

**PUBLIC BANK (HONG KONG) LIMITED**  
**(Incorporated in Hong Kong with limited liability)**  
**(Website: www.publicbank.com.hk)**

**INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

The Board of Directors of Public Bank (Hong Kong) Limited (the “Bank”) is pleased to announce the unaudited condensed consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2010 with comparative figures as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest income	6	728,728	747,796
Interest expense	6	(92,616)	(175,139)
<b>NET INTEREST INCOME</b>		<b>636,112</b>	<b>572,657</b>
Gain less losses from disposal of available-for-sale financial assets		-	9,699
Other operating income	7	123,234	96,560
<b>OPERATING INCOME</b>		<b>759,346</b>	<b>678,916</b>
Operating expenses	8	(342,391)	(283,130)
Changes in fair value of investment properties		-	4,523
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>416,955</b>	<b>400,309</b>
Impairment allowances for loans and advances and receivables	9	(149,238)	(295,429)
<b>PROFIT BEFORE TAX</b>		<b>267,717</b>	<b>104,880</b>
Tax	10	(43,689)	(15,635)
<b>PROFIT FOR THE PERIOD</b>		<b>224,028</b>	<b>89,245</b>
<b>Attributable to:</b>			
Owners of the Bank		<b>224,028</b>	<b>89,245</b>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>224,028</b>	<b>89,245</b>
<b>OTHER COMPREHENSIVE INCOME:</b>		
Exchange gain/(loss) on translating foreign operations	2,400	(340)
Gain on revaluation of available-for-sale financial assets	-	11,379
Transfer to income statement for disposal of available-for-sale financial assets	-	(9,699)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>2,400</b>	<b>1,340</b>
	Note	
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>226,428</b>	<b>90,585</b>
<b>ATTRIBUTABLE TO:</b>		
Owners of the Bank	<b>226,428</b>	<b>90,585</b>

Note:

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Restated) HK\$'000
	Notes		
<b>ASSETS</b>			
Cash and short term placements	11	5,201,572	5,573,943
Placements with banks and financial institutions maturing after one month but not more than twelve months	12	220,795	868,483
Derivative financial instruments	27	4,920	11,657
Loans and advances and receivables	13	25,314,311	24,238,565
Available-for-sale financial assets	15	6,804	6,804
Held-to-maturity investments	16	3,690,550	4,216,634
Interests in a jointly-controlled entity		1,513	1,513
Other assets	17	223,992	441,429
Deferred tax assets		10,804	13,367
Tax recoverable		9,160	17,275
Intangible assets	18	718	718
Property and equipment	19	69,497	72,760
Land under finance lease	20	112,887	110,207
Investment properties	21	44,860	49,568
Goodwill		242,342	242,342
<b>Total assets</b>		<b>35,154,725</b>	<b>35,865,265</b>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions at amortised cost		1,930,873	1,024,628
Derivative financial instruments	27	5,465	1,668
Customer deposits at amortised cost	22	27,927,685	29,426,927
Certificates of deposit issued at amortised cost		200,000	-
Other liabilities	23	303,797	791,103
Current tax payable		44,505	17,627
Deferred tax liabilities		6,942	6,942
<b>Total liabilities</b>		<b>30,419,267</b>	<b>31,268,895</b>
<b>EQUITY</b>			
Issued capital		1,481,600	1,481,600
Reserves	24	3,253,858	3,114,770
<b>Total equity</b>		<b>4,735,458</b>	<b>4,596,370</b>
<b>Total equity and liabilities</b>		<b>35,154,725</b>	<b>35,865,265</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>TOTAL EQUITY</b>		
Balance at the beginning of period	4,596,370	4,347,599
Profit for the period	224,028	89,245
Other comprehensive income	2,400	1,340
Total comprehensive income for the period	226,428	90,585
Dividends paid in respect of previous year	(87,340)	-
Balance at the end of period	4,735,458	4,438,184

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the six months ended	
	30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>NET CASH FLOWS FROM:</b>		
<b>OPERATING ACTIVITIES</b>	(244,416)	2,253,760
<b>INVESTING ACTIVITIES</b>	(5,803)	(11,852)
<b>FINANCING ACTIVITIES</b>	(87,340)	(299,250)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(337,559)	1,942,658
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	8,939,856	5,974,726
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	8,602,297	7,917,384
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and short term placements repayable on demand	896,784	466,706
Money at call and short notice with original maturity within three months	4,304,788	4,953,961
Placements with banks and financial institutions with original maturity within three months	-	273,339
Held-to-maturity investments with original maturity within three months	3,400,725	2,223,378
	8,602,297	7,917,384

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with the applicable Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Int’”)) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Company Ordinance. The preparation of consolidated interim financial statements has also made reference to the applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (“HKMA”).

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in an annual report, and should be read in conjunction with the Bank’s 2009 Annual Report.

The accounting policies adopted in these consolidated interim financial statements are consistent with those adopted in the Bank’s 2009 Annual Report except for the adoption of new HKFRSs and HKASs as disclosed in note 3 below.

### 2. BASIS OF PREPARATION

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

#### **Basis of consolidation**

The consolidated interim financial statements comprise the interim financial statements of the Group as at and for the period ended 30 June 2010. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as that of the Group, using consistent accounting policies.

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

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

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

- Public Finance Limited (“Public Finance”), 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 and a jointly-controlled entity.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2. BASIS OF PREPARATION (continued)

#### **Basis of capital disclosures**

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

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

The computation of consolidated capital adequacy ratio of the Group is based on the ratios of the aggregate of risk weighted exposures to the aggregate of capital bases of the Bank and Public Finance for regulatory purposes.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. IMPACT OF NEW HKFRSs AND HKASs

The HKICPA has issued a number of new HKFRSs, HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2010. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2010 which are pertinent to its operations and relevant to these interim financial statements.

