



大眾金融控股有限公司*

PUBLIC FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 626; Website: www.publicfinancial.com.hk)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The Board of Directors of Public Financial Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
	Notes		
Interest income	6	872,506	877,797
Interest expense	6	(340,695)	(404,919)
NET INTEREST INCOME		531,811	472,878
Gain less losses from disposal of available-for-sale financial assets		-	17,827
Other operating income	7	195,275	129,305
Non-interest income		195,275	147,132
OPERATING INCOME		727,086	620,010
Operating expenses	8	(234,250)	(214,585)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		492,836	405,425
Impairment allowances for loans and advances and receivables, held-to-maturity investments and available-for-sale securities	9	(189,690)	(89,698)
OPERATING PROFIT		303,146	315,727
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		-	-
PROFIT BEFORE TAX		303,146	315,727
Tax	10	(52,919)	(54,773)
PROFIT FOR THE PERIOD		250,227	260,954

		For the six months ended	
		30 June	
		2008	2007
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
		Notes	
ATTRIBUTABLE TO:			
Equity holders of the Company			
		250,227	260,954
DIVIDENDS			
Interim	11	54,896	54,695
EARNINGS PER SHARE (HK\$)			
Basic	12	0.229	0.239
Diluted		0.229	0.239

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
	Notes		
ASSETS			
Cash and short term placements		5,131,346	5,882,235
Placements with banks and financial institutions		368,173	441,539
Financial assets designated at fair value through profit or loss		-	12,262
Derivative financial instruments		8,063	2,644
Loans and advances and receivables	13	22,070,515	19,165,638
Available-for-sale financial assets		29,604	51,044
Held-to-maturity investments	14	2,138,985	2,858,708
Inventories of taxi licences		21,832	25,299
Investment properties		165,293	146,492
Property and equipment		111,445	98,007
Land lease prepayments		625,653	628,664
Interest in a jointly-controlled entity		1,513	1,513
Deferred tax assets		9,137	5,668
Goodwill		2,774,403	2,774,403
Intangible assets		358	358
Other assets		250,642	584,338
TOTAL ASSETS		33,706,962	32,678,812
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		666,536	2,263,902
Derivative financial instruments		8,381	2,381
Customer deposits at amortised cost		23,846,900	20,501,549
Certificates of deposit issued at amortised cost		1,149,704	2,049,227
Dividend payable		54,896	273,474
Unsecured bank loans at amortised cost		1,474,406	1,100,000
Current tax payable		59,349	32,186
Deferred tax liabilities		72,439	69,243
Other liabilities		506,757	732,629
TOTAL LIABILITIES		27,839,368	27,024,591
EQUITY			
Issued capital		109,792	109,390
Reserves	15	5,757,802	5,544,831
TOTAL EQUITY		5,867,594	5,654,221
TOTAL EQUITY AND LIABILITIES		33,706,962	32,678,812

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
TOTAL EQUITY		
Balance at beginning of period	5,654,221	5,320,048
Shares issued on exercise of share options, net of expenses	25,541	-
Exchange difference	13,940	-
(Deficit)/Surplus on revaluation of available-for-sale financial assets	(21,439)	17,447
Transfer to income statement for disposal of available-for-sale financial assets	-	(17,827)
Profit for the period	250,227	260,954
Dividends declared on shares	(54,896)	(54,695)
	195,331	206,259
Balance at end of period	5,867,594	5,525,927

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of compliance and accounting policies

These interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA"). The Company has complied with capital requirements related to capital base and capital adequacy ratio as stipulated by HKMA.

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company's 2007 Annual Report except for the adoption of new Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs as disclosed in note 3 below.

2. Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. Preparation of financial statements is also made reference to applicable Supervisory Policy Manual and the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the period ended 30 June 2008. The financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. **Basis of preparation** *(continued)*

Basis of consolidation *(continued)*

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

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

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

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 required level as soon as possible.

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

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of Financial Resources Rules issued by the Securities and Futures Commission. 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 THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Impact of new HKFRSs and HKASs

The HKICPA has issued a number of new HKFRSs, and HKASs and Interpretations (“Int”), which are generally effective for accounting periods beginning on or after 1 January 2008. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2008 which are pertinent to its operations and relevant to these interim financial statements.

- HK(IFRIC) – Int 11 HKFRS2 – Group and Treasury Share Transactions
- HK(IFRIC) – Int 12 Service Concession Arrangements
- HK(IFRIC) – Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

- HK(IFRIC) Interpretation 11 “HKFRS 2 – Group and Treasury Share Transactions”

HK(IFRIC) Interpretation 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) Interpretation 11 also addresses the accounting for share based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or performance of the Group.

