding management of the Group;
- the wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and
- other businesses segment comprises taxi trading and the leasing of taxis and letting of investment properties.

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



5. Segment information (Continued) Operating segment information (Continued)

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

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

5. Segment information (Continued)

Operating segment information (Continued)

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

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Segment assets other than interests in a jointly-controlled entity, intangible assets and goodwill	35,903,134	36,718,085	281,930	236,279	207,415	199,034	-	-	36,392,479	37,153,398
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	718	-	-	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	-	-	2,774,403	2,774,403
	38,679,050	39,494,001	282,648	236,997	207,415	199,034	-	-	39,169,113	39,930,032
Unallocated assets: Deferred tax assets and tax recoverable									50,531	37,333
Total assets									39,219,644	39,967,365
Segment liabilities	32,600,300	33,429,739	105,102	64,984	7,073	6,656	-	-	32,712,475	33,501,379
Unallocated liabilities: Deferred tax liabilities and tax payable									48,523	53,431
Dividends payable									54,896	120,771
Total liabilities									32,815,894	33,675,581
Other segment information										
Additions to non-current assets – capital expenditure	11,310	16,668	-	-	-	-	-	-	11,310	16,668



5. Segment information (Continued)

Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets.

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

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Segment revenue from external customers:		
Hong Kong	678,295	730,101
Mainland China	37,840	26,366
	<hr/>	<hr/>
	716,135	756,467
	<hr/>	<hr/>

Segment revenue is allocated to the reportable segments with reference to interest and fees and commission income generated by these segments.

The following table represents non-current assets information for geographical segments as at 30 June 2012 and 31 December 2011.

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

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interests in a jointly-controlled entity, goodwill and intangible assets.

Operating income or revenue from major customers

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

6. Interest income and expense

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

Interest income and interest expense for the six months ended 30 June 2012, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK\$818,278,000 and HK\$212,392,000 (2011: HK\$775,261,000 and HK\$169,658,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2012 amounted to HK\$3,331,000 (2011: HK\$2,577,000).

7. Other operating income

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



7. Other operating income (Continued)

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2012 and 2011.

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

8. Operating expenses

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

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

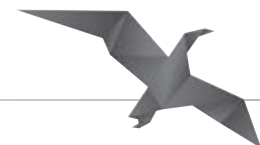
9. Impairment allowances

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

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

10. Tax

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



10. Tax (Continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

For the six months ended 30 June 2012 (Unaudited)						
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	179,408		29,077		208,485	
Tax at the applicable tax rate	29,602	16.5	7,269	25.0	36,871	17.7
Estimated tax losses from previous periods utilised	(1)	-	-	-	(1)	-
Estimated tax effect of net income that is not taxable	(1,029)	(0.6)	(181)	(0.6)	(1,210)	(0.6)
Adjustments in respect of deferred tax of previous periods	(11,000)	(6.1)	-	-	(11,000)	(5.3)
Adjustments in respect of current tax of previous periods	11,043	6.2	-	-	11,043	5.3
Tax charge at the Group's effective rate	28,615	16.0	7,088	24.4	35,703	17.1
For the six months ended 30 June 2011 (Unaudited)						
	Hong Kong		Mainland China		Total	
	HK\$'000 (Restated)	%	HK\$'000	%	HK\$'000 (Restated)	%
Profit before tax	251,568		3,186		254,754	
Tax at the applicable tax rate	41,508	16.5	765	24.0	42,273	16.6
Effect on change in tax rates	-	-	74	2.3	74	-
Estimated tax effect of net expense that is not deductible	2,180	0.9	-	-	2,180	0.9
Adjustments in respect of deferred tax of previous periods	1,920	0.8	-	-	1,920	0.8
Adjustments in respect of current tax of previous periods	1,500	0.5	(648)	(20.3)	852	0.3
Tax charge at the Group's effective rate	47,108	18.7	191	6.0	47,299	18.6

11. Dividends

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

12. Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

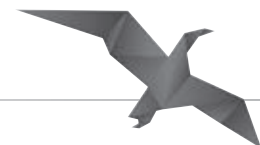
The share options outstanding during the periods ended 30 June 2012 and 2011 had nil dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2012 was based on the profit for the period of HK\$172,782,000 (2011 (Restated): HK\$207,455,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2011: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2011: 1,097,917,618) during the period as used in the basic earnings per share calculation.