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. IMPACT OF NEW HKFRSs AND HKASs (continued)

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

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. IMPACT OF NEW HKFRSs AND HKASs (continued)

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

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. IMPACT OF NEW HKFRSs AND HKASs (continued)

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

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

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

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

- HKFRS 9 Financial Instruments<sup>3</sup>
- HKAS 24 (Revised) Related Party Disclosure<sup>2</sup>
- HK(IFRIC)-Int 14 Amendment Prepayment of a Minimum Funding Requirement<sup>2</sup>
- HK(IFRIC)-Int 19 Extinguishing Financial Liabilities with Equity Instruments<sup>1</sup>

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

<sup>1</sup> effective for annual periods beginning on or after 1 July 2010

<sup>2</sup> effective for annual periods beginning on or after 1 January 2011

<sup>3</sup> effective for annual periods beginning on or after 1 January 2013

\* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- (a) HKFRS 1 Amendments: It addresses the presentation and disclosure requirements for entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.
- (b) HKFRS 3 Amendments: It states the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised HKFRS. It explains the measurement principle for non-controlling interests in the acquiree for business combination. It also provides guidance on the accounting of share-based payment transactions of the acquiree or replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with HKFRS 2 at the acquisition date.
- (c) HKFRS 7 Amendments: It clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk are clarified and reduced, which disclosures on carrying amount of assets that will have been past due or impaired unless they have been renegotiated, as well as description of collateral held by the entity as security and other credit enhancements and estimate of their fair value, are no longer required.
- (d) HKAS 1 (Revised) clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
- (e) Transition requirements for amendments to HKAS 21, HKAS 28 and HKAS 31 arising as a result of HKAS 27 Consolidated and Separate Financial Statements are to be applied prospectively for annual period beginning on or after 1 July 2010.

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

**(continued)**

- (f) HKAS 34 Amendments: It requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.
- (g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION (continued)

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

	Retail and commercial banking and lending		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	30 June 2009 (Unaudited) HK\$'000
<b>Segment revenue</b>								
Net interest income	636,099	572,609	13	48	-	-	636,112	572,657
Other operating income:								
Fees and commission income	69,270	55,459	43,069	29,223	-	-	112,339	84,682
Others	7,876	9,420	-	-	3,019	2,458	10,895	11,878
Profit on sale of available- for-sale financial assets	-	-	-	9,699	-	-	-	9,699
	<b>713,245</b>	<b>637,488</b>	<b>43,082</b>	<b>38,970</b>	<b>3,019</b>	<b>2,458</b>	<b>789,346</b>	<b>678,916</b>
<b>Segment results</b>	<b>246,903</b>	<b>71,789</b>	<b>18,636</b>	<b>29,593</b>	<b>2,178</b>	<b>3,498</b>	<b>267,717</b>	<b>104,880</b>
Share of profits and losses of a jointly-controlled entity							-	-
Profit before tax							267,717	104,880
Tax							(43,689)	(15,635)
Profit for the period							<b>224,028</b>	<b>89,245</b>
Segment assets other than interests in a jointly-controlled entity and intangible assets	34,514,568	33,622,749	330,760	354,473	44,860	63,400	34,890,188	34,040,622
Interests in a jointly-controlled entity	1,513	1,513	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	358	-	-	718	358
Goodwill	242,342	242,342	-	-	-	-	242,342	242,342
	<b>34,758,423</b>	<b>33,866,604</b>	<b>331,478</b>	<b>354,831</b>	<b>44,860</b>	<b>63,400</b>	<b>35,134,761</b>	<b>34,284,835</b>
Unallocated assets:								
Deferred tax assets and tax recoverable							19,964	18,443
<b>Total assets</b>							<b>35,154,725</b>	<b>34,303,278</b>
Segment liabilities	30,124,301	29,567,313	192,560	266,018	50,959	2,416	30,367,820	29,835,747
Unallocated liabilities:								
Deferred tax liabilities and tax payable							51,447	29,347
Dividend payable							-	-
<b>Total liabilities</b>							<b>30,419,267</b>	<b>29,865,094</b>
<b>Other segment information</b>								
Additions to non-current assets -- capital expenditure	6,801	13,190	-	-	-	-	6,801	13,190
Depreciation of fixed assets and amortisation of land under finance lease	12,069	11,368	-	-	-	-	12,069	11,368
Changes in fair value of investment properties	-	-	-	-	-	(4,523)	-	(4,523)
Impairment allowances for loans and advances and receivables, held-to- maturity investments and available-for-sale securities	149,238	295,429	-	-	-	-	149,238	295,429
Net loss on disposal of property and equipment	13	21	-	-	-	-	13	21

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION (continued)

#### Geographical segment

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

#### Operating income or revenue from major customers

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

### 6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest income from:		
Loans and advances and receivables	680,131	685,981
Short term placements and placements with banks	11,131	36,943
Held-to-maturity investments	37,466	24,872
	<u>728,728</u>	<u>747,796</u>
Interest expense on:		
Deposit from banks and financial institutions	4,846	6,086
Deposit from customers	87,770	163,428
Bank loans	-	5,625
	<u>92,616</u>	<u>175,139</u>

The interest income for the six months ended 30 June 2010 amounted to HK\$728,728,000 (2009: HK\$747,796,000) and interest expense for the six months ended 30 June 2010 amounted to HK\$92,616,000 (2009: HK\$175,139,000) pursuant to the adoption of effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the six months ended 30 June 2010 amounted to HK\$6,420,000 (2009: HK\$3,009,000).