- HK(IFRIC) Interpretation 12 “Service Concession Arrangements”

HK(IFRIC) Interpretation 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC) Interpretation 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or performance of the Group.

- HK(IFRIC) Interpretation 14 “HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

HK(IFRIC) Interpretation 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, the interpretation is not applicable to the Group and therefore unlikely to have any financial impact on the Group.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

The Group has not applied the following new and revised HKFRS and HKASs, which have been issued but are not yet effective, in these interim accounts:

- HKFRS 2 Amendment “Share-based Payment – Vesting Conditions and Cancellations” (effective for accounting period beginning on or after 1 January 2009)

The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The Group expects to adopt this amendment from 1 January 2009.

- HKFRS 8 “Operating Segments” (effective for accounting period beginning on or after 1 January 2009)

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

- HKAS 1 (Revised) “Presentation of Financial Statements” (effective for accounting period beginning on or after 1 January 2009)

The revised HKAS 1 was issued in June 2008. The revised standard introduces new titles for the financial statements and affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events as required by other HKFRSs. The adoption of this revised standard will affect the presentation of the Group’s financial statements.

- HKAS 23 (Revised) “Borrowing Costs” (effective for accounting period beginning on or after 1 January 2009)

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group’s current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

- HK(IFRIC) Interpretation 13 “Customer Loyalty Programmes” (effective for accounting period beginning on or after 1 July 2008)

HK(IFRIC) Interpretation 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credit is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The adoption of HK(IFRIC) Interpretation 13 is unlikely to have a significant impact on the Group’s results of operations and financial position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

- HKAS 32 “Financial Instruments: Presentation” and HKAS 1 “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective for accounting period beginning on or after 1 January 2009)

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The standards are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and HKASs upon initial application. It is expected that the adoption of the above pronouncements will not have significant impacts on the Group’s financial position and performance as at the date of the interim accounts.

5. Segment information

In accordance with the Group’s internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) By business segments

The Group’s operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments:

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Segment information (continued)

(a) By business segments (continued)

The following tables represent revenue and profit information for these segments for the six months ended 30 June 2008 and 2007, and certain asset and liability information regarding business segments as at 30 June 2008 and 2007.

	Retail and commercial banking and lending businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue										
Net interest income	531,663	472,715	148	163	-	-	-	-	531,811	472,878
Other operating income:										
Fees and commission income	82,479	81,096	88,912	26,442	2,009	433	-	-	173,400	107,971
Others	15,422	14,477	680	-	5,773	6,857	-	-	21,875	21,334
Profit on sale of available- for-sale financial assets	-	-	-	17,827	-	-	-	-	-	17,827
Elimination of inter- segment transactions	-	-	-	-	225	400	(225)	(400)	-	-
	629,564	568,288	89,740	44,432	8,007	7,690	(225)	(400)	727,086	620,010
Segment results	277,856	273,228	12,284	37,406	13,006	5,093	-	-	303,146	315,727
Share of profits and losses of a jointly-controlled entity									-	-
Profit before tax									303,146	315,727
Tax									(52,919)	(54,773)
Profit for the period									250,227	260,954
Segment assets	30,388,140	26,973,739	347,799	303,478	187,125	151,247	-	-	30,923,064	27,428,464
Unallocated assets:										
Goodwill									2,774,403	2,774,403
Intangible assets									358	358
Deferred tax assets									9,137	15,469
Total assets									33,706,962	30,218,694
Segment liabilities	27,436,836	24,339,354	201,809	149,270	14,039	20,401	-	-	27,652,684	24,509,025
Unallocated liabilities:										
Dividend payable									54,896	54,695
Deferred tax liabilities and tax payable									131,788	129,047
Total liabilities									27,839,368	24,692,767
Other segment information										
Capital expenditure	21,365	25,070	-	-	-	-	-	-	21,365	25,070
Depreciation and amortisation of land lease prepayments	10,825	8,935	-	-	-	-	-	-	10,825	8,935
Changes in fair value of investment properties	-	-	-	-	(18,801)	-	-	-	(18,801)	-
Impairment allowances for loans and advances and receivables, and held-to- maturity investments and available-for-sale securities	121,474	89,698	68,216	-	-	-	-	-	189,690	89,698
Net loss/(gain) on disposal of property and equipment	54	(541)	-	-	-	-	-	-	54	(541)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Segment information *(continued)*

(b) By 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.

