PUBLIC FINANCE LIMITED

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

PUBLIC FINANCE LIMITED
(Incorporated in Hong Kong with limited liability)
(Website: www.publicfinance.com.hk)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The Board of Directors of Public Finance 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 2013 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	6	**462,846**	463,359
Interest expense	6	**(30,037)**	(36,926)
NET INTEREST INCOME		**432,809**	426,433
Other operating income	7	**65,472**	61,241
OPERATING INCOME		**498,281**	487,674
Operating expenses	8	**(187,061)**	(185,477)
Changes in fair value of investment properties		**526**	1,281
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**311,746**	303,478
Impairment allowances for loans and advances and receivables	9	**(160,072)**	(161,582)
PROFIT BEFORE TAX		**151,674**	141,896
Tax	10	**(24,890)**	(23,245)
PROFIT FOR THE PERIOD		**126,784**	118,651
ATTRIBUTABLE TO:			
Owners of the Company		**126,784**	118,651

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**126,784**	118,651
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**126,784**	118,651
ATTRIBUTABLE TO:		
Owners of the Company	**126,784**	118,651

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000
ASSETS			
Cash and short term placements	12	**1,052,893**	859,305
Loans and advances and receivables	13	**4,579,784**	4,576,600
Held-to-maturity investments	14	**9,998**	9,997
Investment properties	15	**35,637**	42,150
Property and equipment	16	**18,305**	18,913
Land held under finance leases	17	**35,858**	29,956
Deferred tax assets		**15,676**	16,088
Tax recoverable		**-**	123
Intangible assets		**486**	486
Other assets	18	**24,383**	62,268
TOTAL ASSETS		**5,773,020**	5,615,886
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	19	**4,020,720**	3,830,376
Current tax payable		**26,061**	13,078
Deferred tax liabilities		**4,222**	4,185
Other liabilities		**70,855**	123,545
TOTAL LIABILITIES		**4,121,858**	3,971,184
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**258,800**	258,800
Reserves	20	**1,392,362**	1,385,902
TOTAL EQUITY		**1,651,162**	1,644,702
TOTAL EQUITY AND LIABILITIES		**5,773,020**	5,615,886

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**1,644,702**	1,633,719
Profit for the period	**126,784**	118,651
Other comprehensive income	**-**	-
Total comprehensive income for the period	**126,784**	118,651
Dividends paid in respect of previous year	**(120,324)**	(128,655)
Balance at the end of the period	**1,651,162**	1,623,715

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**327,283**	435,064
INVESTING ACTIVITIES	**(3,373)**	(6,686)
FINANCING ACTIVITIES	**(120,324)**	(128,655)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**203,586**	299,723
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**859,305**	534,740
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,062,891**	834,463
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**241,964**	345,062
Money at call and short notice with an original maturity within three months	**810,929**	479,403
Held-to-maturity investments with an original maturity within three months	**9,998**	9,998
	1,062,891	834,463

NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in compliance with the Banking (Disclosure) Rules ("BDR") issued by the Hong Kong Monetary Authority (the "HKMA").

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the 2012 Audited Financial Statements of Public Finance Limited (the "Company") and its subsidiaries (the "Group").

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2012 Audited Financial Statements, except for the changes in accounting policies as set out in note 4 below.

2. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the interim financial statements of the Company and its subsidiaries as at and for the period ended 30 June each year. The interim financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

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

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

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

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

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

2. BASIS OF CONSOLIDATION *(continued)*

The subsidiaries consolidated for accounting purposes are as follows:

Name	30 June 2013 Total Assets (Unaudited) HK$'000	30 June 2013 Total Equity (Unaudited) HK$'000	Principal Activities
Public Financial Limited	10,101	10,101	Investment holding
Public Securities Limited	169,869	139,230	Securities brokerage
Public Securities (Nominees) Limited	1,019	1,001	Provision of nominee services

The computation of liquidity ratio and capital adequacy ratio for regulatory purpose is based on the Company only.

3. BASIS OF CAPITAL DISCLOSURES

The Company has complied with the capital requirements during the interim reporting period related to capital base and the capital adequacy ratio as stipulated by the HKMA, and has also complied with the Guideline on the Application of the BDR issued by the HKMA.

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

The computation of the capital adequacy ratio of the Company is based on the risk-weighted exposures to the capital base of the Company for regulatory reporting purpose. No subsidiary will be consolidated for capital adequacy ratio computation as the subsidiaries do not satisfy the criteria as stipulated in the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA.

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 should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong. A portion of retained profits, based on a percentage of gross loans and advances, is set aside as non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

3. BASIS OF CAPITAL DISCLOSURES *(continued)*

With effect from 1 January 2013, the Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Capital Rules. The Capital Rules outline the general requirements on regulatory capital adequacy ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital adequacy ratios are progressively increased from 1 January 2013 to 1 January 2019, and include a phased introduction of a new capital conservation buffer of 2.5%. Additional capital requirements, including a new counter-cyclical buffer ranging from 0% to 2.5% will be detailed at a later stage.