13. Cash and short term placements

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Cash in hand	131,439	185,538
Placements with banks and financial institutions	535,481	844,717
Money at call and short notice	3,866,736	3,545,027
	4,533,656	4,575,282

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.



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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Placements with banks and financial institutions	848,892	513,527

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

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

15. Loans and advances and receivables

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

15. Loans and advances and receivables (Continued)

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

Loans and advances and receivables are summarised as follows:

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

About 66% of "Neither past due nor impaired loans and advances and receivables" were residential property mortgage loans, commercial property mortgage loans and hire purchase loans secured by customer deposits, properties, taxi licences, public light bus licences and vehicles.

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

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



15. Loans and advances and receivables (Continued)

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	101	328
One year or less but over six months	903	1
Over one year	14,130	13,049
Trade bills, accrued interest and other receivables overdue for more than three months	15,134	13,378
Impaired trade bills, accrued interest and other receivables overdue for three months or less	15	4
Total overdue and impaired trade bills, accrued interest and other receivables	15,149	13,382

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

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

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

15. Loans and advances and receivables (Continued)

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

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

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	236,640	203,239
Covered portion of overdue loans and advances	76,818	75,741
Uncovered portion of overdue loans and advances	156,878	165,457

The assets taken as collateral should satisfy the following criteria:

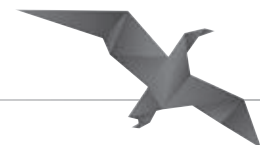
- The market value of the asset is readily determinable or can be reasonably established and verified.
- The asset is marketable and there exists a readily available secondary market for disposal of the asset.
- The Group's right to repossess the asset is legally enforceable without impediment.
- The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

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

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

(d) Repossessed assets

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



15. Loans and advances and receivables (Continued)

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

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

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

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

15. Loans and advances and receivables (Continued)

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

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



15. Loans and advances and receivables (Continued)

(g) Finance lease receivables

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

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

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

16. Available-for-sale financial assets

	30 June	31 December
	2012	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Unlisted equity investments, at fair value:		
At the beginning and the end of the period/year	6,804	6,804

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

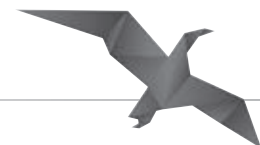
17. Held-to-maturity investments

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

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

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2012 and 31 December 2011.

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



18. Investment properties

	HK\$'000
At valuation:	
At 1 January 2011	188,665
Changes in fair value	<u>6,644</u>
At 31 December 2011 and 1 January 2012 (Audited)	195,309
Transfer to property and equipment	(450)
Transfer to land held under finance leases	(9,134)
Changes in fair value	<u>17,520</u>
At 30 June 2012 (Unaudited)	<u>203,245</u>

At 30 June 2012, investment properties with a carrying amount of HK\$185,725,000 (31 December 2011: HK\$188,665,000) were revalued at HK\$203,245,000 (31 December 2011: HK\$195,309,000) according to revaluation report 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\$17,520,000 (31 December 2011: HK\$6,644,000) 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 28 to the financial statements.

19. Property and equipment

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 January 2011	71,500	163,459	2,984	237,943
Additions	–	16,518	150	16,668
Disposals/write-off	–	(807)	(1,136)	(1,943)
At 31 December 2011 and 1 January 2012 (Audited)	71,500	179,170	1,998	252,668
Transfer from investment properties	450	–	–	450
Additions	–	11,310	–	11,310
Disposals/write-off	–	(10,762)	–	(10,762)
At 30 June 2012 (Unaudited)	71,950	179,718	1,998	253,666
Accumulated depreciation:				
At 1 January 2011	14,073	101,409	2,846	118,328
Provided during the year	1,578	22,898	38	24,514
Exchange difference	53	–	–	53
Disposals/write-off	–	(608)	(1,136)	(1,744)
At 31 December 2011 and 1 January 2012 (Audited)	15,704	123,699	1,748	141,151
Provided during the period	834	11,107	25	11,966
Exchange difference	(13)	–	–	(13)
Disposals/write-off	–	(10,680)	–	(10,680)
At 30 June 2012 (Unaudited)	16,525	124,126	1,773	142,424
Net carrying amount:				
At 30 June 2012 (Unaudited)	55,425	55,592	225	111,242
At 31 December 2011 (Audited)	55,796	55,471	250	111,517

No valuation has been made for the above items of property and equipment for the period ended 30 June 2012 and for the year ended 31 December 2011.