6. Interest income and expenses

The interest income for the six months ended 30 June 2008 amounted to HK\$872,506,000 (2007: HK\$877,797,000) and interest expenses for the six months ended 30 June 2008 amounted to HK\$340,695,000 (2007: HK\$404,919,000) pursuant to the adoption of effective interest method for financial assets and liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the six months ended 30 June 2008 amounted to HK\$1,508,000 (2007: HK\$2,758,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Other operating income

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking	85,044	82,203
Wealth management services, stockbroking and securities management	88,912	26,442
	173,956	108,645
Less : Fees and commission expenses	(556)	(674)
Net fees and commission income	173,400	107,971
Gross rental income	6,037	6,464
Less : Direct operating expenses	(39)	(43)
Net rental income	5,998	6,421
Gain less losses arising from dealing in foreign currencies	9,389	8,189
Losses on disposal of financial assets designated at fair value through profit or loss	(1,059)	-
Net (losses)/gains on disposal of property and equipment	(54)	541
Dividends from listed investments	680	958
Dividends from unlisted investments	980	980
Net income on derivative financial instruments	1,246	1,554
Others	4,695	2,691
	195,275	129,305

The direct operating expenses included repair and maintenance expenses arising from investment properties.

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2008 and 2007.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

8. Operating expenses

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	122,835	101,232
Pension contributions	6,725	5,833
Less : Forfeited contributions	(17)	(94)
Net retirement benefit schemes	6,708	5,739
	129,543	106,971
Other operating expenses:		
Operating lease rentals on leasehold buildings	17,744	14,640
Depreciation and amortisation of land lease prepayments	10,825	8,935
Administrative and general expenses	23,374	23,492
Impairment of intangible assets	-	367
Others	71,565	60,180
Operating expenses before changes in fair value of investment properties	253,051	214,585
Changes in fair value of investment properties	(18,801)	-
	234,250	214,585

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Impairment allowances

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Charge for/(write-back) of impairment allowances:		
- Loans and advances	121,225	96,490
- Trade bills, accrued interest and receivables	249	(6,792)
- Held-to-maturity investments	37,000	-
- Available-for-sale securities	31,216	-
	189,690	89,698
Net charge for/(write-back) of impairment losses and allowances:		
- Individually assessed	198,322	90,205
- Collectively assessed	(8,632)	(507)
	189,690	89,698
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	254,967	171,029
- releases and recoveries	(65,277)	(81,331)
Net charge to the consolidated income statement	189,690	89,698

There were no impairment allowances for other financial assets (other than loans and advances and receivables, and held-to-maturity investments) for the six months ended 30 June 2008 and 2007.

10. Tax

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	47,800	52,395
Elsewhere	1,268	1,298
Under/(Over)-provisions in prior years	4,124	(1,300)
Deferred tax charge	(273)	2,380
	52,919	54,773

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Tax (continued)

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

	For the six months ended 30 June 2008					
	Hong Kong HK\$'000	%	(Unaudited) Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	296,102		7,044		303,146	
Tax at the applicable tax rate	48,857	16.5	1,268	18.0	50,125	16.5
Effect on change in tax rates	(3,634)	(1.2)	-	-	(3,634)	(1.2)
Estimated tax effect of net expense that is not deductible for tax	2,316	0.8	-	-	2,316	0.8
Estimated tax losses from previous periods utilised	(14)	-	-	-	(14)	-
Estimated tax losses not recognised	2	-	-	-	2	-
Adjustments in respect of current tax of previous periods	4,124	1.4	-	-	4,124	1.4
Tax charge at the Group's effective rate	51,651	17.5	1,268	18.0	52,919	17.5

	For the six months ended 30 June 2007					
	Hong Kong HK\$'000	%	(Unaudited) Mainland China HK\$'000	%	Total HK\$'000	%
Profit before tax	307,071		8,656		315,727	
Tax at the applicable tax rate	53,737	17.5	1,298	15.0	55,035	17.4
Estimated tax effect of net expense that is not deductible for tax	1,865	0.6	-	-	1,865	0.6
Estimated tax losses from previous periods utilised	(898)	(0.3)	-	-	(898)	(0.3)
Estimated tax losses not recognised	71	-	-	-	71	-
Adjustments in respect of current tax of previous periods	(1,300)	(0.4)	-	-	(1,300)	(0.4)
Tax charge at the Group's effective rate	53,475	17.4	1,298	15.0	54,773	17.3

11. Dividends

	For the six months ended 30 June			
	2008 HK\$ per ordinary share	2007 HK\$ per ordinary share	2008 HK\$'000	2007 HK\$'000
Interim	0.05	0.05	54,896	54,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK\$250,227,000 (2007: HK\$260,954,000) and on the weighted average number of 1,094,773,602 (2007: 1,093,896,618) ordinary shares in issue during the period.