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2013. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2013 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 – Government Loans*
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
• HKFRS 10	*Consolidated Financial Statements*
• HKFRS 11	*Joint Arrangements*
• HKFRS 12	*Disclosure of Interests in Other Entities*
• HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
• HKFRS 13	*Fair Value Measurement*
• HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income ("OCI")*
• HKAS 19 (2011)	*Employee Benefits*
• HKAS 27 (2011)	*Separate Financial Statements*
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
• Annual Improvements 2009 - 2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

4. ACCOUNTING POLICIES *(continued)*
Changes in accounting policies and disclosures *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 7 Amendments require an entity to disclose information about rights to set-off financial instrument and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The amendments do not have any material financial impact on the Group.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. The amendments do not have any material financial impact on the Group.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group adopted HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard has no material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

4. ACCOUNTING POLICIES *(continued)*

Changes in accounting policies and disclosures *(continued)*

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10, provide further relief from full retrospective application of these standards, and limit the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. These amendments have no material impact on the Group.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The application of this new standard has no material financial impact on the Group.

HKAS 1 Amendments introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g. net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (e.g. actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments do not have any material impact on the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The application of this new standard does not have any material impact on the Group.

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has a significant financial impact on the Group:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The voluntary additional comparative information does not need to be presented in a complete set of financial statements.

4. ACCOUNTING POLICIES *(continued)*
Changes in accounting policies and disclosures *(continued)*

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and such change or action has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 16 *Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

(c) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders. The amendment does not have an impact on the interim condensed consolidated financial statements of the Group as there is no tax consequences attached to cash or non cash distribution.

(d) HKAS 34 *Interim Financial Reporting*: Clarifies the requirements in HKAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in HKFRS 8 *Operating Segments*.

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

4. ACCOUNTING POLICIES *(continued)*

Impact of issued but not yet effective HKFRSs

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

•	HKFRS 9	*Financial Instruments*[2]
	HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
•	HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*[1]
•	HKAS 36 (Amendments)	*Impairment of Assets*[1]
•	HK(IFRIC)-Int 21	*Levies*[1]

[1] effective for annual periods beginning on or after 1 January 2014
[2] effective for annual periods beginning on or after 1 January 2015

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantity the effect in conjunction with other phases, when the final standard including all phases is issued.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9, rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company and its subsidiaries are not investment entities as defined in HKFRS 10 upon adoption on 1 January 2014.

4. ACCOUNTING POLICIES *(continued)*
Impact of issued but not yet effective HKFRSs *(continued)*

HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set-off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Subsequent to the issuance of HKFRS 13 *Fair Value Measurement*, an amendment has been made to HKAS 36 *Impairment of Assets* which requires the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendment is not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

HK(IFRIC)-Int 21 *Levies* addresses how an entity should account for liabilities to pay for levies imposed by governments, other than income taxes, in its financial statements. The principal question raised is about when the entity should recognise a liability to pay a levy. The interpretation is not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

5. SEGMENT INFORMATION
Operating segment information

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

- the core businesses of the Group are personal and commercial businesses, which comprise mainly the granting of personal loans, overdrafts, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, and the provision of finance to purchasers of taxis.

- the stockbroking comprises securities dealing and receipt of commission income.

- other businesses comprise mainly the letting of investment properties.

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2013 and 2012.

	Personal and commercial businesses For the six months ended 30 June		**Stockbroking For the six months ended 30 June**		**Other businesses For the six months ended 30 June**		**Total For the six months ended 30 June**	
	2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000
Segment revenue								
Net interest income	**432,782**	426,423	**27**	10	**-**	-	**432,809**	426,433
Other operating income:								
Fees and commission income	**48,623**	48,383	**15,967**	12,192	**-**	-	**64,590**	60,575
Others	**227**	65	**(2)**	(12)	**657**	613	**882**	666
Operating income	**481,632**	474,871	**15,992**	12,190	**657**	613	**498,281**	487,674
Profit before tax	**141,132**	135,245	**9,812**	5,204	**730**	1,447	**151,674**	141,896
Tax							**(24,890)**	(23,245)
Profit for the period							**126,784**	118,651
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(5,086)**	(3,430)	**-**	-	**-**	-	**(5,086)**	(3,430)
Changes in fair value of investment properties	**-**	-	**-**	-	**526**	1,281	**526**	1,281
Impairment allowances for loans and advances and receivables	**(160,072)**	(161,582)	**-**	-	**-**	-	**(160,072)**	(161,582)
Net losses on disposal of property and equipment	**(32)**	(78)	**-**	-	**-**	-	**(32)**	(78)

5. SEGMENT INFORMATION *(continued)*

Operating segment information *(continued)*

The following table represents certain assets and liabilities information regarding operating segments as at 30 June 2013 and 31 December 2012.