20. Land held under finance leases

	HK\$'000
Cost:	
At 1 January 2011, 31 December 2011, 1 January 2012 (Audited)	725,010
Transfer from investment properties	9,134
	<hr/>
At 30 June 2012 (Unaudited)	734,144
	<hr/>
Accumulated depreciation and impairment:	
At 1 January 2011	59,610
Depreciation provided during the year	7,500
	<hr/>
At 31 December 2011 and 1 January 2012 (Audited)	67,110
Depreciation provided during the period	3,755
	<hr/>
At 30 June 2012 (Unaudited)	70,865
	<hr/>
Net carrying amount:	
At 30 June 2012 (Unaudited)	663,279
	<hr/>
At 31 December 2011 (Audited)	657,900
	<hr/>

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.

21. Intangible assets

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Cost:		
At the beginning of the period/year and at the end of the period/year	1,085	1,085
	<hr/>	<hr/>
Accumulated impairment:		
At the beginning of the period/year and at the end of the period/year	367	367
	<hr/>	<hr/>
Net carrying amount:		
At the beginning of the period/year and at the end of the period/year	718	718
	<hr/>	<hr/>

Intangible assets represent 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 (2011: five units) of Stock Exchange Trading Right and one unit (2011: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

22. Other assets

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Interest receivables from authorised institutions	4,316	4,105
Other debtors, deposits and prepayments	117,742	86,056
Tax recoverable	16,373	15,723
	138,431	105,884

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

23. Customer deposits at amortised cost

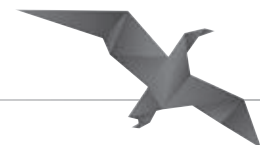
	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Demand deposits and current accounts	2,084,740	2,094,578
Savings deposits	3,860,006	3,665,146
Time, call and notice deposits	22,526,911	22,575,061
	28,471,657	28,334,785

24. Unsecured bank loans at amortised cost

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Unsecured bank loans	3,001,048	2,960,734
Repayable:		
On demand or within a period not exceeding one year	1,536,960	1,498,074
Within a period of more than one year but not exceeding two years	599,295	598,996
Within a period of more than two years but not exceeding five years	864,793	863,664
	3,001,048	2,960,734

The amount repayable on demand was a term loan of HK\$37,500,000 at 30 June 2012 (31 December 2011: Nil). The term loan is callable by the lender, but the management does 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.



25. Deferred tax liabilities

	Accelerated tax depreciation and revaluation surplus of investment properties HK\$'000
At 1 January 2011 as previously reported	23,165
Impact of change in accounting policy (Note 4)	(8,889)
At 1 January 2011 (Restated)	14,276
Deferred tax charged to consolidated income statement as previously reported	6,345
Impact of change in accounting policy (Note 4)	(1,096)
Deferred tax charged to consolidated income statement (Restated)	5,249
Effect of change in tax rates charged to consolidated income statement	74
At 31 December 2011 (Audited)/(Restated)	19,599
At 1 January 2012 as previously reported	29,584
Impact of change in accounting policy (Note 4)	(9,985)
At 1 January 2012 (Restated)	19,599
Deferred tax charged to consolidated income statement	462
At 30 June 2012 (Unaudited)	20,061

26. Other liabilities

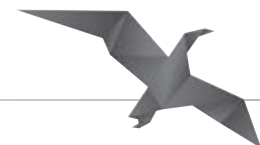
	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Creditors, accruals and interest payable	263,521	444,402