(b) Diluted earnings per share

There was no diluted earnings per share for the six months period ended 30 June 2008 as the exercise price of all share options outstanding was higher than the average market price of shares issued on deemed exercise of all share options outstanding during the period. The calculation of diluted earnings per share is based on the profit for the period of HK\$250,227,000 (2007: HK\$260,954,000) and on the weighted average number of 1,094,773,602 (2007: 1,093,896,618) ordinary shares, being the weighted average number of 1,094,773,602 (2007: 1,093,896,618) ordinary shares in issue during the period as used in the basic earnings per share calculation and nil ordinary shares was assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period (2007: nil).

	For the six months ended	
	30 June	
	2008	2007
	(Unaudited)	(Unaudited)
Profit for the period, used in the basic and diluted earnings per share calculation (HK\$'000)	250,227	260,954
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	1,094,773,602	1,093,896,618
Weighted average number of ordinary shares assumed to be issued at no consideration on deemed exercise of all share options outstanding during the period	-	-
Weighted average number of ordinary shares used in diluted earnings per share calculation	1,094,773,602	1,093,896,618
Diluted earnings per share (HK\$)	0.229	0.239

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loans and advances and receivables

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Loans and advances	21,831,507	18,947,961
Trade bills	204,509	166,087
	22,036,016	19,114,048
Accrued interest	77,174	88,179
	22,113,190	19,202,227
Other receivables	60,722	63,272
Gross loans and advances and receivables	22,173,912	19,265,499
Less: Impairment allowances for loans and advances and receivables		
- Individually assessed	(46,158)	(33,990)
- Collectively assessed	(57,239)	(65,871)
	(103,397)	(99,861)
Loans and advances and receivables	22,070,515	19,165,638

Over 90% of the loans and advances and receivables are unrated exposures. The carrying amounts of loans and advances and other receivables, net of impairment allowances, approximate their fair values.

The Group's loans and advances and receivables are mainly collateralised by properties, cash, securities and taxi licences.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Loan and advances and receivables (continued)

(a) Overdue and impaired loans and advances and receivables

	30 June 2008 (Unaudited)		31 December 2007 (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	70,095	0.3	111,768	0.6
One year or less but over six months	41,662	0.2	7,017	-
Over one year	7,842	-	8,111	0.1
Loans and advances overdue for more than three months	119,599	0.5	126,896	0.7
Rescheduled loans and advances overdue for three months or less	215	-	2,765	-
Impaired accounts overdue for three months or less	14,048	0.1	17,459	0.1
Total overdue and impaired loans and advances	133,862	0.6	147,120	0.8

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	223	1,006
One year or less but over six months	658	468
Over one year	1,616	1,210
Total overdue and impaired accrued interest and other receivables	2,497	2,684

Impaired loans and advances and receivables are individually determined to be impaired taking into account overdue aging analysis and other qualitative factors such as bankruptcy proceedings and individual voluntary arrangements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loan 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 2008 (Unaudited)			31 December 2007 (Audited)		
	Hong Kong	China	Total	Hong Kong	China	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue more than three months	122,096	-	122,096	129,580	-	129,580
Individual impairment allowances	37,255	-	37,255	27,532	-	27,532
Collective impairment allowances	39,779	-	39,779	42,965	-	42,965
Current market value and fair value of collateral			16,019			40,897
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	145,362	701	146,063	151,360	-	151,360
Individual impairment allowances	46,158	-	46,158	33,990	-	33,990
Collective impairment allowances	39,779	-	39,779	42,965	-	42,965
Current market value and fair value of collateral			16,510			48,878

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 THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loan 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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	16,019	40,897
Covered portion of overdue loans and advances	14,634	36,644
Uncovered portion of overdue loans and advances	104,965	90,252

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

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

(d) Repossessed assets

There were no repossessed assets of the Group during the period (2007: HK\$749,000).

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

	30 June 2008 (Unaudited)		31 December 2007 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Loans overdue less than three months	762,510	3.46	624,509	3.30
Rescheduled but not impaired loans and advances	624	-	710	-
	763,134	3.46	625,219	3.30
Trade bills, accrued interest and other receivables overdue less than three months	29,129		6,055	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loan and advances and receivables *(continued)*

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

	30 June 2008 (Unaudited)		
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2008	33,990	65,871	99,861
Amount written off	(169,550)	-	(169,550)
Impairment losses and allowances charged to the income statement	186,679	72	186,751
Impairment losses and allowances released to the income statement	(56,573)	(8,704)	(65,277)
Net charge of impairment losses and allowances	130,106	(8,632)	121,474
Loans and advances and receivables recovered	51,612	-	51,612
At 30 June 2008	46,158	57,239	103,397
Deducted from:			
Loans and advances	42,360	56,585	98,945
Trade bills, accrued interest and other receivables	3,798	654	4,452
	46,158	57,239	103,397

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loan and advances and receivables *(continued)*