	Personal and commercial businesses		Stockbroking		Other businesses		Total	
	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000	**30 June 2013 (Unaudited) HK$'000**	31 December 2012 (Audited) HK$'000
Segment assets other than intangible assets	**5,550,718**	5,350,942	**170,503**	206,097	**35,637**	42,150	**5,756,858**	5,599,189
Intangible assets	**-**	-	**486**	486	**-**	-	**486**	486
Segment assets	**5,550,718**	5,350,942	**170,989**	206,583	**35,637**	42,150	**5,757,344**	5,599,675
Unallocated assets:								
Deferred tax assets and tax recoverable							**15,676**	16,211
Total assets							**5,773,020**	5,615,886
Segment liabilities	**4,061,851**	3,878,859	**29,332**	74,686	**392**	376	**4,091,575**	3,953,921
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**30,283**	17,263
Total liabilities							**4,121,858**	3,971,184
Other segment information								
Additions to non-current assets - capital expenditure	**3,373**	11,790	**-**	-	**-**	-	**3,373**	11,790

Geographical information

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

The Group had no cross-border claims as at 30 June 2013 and 31 December 2012.

Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**462,629**	463,190
Short term placements and placements with banks	**212**	160
Held-to-maturity investments	**5**	9
	462,846	463,359
Interest expense on:		
Deposits from customers	**29,990**	36,849
Bank loans	**47**	77
	30,037	36,926

Interest income and interest expense for the six months ended 30 June 2013, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$462,846,000 and HK$30,037,000 (2012: HK$463,359,000 and HK$36,926,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2013 amounted to HK$1,340,000 (2012: HK$1,300,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Fees and commission income:		
Personal and commercial lending	**48,624**	48,383
Stockbroking	**15,967**	12,192
	64,591	60,575
Gross rental income	**665**	620
Less: Direct operating expenses	**(8)**	(7)
Net rental income	**657**	613
Net losses on disposal of property and equipment	**(32)**	(78)
Others	**256**	131
	65,472	61,241

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

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables, financial liabilities at amortised cost, and financial assets and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2013 and 2012.

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

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**96,466**	87,322
Pension contributions	**4,738**	4,286
Less: Forfeited contributions	**(11)**	(16)
Net contribution to retirement benefit schemes	**4,727**	4,270
	101,193	91,592
Other operating expenses:		
Operating lease rentals on leasehold buildings	**21,568**	20,404
Depreciation of property and equipment and land held under finance leases	**5,085**	3,430
Administrative and general expenses	**13,979**	15,941
Others	**45,236**	54,110
Operating expenses before changes in fair value of investment properties	**187,061**	185,477

As at 30 June 2013 and 2012, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current period credits arose in respect of staff who left the schemes during the period.

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for impairment losses and allowances:		
- loans and advances	**160,072**	161,582
Net charge for impairment losses and allowances:		
- individually assessed	**159,043**	159,236
- collectively assessed	**1,029**	2,346
	160,072	161,582
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	**239,655**	243,482
- releases and recoveries	**(79,583)**	(81,900)
Net charge to the consolidated income statement	**160,072**	161,582

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2013 and 2012.

10. TAX

	For the six months ended 30 June 2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
Current tax charge	**24,441**	24,955
Under-provision in prior periods	**-**	11,043
Deferred tax charge/(credit), net	**449**	(12,753)
	24,890	23,245

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

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 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 2013 (Unaudited) HK$'000	%	2012 (Unaudited) HK$'000	%
Profit before tax	**151,674**		141,896	
Tax at the applicable tax rate	**25,026**	**16.5**	23,413	16.5
Estimated tax effect of net income that is not taxable	**(136)**	**(0.1)**	(211)	(0.1)
Adjustments in respect of deferred tax of previous periods	**-**	**-**	(11,000)	(7.8)
Adjustments in respect of current tax of previous periods	**-**	**-**	11,043	7.8
Tax charge at the Group's effective rate	**24,890**	**16.4**	23,245	16.4

11. DIVIDENDS

	For the six months ended 30 June			
	2013 (Unaudited) HK cents per ordinary share	2012 (Unaudited) HK cents per ordinary share	**2013 (Unaudited) HK$'000**	2012 (Unaudited) HK$'000
Interim	**45.559**	43.998	**117,907**	113,867
Special	**31.721**	-	**82,094**	-
	77.280	43.998	**200,001**	113,867

On 15 July 2013, the Board of Directors declared an interim dividend of HK$45.559 cents per ordinary share totalling HK$117,906,692 and a special dividend of HK$31.721 cents per ordinary share totalling HK$82,093,948.