27. Reserves

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Employee share- based compensation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000 (Restated)	Translation reserve HK\$'000	Total HK\$'000 (Restated)
At 1 January 2011 as previously reported	4,013,296	829	96,116	45,765	322,324	1,429,050	48,185	5,955,565
Impact of change in accounting policy (Note 4)	-	-	-	-	-	8,889	-	8,889
At 1 January 2011 (Restated)	4,013,296	829	96,116	45,765	322,324	1,437,939	48,185	5,964,454
Profit for the year as previously reported	-	-	-	-	-	374,869	-	374,869
Impact of change in accounting policy (Note 4)	-	-	-	-	-	1,096	-	1,096
Profit for the year (Restated)	-	-	-	-	-	375,965	-	375,965
Other comprehensive income	-	-	-	-	-	-	17,240	17,240
Transfer from retained profits	-	-	-	-	86,171	(86,171)	-	-
Dividends for 2011	-	-	-	-	-	(175,667)	-	(175,667)
At 31 December 2011 (Audited)/(Restated)	4,013,296	829	96,116	45,765	408,495	1,552,066	65,425	6,181,992
At 1 January 2012 as previously reported	4,013,296	829	96,116	45,765	408,495	1,542,081	65,425	6,172,007
Impact of change in accounting policy (Note 4)	-	-	-	-	-	9,985	-	9,985
At 1 January 2012 (Restated)	4,013,296	829	96,116	45,765	408,495	1,552,066	65,425	6,181,992
Profit for the period	-	-	-	-	-	172,782	-	172,782
Other comprehensive income	-	-	-	-	-	-	(5,920)	(5,920)
Transfer to retained profits	-	-	-	-	(18,444)	18,444	-	-
Dividends declared	-	-	-	-	-	(54,896)	-	(54,896)
At 30 June 2012 (Unaudited)	4,013,296	829	96,116	45,765	390,051	1,688,396	59,505	6,293,958

Note:

In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowances were included as supplementary capital in the Group's capital base at 30 June 2012 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.



28. Operating lease arrangements

(a) As lessor

The Group leases its investment properties (note 18) under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within one year	6,866	8,002
In the second to fifth years, inclusive	1,655	2,805
	8,521	10,807

(b) As lessee

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

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

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

29. Off-balance sheet exposure

(a) Contingent liabilities, commitments and derivatives

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

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



29. Off-balance sheet exposure (Continued)

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

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

29. Off-balance sheet exposure (Continued)

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

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

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

(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 rates 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.



30. Related party transactions

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

	For the six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Related party transactions included in the consolidated income statement:		
Interest income from the ultimate holding company	-	2
Interest paid and payable to fellow subsidiaries and an affiliated company	12,194	5,753
Deposit interest and commitment fees paid to the ultimate holding company	3,476	4,459
Key management personnel compensation:		
– short term employee benefits	3,097	2,899
– post-employment benefits	204	192
	3,301	3,091
Interest income received from key management personnel	3	24
Interest expense paid to key management personnel	3	4
Commission income from key management personnel	12	11
Post-employment benefits for employees other than key management personnel	9,514	9,099
	30 June	31 December
	2012	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000

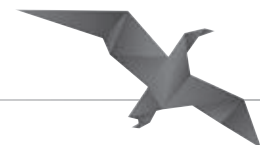
Related party transactions included in the consolidated statement of financial position:

Cash and short term funds with the ultimate holding company	3,807	6,291
Deposits from the ultimate holding company, fellow subsidiaries and an affiliated company	1,409,427	1,909,275
Bank loan from a fellow subsidiary	737,500	700,000
Interest payable to the ultimate holding company, fellow subsidiaries and an affiliated company	372	813
Loans to key management personnel	453	540
Deposits from key management personnel	3,206	3,867

31. Fair value of financial instruments

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

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Carrying	Fair value	Unrecognised loss	Carrying	Fair value	Unrecognised loss
	value			value		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets						
Cash and short term placements	4,533,656	4,533,656	-	4,575,282	4,575,282	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	848,892	848,892	-	513,527	513,527	-
Derivative financial instruments	11,373	11,373	-	3,220	3,220	-
Loans and advances and receivables	26,047,508	26,047,508	-	27,575,499	27,575,499	-
Available-for-sale financial assets	6,804	6,804	-	6,804	6,804	-
Held-to-maturity investments	3,841,746	3,841,355	(391)	3,421,503	3,421,169	(334)
Other assets	138,431	138,431	-	105,884	105,884	-
Financial liabilities						
Deposits and balances of banks and other financial institutions at amortised cost	816,596	816,596	-	1,246,092	1,246,092	-
Derivative financial instruments	4,786	4,786	-	2,051	2,051	-
Customer deposits at amortised cost	28,471,657	28,471,657	-	28,334,785	28,334,785	-
Certificates of deposit issued at amortised cost	154,867	154,867	-	513,315	513,315	-
Unsecured bank loans at amortised cost	3,001,048	3,001,048	-	2,960,734	2,960,734	-
Other liabilities	263,521	263,521	-	444,402	444,402	-
Total unrecognised loss			(391)			(334)



31. Fair value of financial instruments (Continued)

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

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

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

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

Fixed rate financial instruments

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

(b) Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair 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 input are not based on observable market data.