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

	31 December 2007 (Audited)		
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1 January 2007	104,785	157,946	262,731
Amount written off	(408,386)	-	(408,386)
Impairment losses and allowances charged to the income statement	397,043	-	397,043
Impairment losses and allowances released to the income statement	(137,795)	(92,075)	(229,870)
Net charge of impairment losses and allowances	259,248	(92,075)	167,173
Loans and advances and receivables recovered	78,343	-	78,343
At 31 December 2007	33,990	65,871	99,861
Deducted from:			
Loans and advances	29,407	64,958	94,365
Trade bills, accrued interest and other receivables	4,583	913	5,496
	33,990	65,871	99,861

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Loan and advances and receivables *(continued)*

(g) Finance lease receivables

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Amounts receivable under finance leases:				
Within one year	517,665	520,412	411,504	382,168
In the second to fifth years, inclusive	907,295	957,861	668,207	631,289
Over five years	2,559,573	2,488,574	2,007,735	1,765,148
	3,984,533	3,966,847	3,087,446	2,778,605
Less: Unearned finance income	(897,087)	(1,188,242)		
Present value of minimum lease payments receivable	3,087,446	2,778,605		

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Held-to-maturity investments

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Certificates of deposit held	171,647	175,696
Treasury bills (including Exchange Fund Bills)	318,311	297,478
Other debt securities	1,649,027	2,395,334
	2,138,985	2,868,508
Less : Individual impairment allowance	-	(9,800)
	2,138,985	2,858,708
Listed or unlisted:		
- listed in Hong Kong	19,991	19,986
- unlisted	2,118,994	2,838,722
	2,138,985	2,858,708
Analysed by issuers:		
- Central government	318,311	297,478
- Banks and other financial institutions	1,820,674	2,412,973
- Corporate entities	-	148,257
	2,138,985	2,858,708
Market value of listed held-to-maturity investments		
- Hong Kong	19,788	19,810

Movement on impairment allowance of held-to-maturity investments

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Balance at beginning of period/year	9,800	-
Individual impairment allowance charged to the income statement for the period/year	37,000	9,800
	46,800	9,800
Less: Amount written off	(46,800)	-
Balance at end of the period/year	-	9,800

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Held-to-maturity investments *(continued)*

Overdue analysis of impaired held-to-maturity investments

	30 June 2008 (Unaudited)		31 December 2007 (Audited)	
	Gross amount HK\$'000	Percentage of total held- to-maturity investments	Gross amount HK\$'000	Percentage of total held- to-maturity investments
Overdue less than three months but impaired	-	-	77,907	2.71%

There were no held-to-maturity investments overdue more than three months.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Reserves

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Available- for-sale financial assets revaluation reserve HK\$'000	Employee share- based compensation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2007	3,988,219	829	96,116	68,565	45,765	95,881	915,283	-	5,210,658
Change in fair value and total income and expense recognised directly in equity	-	-	-	84,156	-	-	-	-	84,156
Profit for the year	-	-	-	-	-	-	665,331	-	665,331
Exchange difference	-	-	-	-	-	-	-	21,400	21,400
Transfer from retained profits	-	-	-	-	-	65,338	(65,338)	-	-
Transfer to income statement for disposal of available-for-sale financial assets	-	-	-	(108,545)	-	-	-	-	(108,545)
Dividends for 2007	-	-	-	-	-	-	(328,169)	-	(328,169)
At 31 December 2007 and 1 January 2008	3,988,219	829	96,116	44,176	45,765	161,219	1,187,107	21,400	5,544,831
Change in fair value and total income and expense recognised directly in equity	-	-	-	(21,439)	-	-	-	-	(21,439)
Profit for the period	-	-	-	-	-	-	250,227	-	250,227
Premium, net of expenses arising on share options exercised	25,139	-	-	-	-	-	-	-	25,139
Exchange difference	-	-	-	-	-	-	-	13,940	13,940
Transfer from retained profits	-	-	-	-	-	57,686	(57,686)	-	-
Dividends declared	-	-	-	-	-	-	(54,896)	-	(54,896)
At 30 June 2008	4,013,358	829	96,116	22,737	45,765	218,905	1,324,752	35,340	5,757,802

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Other past due and rescheduled assets

There were no other overdue (for more than three months) or rescheduled advances to banks and other financial institutions or other assets (other than loans and advances and receivables) as at 30 June 2008 and 31 December 2007.

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments and intangible assets) as at 30 June 2008 and 31 December 2007, and no impairment allowances and losses were charged to the income statement for such other assets for the six months ended 30 June 2008 and 2007.