On 20 February 2013, a dividend of HK$46.493 cents per ordinary share totalling HK$120,323,884 was paid to shareholder as the final dividend for 2012.

On 17 February 2012, a dividend of HK$49.712 cents per ordinary share totalling HK$128,654,656 was paid to shareholder as the final dividend for 2011.

12. CASH AND SHORT TERM PLACEMENTS

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Cash and placements with banks and financial institutions	**241,964**	235,001
Money at call and short notice	**810,929**	624,304
	1,052,893	859,305

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

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

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Loans and advances to customers	**4,633,151**	4,633,173
Accrued interest	**52,112**	49,298
Gross loans and advances and receivables	**4,685,263**	4,682,471
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	**(87,556)**	(88,977)
- collectively assessed	**(17,923)**	(16,894)
	(105,479)	(105,871)
Loans and advances and receivables	**4,579,784**	4,576,600

Over 90% of the loans and advances and receivables were unrated exposures. Over 90% of the collateral for the secured loans and advances and receivables were customer deposits, properties, taxi licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**4,222,928**	4,296,153
Past due but not impaired loans and advances and receivables	**333,278**	254,489
Individually impaired loans and advances	**129,057**	131,829
Total loans and advances and receivables	**4,685,263**	4,682,471

About 23% of "Neither past due nor impaired loans and advances and receivables" were residential property mortgage loans, commercial property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

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

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

	30 June 2013 (Unaudited)		31 December 2012 (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	**89,719**	**1.94**	92,154	1.99
One year or less but over six months	**3,090**	**0.07**	2,427	0.05
Over one year	**-**	**-**	-	-
Loans and advances overdue for more than three months	**92,809**	**2.01**	94,581	2.04
Rescheduled loans and advances overdue for three months or less	**30,211**	**0.65**	33,368	0.72
Impaired loans and advances overdue for three months or less	**6,037**	**0.13**	3,880	0.09
Total overdue and impaired loans and advances	**129,057**	**2.79**	131,829	2.85

There were no accrued interests on overdue and impaired loans and advances as at 30 June 2013 and 31 December 2012.

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

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

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	**92,809**	94,581
Individual impairment allowances	**64,820**	66,077
Current market value and fair value of collateral	**-**	-
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	**129,057**	131,829
Individual impairment allowances	**87,556**	88,977
Current market value and fair value of collateral	**-**	-

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

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

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

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**-**	-
Covered portion of overdue loans and advances	**-**	-
Uncovered portion of overdue loans and advances	**92,809**	94,581

The assets taken as collateral should satisfy the following criteria:

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

(d) Repossessed assets

There were no repossessed assets of the Group as at 30 June 2013 and 31 December 2012.

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

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances and receivables overdue for three months or less	**333,278**	**7.2**	254,489	5.5

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

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

	30 June 2013 (Unaudited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2013	**88,977**	**16,894**	**105,871**
Amounts written off	**(239,061)**	**-**	**(239,061)**
Impairment losses and allowances charged to the consolidated income statement	**237,640**	**2,015**	**239,655**
Impairment losses and allowances released to the consolidated income statement	**(78,597)**	**(986)**	**(79,583)**
Net charge of impairment losses and allowances	**159,043**	**1,029**	**160,072**
Loans and advances and receivables recovered	**78,597**	**-**	**78,597**
At 30 June 2013	**87,556**	**17,923**	**105,479**
Deducted from:			
Loans and advances and receivables	**87,556**	**17,923**	**105,479**

NOTES TO INTERIM 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 2012 (Audited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2012	88,179	11,796	99,975
Amounts written off	(475,004)	-	(475,004)
Impairment losses and allowances charged to the consolidated income statement	475,802	5,607	481,409
Impairment losses and allowances released to the consolidated income statement	(162,684)	(509)	(163,193)
Net charge of impairment losses and allowances	313,118	5,098	318,216
Loans and advances and receivables recovered	162,684	-	162,684
At 31 December 2012	88,977	16,894	105,871
Deducted from:			
Loans and advances and receivables	88,977	16,894	105,871

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 2013 (Unaudited)	31 December 2012 (Audited)	**30 June 2013 (Unaudited)**	31 December 2012 (Audited)
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under finance leases:				
Within one year	**55,116**	54,232	**43,301**	42,507
In the second to fifth years, inclusive	**131,050**	131,285	**93,210**	93,487
Over five years	**460,563**	458,444	**381,747**	380,177
	646,729	643,961	**518,258**	516,171
Less: Unearned finance income	**(128,471)**	(127,790)		
Present value of minimum lease payments receivable	**518,258**	516,171		

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. HELD-TO-MATURITY INVESTMENTS

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	**9,998**	9,997
Analysed by type of issuers:		
- Central government	**9,998**	9,997

Impairment allowances of held-to-maturity investments were nil as at 30 June 2013 and 31 December 2012. There were no movements in impairment allowances for the period ended 30 June 2013 and for the year ended 31 December 2012.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2013 and 31 December 2012. There were no listed held-to-maturity investments as at 30 June 2013 and 31 December 2012.