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

	30 June 2012 (Unaudited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets:				
Derivative financial instruments	-	11,373	-	11,373
Available-for-sale financial assets	-	-	6,804	6,804
	-	11,373	6,804	18,177
Financial liabilities:				
Derivative financial instruments	-	4,786	-	4,786

31. Fair value of financial instruments (Continued)

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

	31 December 2011 (Audited)			
	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

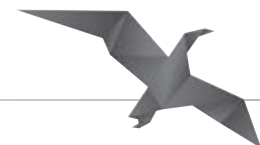
The movements in fair value measurement in Level 3 during the reporting period are as follows:

	HK\$'000
Available-for-sale financial assets:	
At 1 January 2011	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 2011 (Audited) and 30 June 2012 (Unaudited)	6,804

During the six months ended 30 June 2012 and the year ended 31 December 2011, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For fair value measurements 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 30 June 2012 and 31 December 2011.



32. Maturity analysis of financial assets and financial liabilities

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

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

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

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



33. 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, Risk Management Committee, Credit Risk Management Committee, Credit Committee, Assets and Liabilities Management Committee, Operational Risk Management Committee and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Market risk management

(a) Interest rate risk

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

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's Treasury Department within limits approved by the directors.

The Group has 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 30 June 2012, 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 (31 December 2011: HK\$6 million) mainly as a result of foreign exchange impact arising from net structural position of RMB denominated operating capital.

33. 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 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.

Credit Committees of Public Bank (Hong Kong) and Public Finance 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 and 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 Public Bank (Hong Kong) and Public Finance 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.



33. Financial risk management objectives and policies (Continued)

Credit risk management (Continued)

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

The Group mitigates credit risk by credit protection provided by guarantors and by loan collateral such as customer deposits, properties, listed shares, taxi licences, public light bus licences and vehicles.

The “Neither past due nor impaired loans and advances and receivables” are shown in note 15 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.

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 board of directors. The Group measures its liquidity using the statutory liquidity ratio, loan-to-deposit ratio, maturity mismatch ratio and other relevant performance measures.

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

Operational risk management

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

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

33. 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 3 years.

Capital adequacy and core capital ratios

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Group:		
Consolidated capital adequacy ratio	13.6%	12.7%
Consolidated core capital ratio	12.5%	11.7%
Public Bank (Hong Kong):		
Consolidated capital adequacy ratio	20.2%	19.4%
Consolidated core capital ratio	19.1%	18.4%

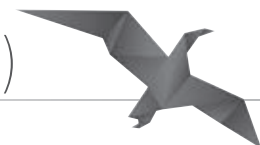
Capital disclosures

The consolidated capital adequacy ratio of the Group is computed on a consolidated basis including the Company, Public Bank (Hong Kong) and Public Finance. The subsidiaries not included in the computation of the consolidated capital adequacy ratio of the Group are Public Bank (Nominees) Limited, Public Investments Limited, Public Realty Limited, Public Credit Limited, Public Futures Limited, Public Pacific Securities Limited, Public Financial Securities Limited, Public Financial Limited, Public Securities Limited, Public Securities (Nominees) Limited, Winton (B.V.I.) Limited, Winton Holdings (Hong Kong) Limited, Winton Financial Limited, Winton Motors, Limited and Winsure Company, Limited (In Members' Voluntary Liquidation). Deductions from the capital base include investments in subsidiaries and other exposures.

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

34. Comparative figures

As a result of the adoption of the HKAS 12 Amendments, certain comparative figures have been adjusted to conform with the current period's presentation.