17. Operating lease arrangements

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

As at 30 June 2008, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	7,154	7,807
In the second to fifth years, inclusive	2,655	2,584
	9,809	10,391

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

As at 30 June 2008, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within one year	28,173	28,681
In the second to fifth years, inclusive	14,646	17,599
	42,819	46,280

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Off-balance sheet exposure

Contingent liabilities and commitments and derivatives

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments and derivatives of the Group outstanding at the balance sheet date:

	30 June 2008 (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	278,646	-	74,026	-	-
Transaction-related contingencies	2,369	-	101	-	-
Trade related contingencies	162,436	-	27,366	-	-
Forward forward deposits placed	31,198	-	6,240	-	-
Forward asset purchases	191,729	-	38,346	-	-
	666,378	-	146,079	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	6,158,025	7,472	6,986	8,063	8,381
Interest rate swaps	-	-	-	-	-
	6,158,025	7,472	6,986	8,063	8,381
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	484,633	-	242,317	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,737,704	-	-	-	-
	11,046,740	7,472	395,382	8,063	8,381
Capital commitment contracted for, but not provided in the financial statements	13,517	-	13,517	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Off-balance sheet exposure (continued)

Contingent liabilities and commitments and derivatives (continued)

	31 December 2007 (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	287,899	-	81,595	-	-
Transaction-related contingencies	3,844	-	958	-	-
Trade related contingencies	197,345	-	37,208	-	-
Forward asset purchases	85,898	-	17,180	-	-
	574,986	-	136,941	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	2,021,126	2,121	866	2,591	2,342
Interest rate swaps	400,000	-	-	53	39
	2,421,126	2,121	866	2,644	2,381
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	508,023	-	254,011	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,777,592	-	-	-	-
	7,281,727	2,121	391,818	2,644	2,381
Capital commitment contracted for, but not provided in the financial statements	9,284	-	9,284	-	-

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 2008 and 31 December 2007, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Off-balance sheet exposure *(continued)*

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Maturity analysis of financial assets and financial liabilities

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

	30 June 2008 (Unaudited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets :								
Cash and short term placements	606,872	4,524,474	-	-	-	-	-	5,131,346
Placements with banks and financial institutions	-	-	151,125	217,048	-	-	-	368,173
Derivative financial instruments	-	3,996	3,062	1,005	-	-	-	8,063
Loans and advances and receivables	499,071	1,488,331	1,263,042	2,434,819	7,539,270	8,783,566	165,813	22,173,912
Available-for-sale financial assets	-	-	-	-	-	-	29,604	29,604
Held-to-maturity investments	-	926,231	238,629	825,567	148,558	-	-	2,138,985
Other assets	-	14,090	-	236,552	-	-	-	250,642
Total financial assets	1,105,943	6,957,122	1,655,858	3,714,991	7,687,828	8,783,566	195,417	30,100,725
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	68,909	423,640	76,850	97,137	-	-	-	666,536
Derivative financial instruments	-	4,036	3,378	967	-	-	-	8,381
Customer deposits at amortised cost	3,942,554	11,030,592	5,709,321	3,144,220	20,213	-	-	23,846,900
Certificates of deposit issued at amortised cost	-	349,988	-	799,716	-	-	-	1,149,704
Unsecured bank loans at amortised cost	-	75,000	-	299,406	1,100,000	-	-	1,474,406
Other liabilities	-	67,694	-	439,022	-	-	41	506,757
Total financial liabilities	4,011,463	11,950,950	5,789,549	4,780,468	1,120,213	-	41	27,652,684

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Maturity analysis of financial assets and financial liabilities *(continued)*

	31 December 2007 (Audited)							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	Total HK\$'000
Financial assets :								
Cash and short term placements	433,085	5,449,150	-	-	-	-	-	5,882,235
Placements with banks and financial institutions	-	-	301,175	140,364	-	-	-	441,539
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	12,262	12,262
Derivative financial instruments	-	475	1,580	589	-	-	-	2,644
Loans and advances and receivables	584,594	1,420,067	1,403,520	1,991,787	6,602,539	7,092,524	170,468	19,265,499
Available-for-sale financial assets	-	-	-	-	-	-	51,044	51,044
Held-to-maturity investments	-	1,293,378	580,093	781,431	213,606	-	-	2,868,508
Other assets	-	53,315	-	531,023	-	-	-	584,338
Total financial assets	1,017,679	8,216,385	2,286,368	3,445,194	6,816,145	7,092,524	233,774	29,108,069
Financial liabilities :								
Deposits and balances of banks and other financial institutions at amortised cost	36,074	2,130,542	35,244	62,042	-	-	-	2,263,902
Derivative financial instruments	-	1,560	285	536	-	-	-	2,381
Customer deposits at amortised cost	2,956,640	12,441,818	3,900,980	1,171,062	31,049	-	-	20,501,549
Certificates of deposit issued at amortised cost	-	-	99,995	1,149,723	799,509	-	-	2,049,227
Unsecured bank loans at amortised cost	-	-	-	-	1,100,000	-	-	1,100,000
Other liabilities	-	92,835	-	639,753	-	-	41	732,629
Total financial liabilities	2,992,714	14,666,755	4,036,504	3,023,116	1,930,558	-	41	26,649,688

20. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Board of Directors has on 25 June 2008 declared an interim dividend of HK\$0.05 (2007: HK\$0.05) per share payable on 25 July 2008 to shareholders whose names appear on the register of members of the Company on 16 July 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

During the period under review, the economic conditions of Hong Kong remained stable with low unemployment rate and positive economic growth. However, Hong Kong is also facing inflationary pressures amidst escalating costs which have a dampening effect on consumer sentiment. The operating environment for financial institutions in Hong Kong remains challenging and competitive. The uncertainty of the US sub-prime mortgage and broader credit crisis have led to tighter liquidity conditions in the Hong Kong market resulting in higher funding costs for financial institutions.

Financial Review

Group performance

For the six months ended 30 June 2008, the Group recorded a profit after tax of HK\$250.2 million, representing a slight decrease of 4.1% or HK\$10.7 million when compared to the profit after tax of HK\$261.0 million in the corresponding period of the previous financial year, after taking into account the following significant non-recurrent items:

<u>Financial effect (HK\$'000):</u>	Six months ended 30 June	
	2008	2007
Goodwill payment received	(47,281)	-
Revaluation of investment properties	(18,801)	-
Gain on disposal of listed securities	-	(17,827)
Impairment for a debt security	68,216	-
	<u>2,134</u>	<u>(17,827)</u>

Excluding the financial effects of these significant non-recurrent items, the Group's profit after tax for the six months ended 30 June 2008 would have been HK\$252.4 million as compared to HK\$243.1 million in the corresponding period of previous financial year.

The Group's basic earnings per share for the six months ended 30 June 2008 was HK\$0.229. The directors had declared a first interim dividend of HK\$0.05 per share on 25 June 2008, which is payable on 25 July 2008.

The Group's net interest income for the six months ended 30 June 2008 increased by 12.5% or HK\$58.9 million to HK\$531.8 million when compared to the corresponding period of the previous financial year. Interest expense decreased by 15.9% or HK\$64.2 million to HK\$340.7 million whilst interest income decreased slightly by 0.6% or HK\$5.3 million to HK\$872.5 million when compared to the corresponding period of the previous financial year.

The Group's non-interest income for the six months ended 30 June 2008 increased by 32.7% or HK\$48.1 million to HK\$195.3 million whilst the Group's operating expenses increased by 9.2% or HK\$19.7 million to HK\$234.2 million when compared to the corresponding period of the previous financial year. The increase in non-interest income was mainly due to the receipt of a non-recurrent goodwill payment of HK\$47.3 million arising from the Regional Strategic Alliance Agreement with ING Group to distribute insurance products, whereas there was a net gain of HK\$17.8 million on disposal of listed securities recorded in the corresponding period of the previous

financial year. The continuing expansion of the branch network of the Group's banking subsidiary, Public Bank (Hong Kong) Limited, and increase in advertising and promotional activities in further building the "PB Brand" and the Group's loan business have resulted in the increase in operating expenses which has impacted the profitability of the Group.

During the period under review, the Group made further impairment allowance to provide as a one-off impairment charge of HK\$68.2 million for capital notes, which has resulted in the Group's impairment allowance increased by HK\$100.0 million to HK\$189.7 million when compared to the corresponding period of the previous year.

The Group's total loans and advances (including trade bills) increased by 15.3% or HK\$2.93 billion to HK\$22.04 billion as at 30 June 2008 from HK\$19.11 billion as at 31 December 2007. The Group's deposits from customers also increased by 16.3% or HK\$3.35 billion to HK\$23.85 billion as at 30 June 2008 from HK\$20.50 billion as at 31 December 2007. Total assets of the Group increased by 3.2% to HK\$33.71 billion as at 30 June 2008 from HK\$32.68 billion as at 31 December 2007.

Business development of Public Bank (Hong Kong) (the "Bank")

During the period under review, total loans and advances (including trade bills) of the Bank grew by 16.4% or HK\$2.53 billion to HK\$17.95 billion as at 30 June 2008 from HK\$15.42 billion as at 31 December 2007. Deposits from customers also grew by 16.2% or HK\$2.97 billion to HK\$21.36 billion as at 30 June 2008 from HK\$18.39 billion as at 31 December 2007.