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 7. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	69,813	56,029
Wealth management services, stockbroking and securities management	43,069	29,223
	<u>112,882</u>	<u>85,252</u>
Less: Fees and commission expenses	(543)	(570)
Net fees and commission income	<u>112,339</u>	<u>84,682</u>
Net rental income	3,019	2,458
Gain less losses arising from dealing in foreign currencies	5,482	5,181
Dividend income from unlisted investments	987	1,340
Others	1,407	2,899
	<u>123,234</u>	<u>96,560</u>

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables and financial liabilities at amortised cost for the six months ended 30 June 2010 and 2009.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. OPERATING EXPENSES

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	177,187	133,133
Pension contributions	7,844	7,659
	<u>185,031</u>	<u>140,792</u>
Premises and equipment expenses:		
Minimum lease payments under operating leases in respect of buildings	23,058	21,864
Others	31,948	24,211
	<u>55,006</u>	<u>46,075</u>
Depreciation of fixed assets and amortisation of land under finance lease	12,069	11,368
Losses on disposal of property and equipment	13	21
Others	90,272	84,874
	<u>342,391</u>	<u>283,130</u>

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net charge for/(write-back of) impairment allowances:		
- Loans and advances	150,089	299,095
- Trade bills, accrued interest and receivables	(851)	(3,666)
	<u>149,238</u>	<u>295,429</u>
Net charge for/(write-back of) impairment allowances:		
- Individually assessed	156,925	247,067
- Collectively assessed	(7,687)	48,362
	<u>149,238</u>	<u>295,429</u>
Of which:		
- new impairment allowances (including any amount directly written off during the period)	233,946	352,756
- releases and recoveries	(84,708)	(57,327)
Net charge to the consolidated income statement	<u>149,238</u>	<u>295,429</u>

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 10. TAX

	For the six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge :		
Hong Kong	41,500	13,508
Elsewhere	725	1,365
Over-provisions in prior years	(1,099)	-
Deferred tax charge, net	2,563	762
	<u>43,689</u>	<u>15,635</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, 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 Bank, 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 (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June 2010					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>264,105</u>		<u>3,612</u>		<u>267,717</u>	
Tax at the applicable tax rate	43,577	16.5	795	22.0	44,372	16.6
Effect on change in tax rate	-	-	60	1.7	60	-
Estimated tax effect of net expenses that are not deductible	358	0.1	-	-	358	0.1
Estimated tax lossess from previous periods utilised	(2)	-	-	-	(2)	-
Adjustments in respect of current tax of previous periods	<u>2,328</u>	<u>0.9</u>	<u>(3,427)</u>	<u>(94.9)</u>	<u>(1,099)</u>	<u>(0.4)</u>
Tax charge at the Group's effective rate	<u>46,261</u>	<u>17.5</u>	<u>(2,572)</u>	<u>(71.2)</u>	<u>43,689</u>	<u>16.3</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 10. TAX (continued)

	For the six months ended 30 June 2009					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>98,058</u>		<u>6,822</u>		<u>104,880</u>	
Tax at the applicable tax rate	16,180	16.5	1,365	20.0	17,545	16.7
Estimated tax effect of net income that is not taxable	<u>(1,910)</u>	<u>(1.9)</u>	-	-	<u>(1,910)</u>	<u>(1.8)</u>
Tax charge at the Group's effective rate	<u>14,270</u>	<u>14.6</u>	<u>1,365</u>	<u>20.0</u>	<u>15,635</u>	<u>14.9</u>

### 11. CASH AND SHORT TERM PLACEMENTS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Cash in hand	120,194	122,177
Placements with banks and financial institutions	776,590	603,362
Money at call and short notice	<u>4,304,788</u>	<u>4,848,404</u>
	<u>5,201,572</u>	<u>5,573,943</u>

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

### 13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Loans and advances to customers	25,471,046	24,366,397
Trade bills	8,017	70,286
	<u>25,479,063</u>	<u>24,436,683</u>
Accrued interest	75,896	69,682
	<u>25,554,959</u>	<u>24,506,365</u>
Other receivables	2,298	2,219
Gross loans and advances and receivables	<u>25,557,257</u>	<u>24,508,584</u>
Less: Impairment allowances for loans and advances and receivables		
- Individually assessed	(140,731)	(160,365)
- Collectively assessed	(102,215)	(109,654)
	<u>(242,946)</u>	<u>(270,019)</u>
Loans and advances and receivables	<u>25,314,311</u>	<u>24,238,565</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

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

	30 June 2010 (Unaudited)		31 December 2009 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans and advances overdue for:				
Six months or less but over three months	126,540	0.50	175,146	0.72
One year or less but over six months	97,027	0.38	72,264	0.30
Over one year	145,572	0.57	103,731	0.42
Loans and advances overdue for more than three months	369,139	1.45	351,141	1.44
Rescheduled loans and advances overdue for three months or less	62,933	0.25	79,383	0.33
Impaired accounts overdue for three months or less	13,244	0.05	95,924	0.39
Total overdue and impaired loans and advances	445,316	1.75	526,448	2.16

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

	30 June 2010 (Unaudited)			31 December 2009 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
<b>(i) Analysis of overdue loans and advances and receivables</b>						
Loans and advances and receivables overdue more than three months	<u>246,773</u>	<u>132,562</u>	<u>379,335</u>	<u>226,702</u>	<u>130,833</u>	<u>357,535</u>
Individual impairment allowances	<u>47,900</u>	<u>54,550</u>	<u>102,450</u>	<u>68,385</u>	<u>37,739</u>	<u>106,124</u>
Collective impairment allowances	<u>65,008</u>	<u>-</u>	<u>65,008</u>	<u>72,375</u>	<u>-</u>	<u>72,375</u>
Current market value and fair value of collateral			<u>254,487</u>			<u>182,720</u>
<b>(ii) Analysis of impaired loans and advances and receivables</b>						
Impaired loans and advances and receivables	<u>322,967</u>	<u>132,562</u>	<u>455,529</u>	<u>402,086</u>	<u>130,833</u>	<u>532,919</u>
Individual impairment allowances	<u>86,181</u>	<u>54,550</u>	<u>140,731</u>	<u>122,626</u>	<u>37,739</u>	<u>160,365</u>
Collective impairment allowances	<u>65,008</u>	<u>-</u>	<u>65,008</u>	<u>72,375</u>	<u>-</u>	<u>72,375</u>
Current market value and fair value of collateral			<u>261,489</u>			<u>262,374</u>

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>254,487</u>	<u>182,720</u>
Covered portion of overdue loans and advances	<u>150,678</u>	<u>91,885</u>
Uncovered portion of overdue loans and advances	<u>218,461</u>	<u>259,256</u>

The eligibility of assets taken as collateral should satisfy 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 grading of Aa3 or above
- Unrated public sector enterprises
- Banks with grading of Baa2 or above
- Unrated corporations
- Individual shareholders and directors of corporate customers

#### (d) Repossessed assets

As at 30 June 2010, the total value of repossessed assets of the Group amounted to HK\$89,400,000 (31 December 2009: HK\$25,715,000).