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:

	30 June 2012								
	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	376,356	203	285	14	-	310,619	82.5	287	287
Building and construction, property development and investment									
Property development	292,228	137	-	-	-	42,978	14.7	-	-
Property investment	6,095,158	2,861	-	-	-	5,282,643	86.7	-	-
Civil engineering works	114,319	75	-	23	-	23,134	20.2	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	2,451	1	-	-	-	2,410	98.3	-	-
Information technology	30,194	14	-	-	-	1,565	5.2	-	-
Wholesale and retail trade	110,122	63	55	58	-	94,678	86.0	78	78
Transport and transport equipment	3,946,968	1,641	482	35	-	3,879,661	98.3	511	355
Hotels, boarding houses and catering	337,392	158	-	-	-	38,046	11.3	-	-
Financial concerns	312,560	147	-	-	-	222,325	71.1	-	-
Stockbrokers									
Margin lending	1,185	1	-	1	-	1,185	100.0	-	-
Others	423	-	-	-	-	423	100.0	-	-
Non-stockbroking companies and individuals for the purchase of shares									
Margin lending	31,536	15	-	-	-	1,604	5.1	-	-
Others	73,485	35	-	17	-	71,734	97.6	-	-
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									
	141,412	66	-	-	-	141,412	100.0	-	-
Loans for the purchase of other residential properties									
	7,676,070	3,358	-	24	-	7,583,637	98.8	739	739
Loans for credit card advances									
	13,564	6	89	217	141	-	-	89	29
Loans for other business purposes									
	4,955	2	-	1	-	786	15.9	-	-
Loans for other private purposes									
	3,917,866	14,220	85,510	246,973	247,466	172,619	4.4	127,806	94,769
Trade finance									
	416,206	195	-	-	26	326,986	78.6	-	-
Other loans and advances									
	84,114	39	270	270	-	67,513	80.3	270	270
Sub-total	23,978,564	23,237	86,691	247,633	247,633	18,265,958	76.2	129,780	96,527
Loans and advances for use outside Hong Kong									
	2,102,041	5,401	73,340	11,507	-	1,360,061	64.7	137,432	137,169
Total loans and advances (excluding trade bills and other receivables)									
	26,080,605	28,638	160,031	259,140	247,633	19,626,019	75.3	267,212	233,696

Advances to customers by industry sectors (Continued)

	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 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										
	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)

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:

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 30 June 2012				
Mainland China entities	1,247	31	1,278	73
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	483	44	527	-
Other counterparties to which the exposures are considered by the Group to be non-bank Mainland China exposures	-	-	-	-
	1,730	75	1,805	73
	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 31 December 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

Cross-border claims

The information of cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

The following table illustrates claims on individual countries or areas, after taking into account the transfer of risk, amounting to 10% or more of the aggregate cross-border claims.

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 30 June 2012				
1. Asia Pacific excluding Hong Kong, of which:	3,295	158	438	3,891
China	1,454	158	231	1,843
2. Western Europe, of which:	2,996	–	134	3,130
France	1,002	–	–	1,002
United Kingdom	748	–	133	881
	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



Currency risk

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

	Spot assets HK\$'million	Spot liabilities HK\$'million	Forward purchases HK\$'million	Forward sales HK\$'million	Net short position HK\$'million	Structural assets HK\$'million
As at 30 June 2012						
RMB	406	419	-	-	(13)	610
Others	4,766	4,782	1,274	1,261	(3)	-
	5,172	5,201	1,274	1,261	(16)	610
	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

Liquidity ratios

	For the six months ended 30 June	
	2012	2011
Average liquidity ratios:		
Public Bank (Hong Kong)	45.9%	39.5%
Public Finance	79.6%	76.0%

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

Management Discussion and Analysis

Business review

Overview

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

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

Financial review

Revenue and earnings

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

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

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

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

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

Loans and advances, customer deposits and total assets

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

Branch network

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



Financial review (Continued)

Business performance

Public Bank (Hong Kong)

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

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

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

Public Finance

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

Segmental information

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

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. As at 30 June 2012, there was no charge over the assets of the Group.

Operational review

Funding and capital management

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

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its banking and finance businesses. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at HK\$3.0 billion as at 30 June 2012. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.47 times as at 30 June 2012, which is the same gearing ratio as at 31 December 2011. The Group's bank borrowings have remaining maturity periods of less than 3 years. In the normal course of its commercial banking business, Public Bank (Hong Kong) has entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange rates and interest rates were immaterial during the period under review.

Operational review (Continued)

Asset quality

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

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

Human resources management

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

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

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

Prospects

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

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

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

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



Interim dividend

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

Changes to information in respect of directors

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) since publication of the Group's Annual Report 2011 up to 17 July 2012 (being the date of approval of the Group's Interim Report 2012) are set out below:

Changes in experience including other directorships and major appointments

Tan Sri Datuk Seri Utama Thong Yaw Hong ceased to be a director and chairman of Berjaya Sports Toto Berhad.