All exposures attributed to the held-to-maturity investments were rated with a grading of Aa1 based on the credit rating of an external credit agency, Moody's.

15. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
At 1 January 2012	30,540
Changes in fair value	11,610
At 31 December 2012 and 1 January 2013 (Audited)	**42,150**
Changes in fair value	**526**
Transfer to property and equipment	**(651)**
Transfer to land held under finance leases	**(6,388)**
At 30 June 2013 (Unaudited)	**35,637**

At 30 June 2013, investment properties with a carrying amount of HK$35,111,000 (31 December 2012: HK$30,540,000) were revalued at HK$35,637,000 (31 December 2012: HK$42,150,000) according to a revaluation report issued by C S Surveyors Limited, a firm of independent professionally qualified valuers, on an open market value and existing use basis. The increase in fair value of HK$526,000 (31 December 2012: HK$11,610,000) resulting from the above valuation has been credited to the consolidated income statement.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 21(a) to the interim financial statements.

16. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2012	4,243	67,352	1,609	73,204
Additions	-	11,790	-	11,790
Disposals/write-off	-	(1,741)	-	(1,741)
At 31 December 2012 and 1 January 2013 (Audited)	**4,243**	**77,401**	**1,609**	**83,253**
Additions	**-**	**3,373**	**-**	**3,373**
Transfer from investment properties	**651**	**-**	**-**	**651**
Disposals/write-off	**-**	**(591)**	**-**	**(591)**
At 30 June 2013 (Unaudited)	**4,894**	**80,183**	**1,609**	**86,686**
Accumulated depreciation:				
At 1 January 2012	1,171	56,398	1,609	59,178
Provided during the year	87	6,683	-	6,770
Disposals/write-off	-	(1,608)	-	(1,608)
At 31 December 2012 and 1 January 2013 (Audited)	**1,258**	**61,473**	**1,609**	**64,340**
Provided during the period	**50**	**4,550**	**-**	**4,600**
Disposals/write-off	**-**	**(559)**	**-**	**(559)**
At 30 June 2013 (Unaudited)	**1,308**	**65,464**	**1,609**	**68,381**
Net carrying amount:				
At 30 June 2013 (Unaudited)	**3,586**	**14,719**	**-**	**18,305**
At 31 December 2012 (Audited)	2,985	15,928	-	18,913

No valuation has been made for the above items of property and equipment for the period ended 30 June 2013 and for the year ended 31 December 2012.

17. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
At 1 January 2012, 31 December 2012 and 1 January 2013 (Audited)	40,965
Transfer from investment properties	6,388
At 30 June 2013 (Unaudited)	**47,353**
Accumulated depreciation and impairment:	
At 1 January 2012	10,208
Depreciation provided during the year	801
At 31 December 2012 and 1 January 2013 (Audited)	**11,009**
Depreciation provided during the period	**486**
At 30 June 2013 (Unaudited)	**11,495**
Net carrying amount:	
At 30 June 2013 (Unaudited)	**35,858**
At 31 December 2012 (Audited)	29,956

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

18. OTHER ASSETS

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Interest receivable from authorised institutions	**7**	4
Other debtors, deposits and prepayments	**23,540**	60,796
Amount due from a fellow subsidiary	**836**	1,468
	24,383	62,268

The amount due from a fellow subsidiary is unsecured, interest-free and repayable on demand.

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

19. CUSTOMER DEPOSITS AT AMORTISED COST

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Repayable:		
On demand	**12,439**	8,505
Within three months or less	**3,030,496**	2,951,318
Within one year or less but over three months	**977,685**	870,553
Over one year	**100**	-
	4,020,720	3,830,376

20. RESERVES

	Share premium account HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	412,238	83,190	879,491	1,374,919
Profit for the year	-	-	253,505	253,505
Transfer from retained profits	-	2,138	(2,138)	-
Dividends paid in respect of previous year	-	-	(128,655)	(128,655)
Dividends paid in respect of current year	-	-	(113,867)	(113,867)
At 31 December 2012 and 1 January 2013 (Audited)	**412,238**	**85,328**	**888,336**	**1,385,902**
Profit for the period	**-**	**-**	**126,784**	**126,784**
Transfer from retained profits	**-**	**1,749**	**(1,749)**	**-**
Dividends paid in respect of previous year	**-**	**-**	**(120,324)**	**(120,324)**
At 30 June 2013 (Unaudited)	**412,238**	**87,077**	**893,047**	**1,392,362**