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

	30 June 2010 (Unaudited)		31 December 2009 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans and advances overdue less than three months	507,759	1.99	470,044	1.93
Rescheduled but not impaired loans and advances	-	-	-	-
	<u>507,759</u>	<u>1.99</u>	<u>470,044</u>	<u>1.93</u>
Trade bills, accrued interest and other receivables overdue less than three months	<u>1,051</u>		<u>2,375</u>	

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

	Individual impairment allowance HK\$'000	30 June 2010 (Unaudited) Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2010	160,365	109,654	270,019
Amounts written off	(240,634)	-	(240,634)
Impairment losses and allowances charged to the income statement	233,810	136	233,946
Impairment losses and allowances released to the income statement	(76,885)	(7,823)	(84,708)
Net charge of impairment losses and allowances	156,925	(7,687)	149,238
Loans and advances and receivables recovered	64,037	-	64,037
Exchange difference	38	248	286
At 30 June 2010	140,731	102,215	242,946
Deducted from:			
Loans and advances	139,590	102,157	241,747
Trade bills, accrued interest and other receivables	1,141	58	1,199
	140,731	102,215	242,946

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. LOANS AND ADVANCES AND RECEIVABLES (continued)

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

	31 December 2009 (Audited)		Total HK\$'000
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	
At 1 January 2009	106,776	79,090	185,866
Amounts written off	(534,132)	-	(534,132)
Impairment losses and allowances charged to the income statement	595,809	30,564	626,373
Impairment losses and allowances released to the income statement	(116,723)	-	(116,723)
Net charge of impairment losses and allowances	479,086	30,564	509,650
Loans and advances and receivables recovered	108,643	-	108,643
Exchange difference	(8)	-	(8)
At 31 December 2009	160,365	109,654	270,019
Deducted from:			
Loans and advances	158,751	109,218	267,969
Trade bills, accrued interest and other receivables	1,614	436	2,050
	160,365	109,654	270,019

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. 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 2010 (Unaudited)		31 December 2009 (Audited)	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Amounts receivable under finance leases:				
Within one year	440,064	341,948	362,443	266,379
In the second to fifth years, inclusive	1,182,637	911,021	1,020,628	740,443
Over five years	3,880,099	3,286,096	3,218,630	2,559,516
	<u>5,502,800</u>	<u>4,539,065</u>	4,601,701	<u>3,566,338</u>
Less: Unearned finance income	<u>(963,735)</u>		<u>(1,035,363)</u>	
Present value of minimum lease payments receivable	<u>4,539,065</u>		<u>3,566,338</u>	

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.

### 14. Lehman Brothers Minibonds

There were no exposures regarding Lehman Brothers Minibonds as full impairment has been made for the Lehman Brothers Minibonds repurchased from eligible customers as at 30 June 2010 and 31 December 2009.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Listed security investments in Hong Kong, at quoted market price:		
At the beginning of the period/year	-	14,720
Change in fair value	-	11,379
Disposals	-	(26,099)
At the end of the period/year	-	-
Unlisted equity investments, at cost:		
At the beginning and end of the period/year	6,804	6,804
	<u>6,804</u>	<u>6,804</u>

The unlisted investment is measured at fair value based on present value of cash flows over a period of 10 years.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 16. HELD-TO-MATURITY INVESTMENTS

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

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

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

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

### 17. OTHER ASSETS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Interest receivables from financial institutions	1,771	2,187
Other debtors, deposits and prepayments	222,221	439,242
	<u>223,992</u>	<u>441,429</u>

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 18. INTANGIBLE ASSETS

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Cost:		
At the beginning of the period/year	1,923	1,563
Addition	-	360
At the end of the period/year	<u>1,923</u>	<u>1,923</u>
Accumulated impairment:		
At the beginning of the period/year	1,205	1,205
Impairment recognised in the income statement during the period/year	-	-
At the end of the period/year	<u>1,205</u>	<u>1,205</u>
Net carrying amount:		
At the beginning of the period/year	718	358
Addition	-	360
At the end of the period/year	<u>718</u>	<u>718</u>

The intangible assets represent trading rights which are retained for stock trading and stockbroking activities, and are of indefinite useful lives. They comprise five units (2009: five units) of Stock Exchange Trading Right and one unit (2009: one unit) of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

No other intangible assets were held by the Bank as at 30 June 2010 and 31 December 2009.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
At cost:			
At 1 January 2010	16,647	168,395	185,042
Additions	-	6,801	6,801
Transfer from investment properties	442	-	442
Disposals/write-off	-	(8,006)	(8,006)
At 30 June 2010	17,089	167,190	184,279
Accumulated depreciation:			
At 1 January 2010	4,193	108,089	112,282
Provided during the period	175	10,308	10,483
Disposals/write-off	-	(7,994)	(7,994)
Exchange difference	11	-	11
At 30 June 2010	4,379	110,403	114,782
Net book value:			
At 30 June 2010	12,710	56,787	69,497
At 31 December 2009	12,454	60,306	72,760

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. PROPERTY AND EQUIPMENT (continued)

	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
At cost:			
At 1 January 2009	15,844	204,994	220,838
Additions	-	22,809	22,809
Transfer from investment properties	803	-	803
Disposals/write-off	-	(59,408)	(59,408)
At 31 December 2009	16,647	168,395	185,042
Accumulated depreciation:			
At 1 January 2009	3,831	147,109	150,940
Provided during the year	362	20,343	20,705
Disposals/write-off	-	(59,363)	(59,363)
Exchange difference	-	-	-
At 31 December 2009	4,193	108,089	112,282
Net book value:			
At 31 December 2009	12,454	60,306	72,760
At 31 December 2008	12,013	57,885	69,898