Mr. Lee Huat Oon was appointed a director of The Hong Kong Mortgage Corporation Limited.

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

Directors' interests and short positions in shares and underlying shares

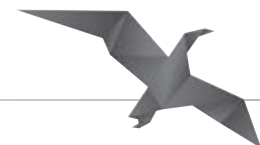
As at 30 June 2012, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 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

Interests in	Name of director	Number of ordinary shares				Total	Percentage of interests in the issued share capital %
		Directly beneficially owned	Through spouse or minor children	Through controlled corporations	Other interests		
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	804,017,920	-	804,017,920	73.2312
	Tan Yoke Kong	210,000	-	-	*330,000	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	5,898,951	208,739	145,576	-	6,253,266	0.1770
	Dato' Chang Kat Kiam	114,215	-	-	-	114,215	0.0032
	Lee Chin Guan	28	-	-	-	28	0.0000
3. Winsure Company, Limited (In Members' Voluntary Liquidation), 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

Name of director	Number of ordinary shares attached to the share options			At the end of the period	Exercise price HK\$	Exercise period
	At the beginning of the period	Granted during the period	Exercised during the 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 of directors or the Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

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

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. No options were granted nor cancelled during the six months ended 30 June 2012.

Name	Number of share options			Outstanding at the end of the period	Exercise price HK\$
	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period		
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	18,965,000	–	562,000	18,403,000	6.35
	26,413,000	–	562,000	25,851,000	6.35

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 six months ended 30 June 2012.
- (iii) The remaining contractual life of the 25,851,000 outstanding options was 2.94 years as at 30 June 2012.
- (iv) The share options outstanding as at 30 June 2012 can only be exercised in future open exercise periods.



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

As at 30 June 2012, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had interests of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interests in the issued share capital %
Substantial shareholder			
1. Public Bank	Beneficial owner	804,017,920	73.2312
Other person			
2. Aberdeen Asset Management Plc and its subsidiaries (together "the AA Group") on behalf of accounts managed by the AA Group	Investment manager	99,474,000	9.0602

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

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

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

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

If an event of default occurs, the Agent may, and shall if so directed, by the Majority Lenders (as defined in the Facility Agreement), demand immediate repayment of all or any of the loans made to the Company together with accrued interest.

Loan agreements with covenants relating to specific performance of the controlling shareholder (Continued)

(b) In March 2012, Public Bank (Hong Kong), a wholly-owned subsidiary of the Company, as the borrower, entered into a third amendment agreement (the "Amendment Agreement") to the facility agreement dated 2 March 2009, as amended by an amendment agreement dated 9 March 2010 and the second amendment agreement dated 9 March 2011 (collectively the "Revolving Loan Facility Agreement") in respect of a standby multi currency revolving loan facility in an aggregate amount of up to HK\$500,000,000 (the "Revolving Loan Facility") with Standard Chartered Bank (Hong Kong) Limited ("SCBHK"), as the lender. The Revolving Loan Facility is arranged primarily for the purpose of contingency funding plan. The repayment date of the Revolving Loan Facility shall be 15 March 2013. It is intended that the Revolving Loan Facility shall be renewed annually subject to mutual agreement by both parties.

The Amendment Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder of the Company and Public Bank (Hong Kong), fails to maintain at least 51% direct or indirect interest in the issued share capital of Public Bank (Hong Kong).

If an event of default occurs, SCBHK may:

- a) cancel the Revolving Loan Facility immediately;
- b) declare that all or part of the loan(s) made or to be made under the Revolving Loan Facility or the principal amount outstanding, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents (as defined in the Revolving Loan Facility Agreement) be immediately due and payable; and/or
- c) declare that all or part of the loan(s) made or to be made under the Revolving Loan Facility or the principal amount outstanding be payable on demand.

For items (a) and (b), the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continue to exist.

The aggregate level of facilities (excluding facilities arranged solely for the purpose of contingency funding plan) entered into with the Company and its subsidiaries which may be affected by such breach and required to be disclosed under Rule 13.18 of the Listing Rules amounts to HK\$2.8 billion.



Purchase, sale or redemption of listed shares of the Company

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

Corporate governance

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

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

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

Model Code for securities transactions by directors

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

Review by Audit Committee

The 2012 Interim Report has been reviewed by the Company's Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

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

Hong Kong, 17 July 2012