Note:

In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Company's regulatory reserve and collective impairment allowances were included as CET1 in the Company's capital base at 30 June 2013 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guidelines from the HKMA.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties as shown in note 15 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

As at 30 June 2013 and 31 December 2012, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within one year	**1,350**	1,105
In the second to fifth years, inclusive	**435**	754
	1,785	1,859

(b) As lessee

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

As at 30 June 2013 and 31 December 2012, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Audited) HK$'000
Within one year	**38,356**	29,149
In the second to fifth years, inclusive	**19,237**	12,666
	57,593	41,815

22. COMMITMENTS AND CONTINGENT LIABILITIES

	30 June 2013 (Unaudited)		31 December 2012 (Audited)	
	Contractual amount HK$'000	**Credit risk-weighted amount HK$'000**	Contractual amount HK$'000	Credit risk-weighted amount HK$'000
Capital commitments contracted for, but not provided in the statement of financial position				
- with an original maturity of not more than one year	**270**	**-**	461	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- customers	**116**	**-**	108	-
	386	**-**	569	-

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 Capital Rules 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.

Save as disclosed above, the Group had no material outstanding contingent liabilities and commitments as at 30 June 2013 and 31 December 2012.

During the period, no derivative activities were transacted by the Group (2012: Nil).

23. 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 other than cash and short term placements, that are carried in the interim financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Carrying value HK$'000	**Fair value HK$'000**	**Unrecognised loss HK$'000**	Carrying value HK$'000	Fair value HK$'000	Unrecognised loss HK$'000
Financial assets						
Loans and advances and receivables	**4,579,784**	**4,579,784**	**-**	4,576,600	4,576,600	-
Held-to-maturity investments	**9,998**	**9,996**	**(2)**	9,997	9,997	-
Other assets	**24,383**	**24,383**	**-**	62,268	62,268	-
Financial liabilities						
Customer deposits at amortised cost	**4,020,720**	**4,020,720**	**-**	3,830,376	3,830,376	-
Other liabilities	**70,855**	**70,855**	**-**	123,545	123,545	-
Total unrecognised loss			**(2)**			-

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

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

Fixed rate financial instruments

The fair values of fixed rate financial assets and financial liabilities carried at amortised cost are based on discounted cash flow model using current interest rates offered for similar financial instruments appropriate for remaining term to maturity.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

(b) Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant inputs are not based on observable market data.

There were no financial instruments stated at fair value as at 30 June 2013 and 31 December 2012.

There were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy for the six months ended 30 June 2013 and the year ended 31 December 2012.

There were no purchases, issues and settlements related to the Level 3 financial instruments for the six months ended 30 June 2013 and for the year ended 31 December 2012.

There were no gain or loss and no other comprehensive income reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to Level 3 financial instruments for the period ended 30 June 2013 and the year ended 31 December 2012.

There were no financial assets and financial liabilities that offset against each other as at 30 June 2013 and 31 December 2012.

NOTES TO INTERIM FINANCIAL STATEMENTS

24. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2013 (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	**241,964**	**810,929**	**-**	**-**	**-**	**-**	**-**	**1,052,893**
Loans and advances and receivables	**31,254**	**229,292**	**373,431**	**1,322,420**	**1,761,947**	**833,973**	**132,946**	**4,685,263**
Held-to-maturity investments	**-**	**-**	**9,998**	**-**	**-**	**-**	**-**	**9,998**
Other assets	**-**	**6,912**	**-**	**-**	**-**	**-**	**17,471**	**24,383**
Total financial assets	**273,218**	**1,047,133**	**383,429**	**1,322,420**	**1,761,947**	**833,973**	**150,417**	**5,772,537**
Financial liabilities:								
Customer deposits at amortised cost	**12,439**	**984,225**	**2,046,271**	**977,685**	**100**	**-**	**-**	**4,020,720**
Other liabilities	**81**	**19,177**	**4,997**	**1,828**	**-**	**-**	**44,772**	**70,855**
Total financial liabilities	**12,520**	**1,003,402**	**2,051,268**	**979,513**	**100**	**-**	**44,772**	**4,091,575**

	31 December 2012 (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	235,001	624,304	-	-	-	-	-	859,305
Loans and advances and receivables	21,038	229,932	366,556	1,305,572	1,827,812	795,702	135,859	4,682,471
Held-to-maturity investments	-	-	9,997	-	-	-	-	9,997
Other assets	-	46,776	-	-	-	-	15,492	62,268
Total financial assets	256,039	901,012	376,553	1,305,572	1,827,812	795,702	151,351	5,614,041
Financial liabilities:								
Customer deposits at amortised cost	8,505	1,046,593	1,904,725	870,553	-	-	-	3,830,376
Other liabilities	46	63,679	4,883	1,903	-	-	53,034	123,545
Total financial liabilities	8,551	1,110,272	1,909,608	872,456	-	-	53,034	3,953,921