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. LAND UNDER FINANCE LEASE

	HK\$'000 (Restated)
At cost:	
At 1 January 2009	125,034
Transfer from investment properties	<u>7,897</u>
At 31 December 2009 and 1 January 2010	<b>132,931</b>
Transfer from investment properties	<u>4,266</u>
At 30 June 2010	<u><b>137,197</b></u>
Accumulated amortisation and impairment:	
At 1 January 2009	19,665
Provided during the year	3,059
Exchange difference	<u>-</u>
At 31 December 2009 and 1 January 2010	<b>22,724</b>
Provided during the period	<u>1,586</u>
Exchange difference	<u>-</u>
At 30 June 2010	<u><b>24,310</b></u>
Net carrying amount:	
At 30 June 2010	<u><b>112,887</b></u>
At 31 December 2009	<u><b>110,207</b></u>

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

The current and non-current portions of the land under finance lease were HK\$3,762,000 (2009: HK\$4,121,000) and HK\$109,125,000 (2009: HK\$106,086,000) respectively.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 21. INVESTMENT PROPERTIES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Carrying amount at the beginning of the period/year	49,568	58,877
Disposals	-	(7,900)
Transfer to owner-occupied property	(4,708)	(8,700)
Carrying amount before change in fair value	44,860	42,277
Change in fair value	-	7,291
Carrying amount at the end of the period/year	44,860	49,568

On 30 June 2010, investment properties with a carrying amount of HK\$44,860,000 coincided with the 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 investment properties are leased to third parties under operating lease, further details of which are included in Note 26(a) to the financial statements.

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 22. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Demand deposits and current accounts	1,745,700	1,387,207
Savings deposits	4,538,651	5,938,346
Time, call and notice deposits	<u>21,643,334</u>	<u>22,101,374</u>
	<u>27,927,685</u>	<u>29,426,927</u>

### 23. OTHER LIABILITIES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Interest payable	32,508	40,736
Creditors, accruals and other payables	<u>271,289</u>	<u>750,367</u>
	<u>303,797</u>	<u>791,103</u>

The amounts due to subsidiaries included in the Bank's other liabilities were unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 24. RESERVES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Share premium:		
At the beginning and end of the period/year	1,372,445	1,372,445
Group reconstruction reserve:		
At the beginning and end of the period/year	3,065	3,065
Translation reserve :		
At the beginning of the period/year	34,980	35,060
Exchange difference	2,400	(80)
At the end of the period/year	37,380	34,980
Capital reserve:		
At the beginning and end of the period/year	17,660	17,660
Regulatory reserve (Note):		
At the beginning of the period/year	266,381	304,551
Transfer from/(to) retained profits	20,591	(38,170)
At the end of the period/year	286,972	266,381
Available-for-sale financial assets revaluation reserve:		
At the beginning of the period/year	-	(1,680)
Change in fair value recognised directly in equity	-	11,379
Transfer to income statement for disposal	-	(9,699)
At the end of the period/year	-	-

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 24. RESERVES (continued)

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Retained profits:		
At the beginning of the period/year	1,420,239	1,134,898
Net profit for the period/year	224,028	247,171
Transfer (to)/from regulatory reserve	(20,591)	38,170
Dividends paid in respect of previous year	(87,340)	-
At the end of the period/year	<u>1,536,336</u>	<u>1,420,239</u>
Total at the beginning of the period/year	<u>3,114,770</u>	<u>2,865,999</u>
Total at the end of the period/year	<u>3,253,858</u>	<u>3,114,770</u>

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), the regulatory reserve and the Bank's collective impairment allowance were included as supplementary capital in the Group's capital base at 30 June 2010 as defined in the Guideline. The regulatory reserve is held as a buffer of capital to absorb potential financial losses in excess of requirements of accounting standards pursuant to the direction of the HKMA.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 25. OFF-BALANCE SHEET EXPOSURE

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

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

	30 June 2010 (Unaudited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	229,339	229,339	20,350	-	-
Transaction-related contingencies	4,684	2,342	1,286	-	-
Trade-related contingencies	114,118	22,823	16,257	-	-
Forward forward deposits placed	666,593	666,593	133,319	-	-
Forward asset purchases	13,845	13,845	2,769	-	-
	<b>1,028,579</b>	<b>934,942</b>	<b>173,981</b>	-	-
Derivatives held for trading (Note 25(b)):					
Foreign exchange rate contracts	320,311	7,351	13	4,918	5,465
Interest rate swaps	200,000	-	-	2	-
	<b>520,311</b>	<b>7,351</b>	<b>13</b>	<b>4,920</b>	<b>5,465</b>
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	169,504	84,752	84,752	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,152,791	-	-	-	-
	<b>4,871,185</b>	<b>1,027,045</b>	<b>258,746</b>	<b>4,920</b>	<b>5,465</b>
Capital commitment : Contracted, but not provided for in the financial statements	<b>5,108</b>				

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 25. OFF-BALANCE SHEET EXPOSURE (continued)

#### (a) Contingent liabilities and commitments and derivatives (continued)

	31 December 2009 (Audited)				
	Contractual amount HK\$'000	Credit equivalent amount HK\$'000	Credit risk weighted amount HK\$'000	Positive fair value- assets HK\$'000	Negative fair value- liabilities HK\$'000
Direct credit substitutes	256,225	256,225	50,611	-	-
Transaction-related contingencies	2,653	1,327	197	-	-
Trade-related contingencies	100,655	20,131	16,203	-	-
Forward forward deposits placed	186,651	186,651	37,330	-	-
Forward asset purchases	21,570	21,570	4,314	-	-
	567,754	485,904	108,655	-	-
Derivatives held for trading (Note 25(b)):					
Foreign exchange rate contracts	1,542,301	25,920	59	11,657	1,668
Interest rate swaps	-	-	-	-	-
	1,542,301	25,920	59	11,657	1,668
Other commitments with an original maturity of :					
Not more than one year	-	-	-	-	-
More than one year	185,230	92,615	92,615	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,677,481	-	-	-	-
	4,972,766	604,439	201,329	11,657	1,668
Capital commitments :					
Contracted, but not provided for in the financial statements	6,723				

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 25. OFF-BALANCE SHEET EXPOSURE (continued)

#### (a) Contingent liabilities and 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 2010 and 31 December 2009, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

#### (b) Derivative financial instruments

The Group uses the following derivative instruments:

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 26. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (Note 21) under operating lease arrangements, and the terms of the leases range from one to five years.