The Bank continued to expand its network of branches with the opening of 2 new branches in Hong Kong in the period under review. Together with the 9 branches opened in 2007, the Bank's branch network increased to 25 branches in Hong Kong and 2 branches in the People's Republic of China (the "PRC"). The Bank will continue to open new branches during the year at suitable locations under its branch network expansion programme.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its retail and commercial banking and retail consumer financing businesses in respect of treasury, trade finance and loan commitments disclosed in the notes to the financial statements) at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. The Group also had not created any charge over the assets of the Group as at 30 June 2008, which was the same position as disclosed by the Group as at 31 December 2007.

Segmental information

The Group's business comprised three main segments: (i) retail and commercial banking and lending, (ii) wealth management services, stockbroking and securities management and (iii) other businesses. Over 75% of the Group's operating income and profit before tax were contributed by retail and commercial banking and lending in Hong Kong for the period under review. When compared to the first half of the previous financial year, the Group's operating income from retail and commercial banking and lending increased by HK\$61.3 million or 10.8% to HK\$629.6 million. Due to the increase in operating expenses arising from the opening of new branches as well as the brand building of the "PB Brand", profit before tax from retail and commercial banking and lending only increased slightly by 1.7% or HK\$4.6 million to HK\$277.9 million when compared to the corresponding period of the previous financial year.

Operational Review

Funding and capital management

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

The Group relied principally on its internally generated capital, deposits from customer, deposits from financial institutions and the issuance of certificates of deposit to fund its retail consumer financing business and commercial banking business. The Group's bank borrowings in the form of a three-year term loan denominated in Hong Kong dollars at floating interest rates to partly finance the acquisition of Public Bank (Hong Kong), and in the form of other borrowings stood at HK\$1.47 billion with a healthy gearing ratio (based on the ratio of bank loans to equity) of 25.1% as at 30 June 2008. In the normal course of its commercial banking business, the Group has entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures.

The loan to deposit ratio of the Group increased to 85.0% as at 30 June 2008 from 76.4% as at 31 December 2007 as a result of growth in loans and advances during the period under review.

Asset quality

The Group's impaired loans to total loans ratio improved to 0.6% as at 30 June 2008 from 0.8% as at 31 December 2007. The Group will continue to adopt a prudent credit risk management strategy and endeavour with its best efforts in the recovery of impaired loans.

Human resources management

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

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's share option scheme approved by shareholders on 28 February 2002. In the first half of 2008, 4,021,000 options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2008, outstanding options to subscribe for 35,829,000 shares in the Company remained unexercised.

As at 30 June 2008, the Group's staff force stood at 1,041 employees. For the six months ended 30 June 2008, the Group's total staff and related cost amounted to HK\$129.5 million.

Prospects

The economic outlook of Hong Kong is expected to be challenging in the second half of 2008 with inflationary pressures leading to rising prices of goods, in particular goods imported from the PRC due to the appreciation of the Renminbi against Hong Kong Dollars. The employment market for the banking industry is also anticipated to remain tight with keen competition for talent which will further increase costs in retaining staff and higher staff turnover rates in the banking and financing industry in Hong Kong. The PRC is expected to continue to implement macro-economic control measures to contain surging inflationary pressures which may have a dampening impact on consumer sentiment and confidence in Hong Kong. However, Hong Kong is expected to continue benefiting from the continuing economic growth in the PRC.

The Group will continue to focus on expanding its retail and commercial banking business and consumer financing business through its branch expansion programme, innovative product development and aggressive marketing strategies. The Group will continue to seek further synergies in greater economies of scale and lower operating costs through the integration of the support functions of Public Bank (Hong Kong) and Public Finance Limited ("Public Finance"), where appropriate, enhancing efficiency of the Group organisational structure and cross-selling to the enlarged customer base of the combined branch network of Public Bank (Hong Kong) and Public Finance. The Group will continue to target selected market segments of Public Bank (Hong Kong) and Public Finance to grow its retail and commercial banking and consumer financing businesses.

Competition in the banking and financing industry is expected to remain keen with financial institutions seeking greater market share. The competitive environment will continue to add pressure on the pricing of banking and financing products. However, the Group will continue to adopt prudential risk management strategies and flexible business strategies amidst volatile market conditions.

Barring unforeseen circumstances, the Group expects to register further growth in its lending and deposit-taking businesses and achieve satisfactory performance in the second half of 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2008 interim report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

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

The Board will keep on reviewing the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the Code on Corporate Governance Practices as set out in the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY AUDIT COMMITTEE

The 2008 interim report has been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

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

Hong Kong, 11 July 2008

As at the date of this announcement, the Board of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Tan Sri Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam and Mr. Wong Kong Ming as Non-executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Tan Sri Dato' Thong Yaw Hong, Dato' Yeoh Chin Kee and Mr. Lee Chin Guan as Independent Non-executive Directors.

** For identification purpose only*