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management

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

Market risk management

(a) Interest rate risk

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

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group has no significant foreign currency risk as the Group's assets and liabilities were mainly denominated in Hong Kong dollars for the six months ended 30 June 2013 and for the year ended 31 December 2012. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

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

25. 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 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 Committee and approved by the board of directors). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and its capital resources. Its policy on connected lending defines and states connected parties, statutory and applicable connected lending limits, types of connected transactions, the taking of collateral, the capital adequacy treatment and detailed procedures and controls for monitoring connected lending exposures. In general, interest rates and other terms and conditions applying to connected lending should not be more favourable than those loans offered to non-connected borrowers under similar circumstances. The terms and conditions should be determined on normal commercial terms at arm's length and in the ordinary course of business of the Group.

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

Compliance Department conducts compliance test audit at selected business units on identified high risk areas for adherence to regulatory and operational requirements and credit policies.

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

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

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk management *(continued)*

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

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

The "Neither past due nor impaired loans and advances and receivables" are shown in note 13 to the interim financial statements.

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

Liquidity risk management

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

Assets and Liabilities Management Committee monitors the liquidity position as part of the ongoing management of assets and liabilities, 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 their funding needs, and that internal liquidity trigger limits are complied with. Standby facilities are maintained to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

Operational risk management

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

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

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

Capital of the Company for regulatory and risk management purposes includes share capital, share premium, reserves, retained profits and regulatory reserve. Accounts Department is responsible for monitoring the amount of the capital base and capital adequacy ratio against trigger limits and for risk exposures, and ensuring compliance with relevant statutory limits, taking into account business growth, dividend payout and other relevant factors.

The Company's policy is to maintain a strong capital base to support the development of the Company's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Company depending on the risks taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame of 3 years.

Capital adequacy ratios

With effect from 1 January 2013, the capital adequacy ratios of the Company are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. As a result, the capital ratios shown for 30 June 2013 are not directly comparable to those of 31 December 2012. The Company has adopted the standardised approach for calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures during the period ended 30 June 2013 and the year ended 31 December 2012. The Company is granted an exemption by the HKMA for calculation of market risk exposures which are immaterial to the Company. The capital adequacy ratios of the Company of 31 December 2012 are based on the Basel II capital accord.

The capital ratios and relevant comparatives are set out in the table below.

	Company	
	Basel III	Basel II
	30 June 2013	31 December 2012
	(Unaudited)	(Audited)
CET1 Capital Ratio	**24.7%**	N/A
Tier 1 Capital Ratio	**24.7%**	26.5%
Total Capital Ratio	**25.6%**	27.7%

The above capital ratios are higher than the minimum capital ratios required by the HKMA.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital disclosures

The Basel III enhancement have changed the composition of the capital calculation. The new composition is not comparable to the previous Basel II calculation, hence comparative figures are not provided. Prior period figures under the Basel II rules is shown in a separate table.

The components of the Company's total capital base under Basel III include the following items:

	30 June 2013 (Unaudited) HK$'000
CET1 capital instruments	**258,800**
Share premium	**412,238**
Retained earnings	**562,822**
Disclosed reserves	**87,078**
CET1 CAPITAL BEFORE DEDUCTION	**1,320,938**
Deduct:	
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	**(5,081)**
Regulatory reserve for general banking risk	**(87,078)**
Deferred tax assets in excess of deferred tax liabilities	**(11,476)**
CET1 CAPITAL AFTER DEDUCTION	**1,217,303**
ADDITIONAL TIER 1 CAPITAL	**-**
TIER 1 CAPITAL AFTER DEDUCTIONS	**1,217,303**
Reserve attributable to fair value gains	**2,286**
Regulatory reserve for general banking risk	**26,492**
Collective provisions	**17,923**
	44,415
TIER 2 CAPITAL	**46,701**
CAPITAL BASE	**1,264,004**

Capital adequacy ratios at 30 June 2013 were compiled on solo basis in accordance with the Capital Rules and Section 97C of the Banking Ordinance for the implementation of the "Basel III" capital accord.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital disclosures *(continued)*

The components of the Company's total capital base under Basel II include the following items:

	31 December 2012 (Audited) HK$'000
Core capital:	
Paid up ordinary share capital	258,800
Share premium account	412,238
Published reserves	400,338
Income statement	245,801
Less: Net deferred tax assets	(11,925)
Core capital before deductions	1,305,252
Less: Deductions from shareholdings in subsidiaries	(5,055)
Total core capital after deductions	1,300,197
Supplementary capital:	
Regulatory reserve	44,921
Collective impairment allowances	16,894
Supplementary capital before deductions	61,815
Less: Deductions from shareholdings in subsidiaries	(5,055)
Total supplementary capital after deductions	56,760
Capital base	1,356,957

The capital adequacy ratio of the Company is computed on a solo basis.