At 30 June 2010 and 31 December 2009, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	1,405	2,269
In the second to fifth years, inclusive	106	524
	<u>1,511</u>	<u>2,793</u>

#### (b) As lessee

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

At 30 June 2010 and 31 December 2009, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	68,739	67,123
In the second to fifth years, inclusive	34,788	34,270
	<u>103,527</u>	<u>101,393</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	30 June 2010 (Unaudited)			31 December 2009 (Audited)		
	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000	Carrying value HK\$'000	Fair value HK\$'000	Unrecognised loss HK\$'000
<b>Financial assets</b>						
Cash and short term placements	5,201,572	5,201,572	-	5,573,943	5,573,943	-
Placements with banks and financial institutions maturing after one month but not more than twelve months	220,795	220,795	-	868,483	868,483	-
Derivative financial instruments	4,920	4,920	-	11,657	11,657	-
Loans and advances and receivables	25,314,311	25,314,311	-	24,238,565	24,238,565	-
Held-to-maturity investments	3,690,550	3,689,109	(1,441)	4,216,634	4,214,088	(2,546)
Other assets	223,992	223,992	-	441,429	441,429	-
<b>Financial liabilities</b>						
Deposits and balances of banks and other financial institutions at amortised cost	1,930,873	1,930,873	-	1,024,628	1,024,628	-
Derivative financial instruments	5,465	5,465	-	1,668	1,668	-
Customer deposits at amortised cost	27,927,685	27,927,685	-	29,426,927	29,426,927	-
Certificates of deposit issued at amortised cost	200,000	200,000	-	-	-	-
Other liabilities	303,797	303,797	-	791,103	791,103	-
<b>Total unrecognised change in unrealised fair value</b>			<b>(1,441)</b>			<b>(2,546)</b>

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### Fixed rate financial instruments

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

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

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

- Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);
- Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input are not based on observable market data.

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### (B) Determination of fair value and fair value hierarchy (continued)

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

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

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

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

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

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 28. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2010 (Unaudited)							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	
<b>Financial assets :</b>								
Cash and short term placements	896,784	4,304,788	-	-	-	-	-	5,201,572
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	131,437	89,358	-	-	-	220,795
Loans and advances and receivables	644,780	1,284,183	1,101,849	2,696,227	7,827,477	11,672,980	329,761	25,557,257
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	3,155,154	415,552	79,961	39,883	-	-	3,690,550
Other assets	288	167,403	208	258	174	-	55,661	223,992
Foreign exchange contracts (gross)	-	689,517	66,357	-	-	-	-	755,874
<b>Total financial assets</b>	<b>1,541,852</b>	<b>9,601,045</b>	<b>1,715,403</b>	<b>2,865,804</b>	<b>7,867,534</b>	<b>11,672,980</b>	<b>392,226</b>	<b>35,656,844</b>
<b>Financial liabilities :</b>								
Deposits and balances of banks and other financial institutions at amortised cost	402,195	88,349	1,415,329	25,000	-	-	-	1,930,873
Customer deposits at amortised cost	6,299,321	11,537,030	7,241,389	2,784,330	65,615	-	-	27,927,685
Certificates of deposit issued at amortised cost	-	-	-	200,000	-	-	-	200,000
Other liabilities	671	192,014	10,416	5,999	3,974	-	90,723	303,797
Foreign exchange contracts (gross)	-	694,199	62,220	-	-	-	-	756,419
<b>Total financial liabilities</b>	<b>6,702,187</b>	<b>12,511,592</b>	<b>8,729,354</b>	<b>3,015,329</b>	<b>69,589</b>	<b>-</b>	<b>90,723</b>	<b>31,118,774</b>
	31 December 2009 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
<b>Financial assets :</b>								
Cash and short term placements	725,539	4,848,404	-	-	-	-	-	5,573,943
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	779,485	88,998	-	-	-	868,483
Loans and advances and receivables	910,768	1,551,182	1,103,493	2,879,014	6,998,903	10,724,579	340,645	24,508,584
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	2,859,338	903,823	411,646	41,827	-	-	4,216,634
Other assets	12	385,688	749	276	162	-	54,542	441,429
Foreign exchange contracts (gross)	-	949,956	592,344	-	-	-	-	1,542,300
<b>Total financial assets</b>	<b>1,636,319</b>	<b>10,594,568</b>	<b>3,379,894</b>	<b>3,379,934</b>	<b>7,040,892</b>	<b>10,724,579</b>	<b>401,991</b>	<b>37,158,177</b>
<b>Financial liabilities :</b>								
Deposits and balances of banks and other financial institutions at amortised cost	273,574	364,312	345,383	41,359	-	-	-	1,024,628
Customer deposits at amortised cost	7,333,115	10,745,559	8,109,281	3,234,638	4,334	-	-	29,426,927
Certificates of deposit issued at amortised cost	-	-	-	-	-	-	-	-
Unsecured bank loans at amortised cost	-	-	-	-	-	-	-	-
Other liabilities	47	656,481	14,939	13,195	534	-	105,907	791,103
Foreign exchange contracts (gross)	-	946,802	585,510	-	-	-	-	1,532,312
<b>Total financial liabilities</b>	<b>7,606,736</b>	<b>12,713,154</b>	<b>9,055,113</b>	<b>3,289,192</b>	<b>4,868</b>	<b>-</b>	<b>105,907</b>	<b>32,774,970</b>

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **29. 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 operation.

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

#### **Risk Management**

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

#### **Market Risk Management**

##### **(a) Interest Rate Risk**

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Market Risk Management (continued)

##### (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 board of directors. The Group has no significant foreign currency risk as the Group's assets and liabilities are mainly denominated in Hong Kong dollars and United States dollars of which the exchange rates have remained relatively stable among each other for the period ended 30 June 2010 and the year ended 31 December 2009. Accordingly, no quantitative market risk disclosures for currency risk have been prepared.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 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 is 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 exposures defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment detailed procedures and controls for monitoring of connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than the use of loans granted to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

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

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

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

#### **Credit Risk Management (continued)**

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

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

#### **Liquidity Risk Management**

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

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

#### **Operational Risk Management**

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

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Capital Management

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

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

#### Capital adequacy and core capital ratios

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
Group:		
Capital adequacy ratio	19.9%	19.1%
Core capital ratio	18.8%	18.0%
Bank:		
Capital adequacy ratio	15.9%	15.4%
Core capital ratio	15.9%	15.4%

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Capital Disclosures

The components of total capital base include the following items:

	Group		Bank	
	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Core capital:				
Paid up ordinary share capital	1,481,600	1,481,600	1,481,600	1,481,600
Share premium account	1,372,445	1,372,445	1,372,445	1,372,445
Published reserves	1,329,732	1,181,341	1,486,451	1,399,945
Income statement	212,704	166,582	56,775	97,614
Deduct:				
Goodwill	(242,342)	(242,342)	-	-
Deferred tax assets	(2,617)	(5,180)	(2,414)	(4,902)
Core capital before deductions	4,151,522	3,954,446	4,394,857	4,346,702
Less: Deductions from shareholdings in subsidiaries	(33,054)	(33,054)	(1,536,223)	(1,535,507)
Other deductions	(5,152)	(5,152)	(5,152)	(5,152)
Total core capital after deductions	4,113,316	3,916,240	2,853,482	2,806,043
Supplementary capital:				
Regulatory reserve	173,228	163,050	198,926	200,025
Collective impairment allowances	102,215	109,654	26,000	25,616
Supplementary capital before deductions	275,443	272,704	224,926	225,641
Less: Deductions from shareholdings in subsidiaries	(33,054)	(33,054)	(219,774)	(220,489)
Other deductions	(5,152)	(5,152)	(5,152)	(5,152)
Total supplementary capital after deductions	237,237	234,498	-	-
Capital base	4,350,553	4,150,738	2,853,482	2,806,043

The subsidiaries not included in the computation of the capital adequacy ratio, capital base and risk weighted amounts 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 and Public Securities (Nominees) Limited. Deductions from the capital base included investment in subsidiaries and other exposures.

Capital adequacy ratios at 30 June 2010 and 31 December 2009 were compiled on both solo and consolidated basis in accordance with the Banking (Capital) Rules under section 98A of the Banking Ordinance for the implementation of the "Basel II" capital accord. The subsidiary consolidated into capital base and risk weighted exposure is Public Finance.

## SUPPLEMENTARY INFORMATION (Unaudited)

### Advances to customers by industry sectors

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

	30 June 2010									
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans and advances written off HK\$'000	Collateral HK\$'000	Percentage of gross advances covered by collateral	Impaired loans and advances HK\$'000	Loans and advances overdue for more than three months HK\$'000	
Loans for use in Hong Kong										
Manufacturing	209,392	237	1,279	1,041	3,367	153,574	73.3	1,612	1,612	
Building & construction, property development and investment										
Property development	447,321	569	-	-	-	53,796	12.0	-	-	
Property investment	5,804,719	6,597	-	-	-	4,922,656	84.8	1,989	-	
Civil engineering works	110,432	125	-	-	-	27,133	24.6	-	-	
Electricity and gas	-	-	-	-	-	-	-	-	-	
Recreational activities	2,920	3	-	-	-	2,920	100.0	-	-	
Information technology	2,369	3	-	-	-	2,369	100.0	-	-	
Wholesale and retail trade	92,873	123	455	-	-	72,645	78.2	1,857	36	
Transport and transport equipment	4,498,958	4,615	3,073	279	250	4,424,234	98.3	3,300	3,138	
Hotels, boarding houses & catering	348,055	396	-	-	-	16,457	4.7	-	-	
Financial concerns	234,547	267	-	-	-	195,465	83.3	-	-	
Stockbrokers										
Margin lending	69,338	79	-	-	-	34,532	49.8	-	-	
Others	21,055	24	-	-	-	6,658	31.6	-	-	
Non-stockbroking companies & individuals for the purchase of shares										
Margin lending	20,450	23	-	-	-	18,835	92.1	-	-	
Others	160,469	183	-	5,206	5,206	155,462	96.9	-	-	
Professional & private individuals										
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme										
	188,161	214	-	-	-	188,004	99.9	295	-	
Loans for the purchase of other residential properties										
	6,825,998	7,424	-	-	153	6,775,312	99.3	2,864	2,864	
Loans for credit card advances	15,992	18	169	557	434	-	-	169	131	
Loans for other business purposes	385	-	-	-	-	385	100.0	-	-	
Loans for other private purposes	3,747,816	76,418	40,502	194,800	193,907	167,335	4.5	158,446	96,740	
Trade finance	483,704	549	12,786	5,016	194	354,604	73.3	93,865	93,424	
Other loans and advances	97,396	111	-	1,493	37,123	91,459	94.0	-	-	
Sub-total	23,382,300	97,928	58,264	208,392	240,634	17,663,835	75.5	264,397	197,945	
Loans and advances for use outside Hong Kong	2,068,746	4,229	81,316	25,314	-	741,958	35.5	180,919	171,194	
Total loans and advances (excluding trade bills)	25,451,046	102,157	139,580	233,706	240,634	18,405,793	72.3	445,316	369,139	