The subsidiaries not included in the computation of the capital adequacy ratio, capital base and risk-weighted amounts of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited. Deductions from the capital base include investments in these subsidiaries.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital disclosures *(continued)*

Capital instruments

The following is a summary of the Company's CET1 capital instruments:

	30 June 2013 (Unaudited) HK$'000
CET1 capital instruments issued by the Company	
Ordinary shares:	
258,800,000 issued and fully paid ordinary shares of HK$1 each	**258,800**

Additional information

To comply with the BDR, the Company will establish a new section on "Regulatory Disclosure" on its website to present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published financial statements.

The disclosure will be published in our website: www.publicfinance.com.hk on or before 30 September 2013 according to the BDR and will include the following information:

- A description of the main features and the full terms and conditions of the Company's capital instruments;
- A detailed breakdown of the CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard disclosure template as specified by the HKMA; and
- A full reconciliation between the accounting and regulatory balance sheets, using the standard disclosure template as specified by the HKMA.

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2013								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	17,901	61	2	34	-	472	2.6	2	2
Building and construction, property development and investment									
Property development	13	-	-	-	-	-	-	-	-
Property investment	1,127	-	-	-	-	1,127	100.0	-	-
Civil engineering works	4,554	8	-	8	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	21	-	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	20,203	43	-	537	617	4,287	21.2	-	-
Transport and transport equipment	479,431	1	-	1	-	479,370	100.0	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	553,293	-	535	535	-	552,237	99.8	1,056	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,556,608	17,810	87,019	238,540	238,444	36,165	1.0	127,999	92,807
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	-	-	-	-	-	-	-	-	-
Total loans and advances (excluding other receivables)	4,633,151	17,923	87,556	239,655	239,061	1,073,658	23.2	129,057	92,809

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS *(continued)*

	31 December 2012								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loan and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	18,394	29	-	729	724	535	2.9	-	-
Building and construction, property development and investment									
Property development	21	-	-	-	-	-	-	-	-
Property investment	2,096	-	-	-	-	2,096	100.0	-	-
Civil engineering works	5,068	-	-	-	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	31	-	-	-	-	-	-	-	-
Information technology	65	-	-	-	-	-	-	-	-
Wholesale and retail trade	20,113	19	104	184	78	4,555	22.6	148	148
Transport and transport equipment	476,858	-	-	12	12	476,712	100.0	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	508,903	-	-	-	-	508,903	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,601,624	16,846	88,873	480,484	474,190	33,762	0.9	131,681	94,433
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	-	-	-	-	-	-	-	-	-
Total loans and advances (excluding other receivables)	4,633,173	16,894	88,977	481,409	475,004	1,026,563	22.2	131,829	94,581

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

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

LIQUIDITY RATIO

	Company For the six months ended 30 June	
	2013	2012
Average liquidity ratio for the period	**102.8%**	86.0%

The average liquidity ratio is computed on a non-consolidated basis using the arithmetic mean of each calendar month's average liquidity ratio as reported in the return relating to the liquidity position submitted by the Company to the HKMA pursuant to Section 63 of the Banking Ordinance in respect of the interim reporting period.

BUSINESS REVIEW

The Group recorded a profit after tax of HK$126.8 million for the six months ended 30 June 2013, representing an increase of HK$8.1 million or 6.9% when compared to the corresponding period of last year, mainly due to the decrease in interest expenses and the increase in non-interest income. Interest income decreased marginally by HK$0.5 million or 0.1% to HK$462.8 million, while interest expense decreased by HK$6.9 million or 18.7% to HK$30.0 million when compared to the corresponding period of last year. Non-interest income increased by HK$4.2 million or 6.9% to HK$65.5 million mainly due to the increase in stock brokerage income when compared to the corresponding period of last year.

The Group's operating expenses increased slightly by HK$1.6 million or 0.9% to HK$187.1 million, mainly due to the increase in staff expenses. Impairment allowances for loans and advances decreased by HK$1.5 million or 0.9% to HK$160.1 million mainly due to the decrease in bad debts from consumer financing loans.

As at 30 June 2013 and 31 December 2012, total gross loans and advances of the Group was unchanged at HK$4,633.2 million. Total customer deposits grew by HK$190.3 million or 5.0% to HK$4,020.7 million as at 30 June 2013 from HK$3,830.4 million as at 31 December 2012. The impaired loan ratio improved to 2.79% as at 30 June 2013 from 2.85% as at 31 December 2012.

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

Hong Kong, 15 July 2013