## SUPPLEMENTARY INFORMATION (Unaudited)

### Advances to customers by industry sectors (continued)

31 December 2009

	Gross loans and advances HK\$ '000	Collective impairment allowances HK\$ '000	Individual impairment allowances HK\$ '000	New impairment allowances charged to income statement HK\$ '000	Amount of impaired loans and advances written off HK\$ '000	Collateral HK\$ '000	Percentage of gross advances covered by collateral	Impaired loans and advances HK\$ '000	Loans and advances overdue for more than three months HK\$ '000
Loans for use in Hong Kong									
Manufacturing	721,687	872	41,755	43,683	38,455	339,368	47.1	79,403	64,628
Building & construction, property development and investment									
Property development	570,549	634	-	-	-	60,658	10.6	-	-
Property investment	5,686,703	6,312	-	-	-	4,787,073	84.2	907	-
Civil engineering works	118,640	131	-	-	-	36,655	30.9	-	-
Electricity and gas	27,765	31	-	-	-	-	-	-	-
Recreational activities	3,039	3	-	-	-	3,039	100.0	-	-
Information technology	2,992	3	-	-	-	2,505	83.7	-	-
Wholesale and retail trade	92,169	102	461	461	-	74,729	81.1	1,872	9
Transport and transport equipment	3,507,466	3,431	3,066	2,610	3,204	3,477,280	99.1	3,362	3,190
Hotels, boarding houses & catering	353,965	393	-	-	-	21,915	6.2	-	-
Financial concerns	453,249	593	-	-	-	387,419	85.5	-	-
Stockbrokers									
Margin lending	87,019	97	-	-	-	33,235	38.2	-	-
Others	56,771	63	-	-	-	1,316	2.3	-	-
Non-stockbroking companies & individuals for the purchase of shares									
Margin lending	49,015	54	-	-	-	11,666	23.8	-	-
Others	143,364	159	-	-	-	133,351	93.0	-	-
Professional & private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under Home Ownership Scheme, Private Sector Participation Scheme & Tenant Purchase Scheme									
	204,443	227	-	-	43	204,443	100.0	292	292
Loans for the purchase of other residential properties									
	6,642,735	7,241	413	258	258	6,631,499	99.8	2,696	1,497
Loans for credit card advances									
	18,110	20	91	760	690	-	-	91	45
Loans for other business purposes									
	409	-	-	-	-	409	100.0	-	-
Loans for other private purposes									
	3,820,450	84,207	45,562	519,134	457,250	301,695	7.9	182,934	104,995
Trade finance									
	606,050	673	9,960	12,754	29,532	473,240	78.1	167,460	29,054
Other loans and advances									
	77,852	87	-	24,443	3,006	71,912	92.4	-	-
Sub-total	23,243,842	105,243	101,308	604,103	532,438	17,053,407	73.4	379,017	203,710
Loans and advances for use outside Hong Kong									
	1,122,555	3,975	57,443	21,240	-	437,394	39.0	147,431	147,431
Total loans and advances (excluding trade bills)	24,366,397	109,218	158,751	625,343	532,438	17,490,801	71.8	526,448	351,141

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

## SUPPLEMENTARY INFORMATION (Unaudited)

### Non-bank mainland exposures

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

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 30 June 2010				
Mainland entities	830	246	1,076	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	154	-	154	-
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	477	-	477	55
	<b>1,461</b>	<b>246</b>	<b>1,707</b>	<b>55</b>

	On-balance sheet exposure HK\$'million	Off-balance sheet exposure HK\$'million	Total exposures HK\$'million	Individual impairment allowance HK\$'million
As at 31 December 2009				
Mainland entities	98	142	240	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	124	-	124	-
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	741	-	741	38
	<b>963</b>	<b>142</b>	<b>1,105</b>	<b>38</b>

## SUPPLEMENTARY INFORMATION (Unaudited)

### Cross-border claims

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

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
<b>As at 30 June 2010</b>				
1. Asia Pacific excluding				
Hong Kong of which:	3,499	36	373	3,908
China	1,051	36	63	1,150
Japan	808	-	26	834
2. Western Europe of which:	3,436	-	99	3,535
France	1,317	-	-	1,317
Germany	918	-	-	918
	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
<b>As at 31 December 2009</b>				
1. Asia Pacific excluding				
Hong Kong of which:	4,395	9	372	4,776
Malaysia	1,940	-	93	2,033
2. Western Europe of which:	4,526	-	135	4,661
France	1,181	-	-	1,181

## SUPPLEMENTARY INFORMATION (Unaudited)

### Currency risk

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

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

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

## SUPPLEMENTARY INFORMATION (Unaudited)

### Liquidity ratios

	For the six months ended	
	30 June	
	2010	2009
Average liquidity ratios for the period:		
Group	<u>46.8%</u>	<u>53.1%</u>
Bank	<u>42.1%</u>	<u>47.9%</u>

The average liquidity ratios are computed on both consolidated and 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 the Bank to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the reporting period.

On solo basis, the computation of average liquidity ratio includes only the Head Office and branches of the Bank operating in Hong Kong.

With effect from 1 February 2009, liquidity ratio computation on consolidated basis is also required. The computation of average liquidity ratio on consolidated basis includes the Head Office, all branches of the Bank and Public Finance.

## **BUSINESS REVIEW**

For the six months ended 30 June 2010, the Group recorded a profit after tax of HK\$224.0 million, representing a significant increase of HK\$134.8 million or 151.1% over the net earnings of HK\$89.2 million for the corresponding period of 2009. The significant improvement in the profit after tax of the Group during the period under review was due to a significant reduction in impairment allowances for loans and advances by 49.5% or HK\$146.2 million to HK\$149.2 million, and an increase in operating income of HK\$80.4 million. The reduction in impairment allowances for loans and advances was the result of a lower number of personal bankruptcies and an improvement in bad debts recovery in relation to the unsecured consumer lending business in the period under review.

The increase in the Group's operating income of 11.8% or HK\$80.4 million to HK\$759.3 million for the six months ended 30 June 2010 was due to the increase in net interest income of HK\$63.5 million and increase in fee income from loan transactions, stockbroking and other businesses of HK\$26.7 million to HK\$123.2 million in the period under review.

The Group's operating expenses increased by 20.9% or HK\$59.3 million to HK\$342.4 million mainly due to increase in staff costs and premises related costs when compared to the corresponding period in 2009.

Total gross loans and advances (including trade bills) of the Group grew by HK\$1.04 billion or 4.3% to HK\$25.48 billion as at 30 June 2010 from HK\$24.44 billion as at 31 December 2009. Total customer deposits decreased by HK\$1.50 billion or 5.1% to HK\$27.93 billion as at 30 June 2010 from HK\$29.43 billion as at 31 December 2009.

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

Hong Kong, 14 July 2010