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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 2014

The Board of Directors (the “Board”) 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 2014 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Interest income	6	804,963	833,416
Interest expense	6	(187,160)	(162,964)
NET INTEREST INCOME		617,803	670,452
Other operating income	7	105,773	113,323
OPERATING INCOME		723,576	783,775
Operating expenses	8	(379,176)	(386,117)
Changes in fair value of investment properties		4,034	5,270
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		348,434	402,928
Impairment allowances for loans and advances and receivables	9	(119,286)	(162,272)

* For identification purpose only

		For the six months ended	
		30 June	
		2014	2013
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
PROFIT BEFORE TAX		229,148	240,656
Tax	<i>10</i>	<u>(42,698)</u>	<u>(44,959)</u>
PROFIT FOR THE PERIOD		<u>186,450</u>	<u>195,697</u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>186,450</u>	<u>195,697</u>
EARNINGS PER SHARE (HK\$)	<i>12</i>		
Basic		<u>0.170</u>	<u>0.178</u>
Diluted		<u>0.170</u>	<u>0.178</u>

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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	186,450	195,697
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange (loss)/gain on translating foreign operations, net of tax	<u>(15,454)</u>	<u>9,554</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>170,996</u>	<u>205,251</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>170,996</u>	<u>205,251</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 (Unaudited) <i>HK\$'000</i>	31 December 2013 (Audited) <i>HK\$'000</i>
<i>Notes</i>			
ASSETS			
Cash and short term placements		3,709,785	3,962,374
Placements with banks and financial institutions maturing after one month but not more than twelve months		1,142,792	1,195,991
Derivative financial instruments		2,303	771
Loans and advances and receivables	13	27,725,727	27,255,143
Available-for-sale financial assets		6,804	6,804
Held-to-maturity investments	14	4,647,528	4,780,905
Inventories of taxi licences		–	2,676
Investment properties		255,877	251,843
Property and equipment		107,469	109,720
Land held under finance leases		648,259	652,014
Interest in a joint venture		1,513	1,513
Deferred tax assets		28,041	30,645
Tax recoverable		933	8,377
Goodwill		2,774,403	2,774,403
Intangible assets		718	718
Other assets		117,637	113,721
TOTAL ASSETS		41,169,789	41,147,618
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		466,491	483,401
Derivative financial instruments		787	610
Customer deposits at amortised cost		30,532,183	29,974,352
Certificates of deposit issued at amortised cost		1,245,429	1,794,492
Dividends payable		54,896	120,771
Unsecured bank loans at amortised cost		1,657,222	1,663,705
Current tax payable		31,883	27,318
Deferred tax liabilities		23,983	23,983
Other liabilities		309,767	327,938
TOTAL LIABILITIES		34,322,641	34,416,570
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	15	6,737,356	6,621,256
TOTAL EQUITY		6,847,148	6,731,048
TOTAL EQUITY AND LIABILITIES		41,169,789	41,147,618

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
TOTAL EQUITY		
Balance at the beginning of the period	6,731,048	6,525,293
Profit for the period	186,450	195,697
Other comprehensive income	(15,454)	9,554
Total comprehensive income for the period	170,996	205,251
Dividends declared on shares	(54,896)	(54,896)
Balance at the end of the period	6,847,148	6,675,648

NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* and Interpretations (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). They also contain certain disclosure information required under 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 annual financial statements, and should be read in conjunction with the 2013 Annual Report of the Group.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2013 Annual Report, except for the changes in accounting policies as set out in note 4 below.

2. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the interim financial statements of the Company and its subsidiaries for the period ended 30 June 2014. The interim financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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 resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The subsidiaries consolidated for accounting purpose are Public Bank (Hong Kong) Limited (“Public Bank (Hong Kong)”), Public Finance Limited (“Public Finance”), Winton (B.V.I.) Limited and their subsidiaries, and a joint venture.

3. BASIS OF CAPITAL DISCLOSURES

The Group 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 followed the Guideline on the Application of the BDR issued by the HKMA.

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

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

The Group has adopted the provisions of the Banking (Amendment) Ordinance 2012 relating to the Basel III capital standards and the amended Banking (Capital) Rules (the "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 HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2014 which are pertinent to its operations and relevant to these interim financial statements.

- HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
- HKAS 32 Amendments Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- HKAS 39 Amendments Amendments to HKAS 39 *Financial Instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- HK(IFRIC)-Int 21 *Levies*

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

Amendments to HKFRS 10 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 amendments do not have any material impact on the Group.

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 do not have any material impact on the Group.

The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments do not have any material impact on the Group.

HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation does not have any material impact on the Group.

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*³
- HKFRS 9, HKFRS 7 and HKAS 39 Amendments *Hedge Accounting* and amendments to HKFRS 9, HKFRS 7 and HKAS 39³
- HKFRS 11 Amendments *Accounting for Acquisitions of Interests in Joint Operations*²
- HKFRS 14 *Regulatory Deferral Accounts*²
- HKAS 16 and HKAS 38 Amendments *Clarification of Acceptable Methods of Depreciation and Amortisation*²
- HKAS 19 Amendments *Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions*¹
- Annual Improvements 2010-2012 Cycle *Amendments to a number of HKFRSs issued in January 2014*¹
- Annual Improvements 2011-2013 Cycle *Amendments to a number of HKFRSs issued in January 2014*¹

¹ effective for annual periods beginning on or after 1 July 2014

² effective for annual periods beginning on or after 1 January 2016

³ no mandatory effective date yet determined but is available for adoption

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.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit-risk related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The HKFRS 11 Amendments requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in HKFRS 3 *Business Combinations*, to apply all of the principles on business combinations accounting in HKFRS 3 and other HKFRSs. In addition, the acquirer shall also disclose the information required by HKFRS 3 and other HKFRSs for business combinations. The amendments do not have any material impact on the Group.

HKFRS 14 was issued in February 2014 and it allows rate-regulated entities to continue recognising regulatory deferral accounts in connection with their first-time adoption of HKFRS. Existing HKFRS preparers are prohibited from adopting this standard. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and OCI. The standard also requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard does not have any material impact on the Group.

The HKAS 16 and HKAS 38 Amendments both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments do not have any material impact on the Group.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2015.

The Annual Improvements to HKFRSs 2010-2012 and 2011-2013 Cycles issued in January 2014 set out amendments to a number of HKFRSs and shall be applied for a financial period beginning on or after 1 July 2014, except where otherwise indicated. 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 are expected to have a significant financial impact on the Group.

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:

- retail and commercial banking businesses 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;
- wealth management services, stockbroking and securities management segment comprises management of investments in debt securities and equities, securities dealing and receipt of commission income and the provision of authorised wealth management products and services; and
- other businesses segment comprises taxi trading, 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.

The following table represents revenue and profit information for operating segments for the six months ended 30 June 2014 and 2013.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External:										
Net interest income	617,780	670,404	23	48	-	-	-	-	617,803	670,452
Other operating income:										
Fees and commission income	70,600	70,614	15,258	28,617	229	398	-	-	86,087	99,629
Others	7,607	6,246	(4)	(2)	12,083	7,450	-	-	19,686	13,694
Inter-segment transactions:										
Fees and commission income	-	-	-	-	69	76	(69)	(76)	-	-
Operating income	695,987	747,264	15,277	28,663	12,381	7,924	(69)	(76)	723,576	783,775
Profit before tax	215,904	219,966	1,827	12,352	11,417	8,338	-	-	229,148	240,656
Tax									(42,698)	(44,959)
Profit for the period									186,450	195,697
Other segment information										
Depreciation of property and equipment and land held under finance leases	(14,218)	(15,625)	-	-	-	-	-	-	(14,218)	(15,625)
Changes in fair value of investment properties	-	-	-	-	4,034	5,270	-	-	4,034	5,270
Impairment allowances for loans and advances and receivables	(119,286)	(162,272)	-	-	-	-	-	-	(119,286)	(162,272)
Net losses on disposal of property and equipment	(86)	(202)	-	-	-	-	-	-	(86)	(202)

The following table represents certain assets and liabilities information regarding operating segments as at 30 June 2014 and 31 December 2013.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Segment assets other than interest in a joint venture, intangible assets and goodwill	37,810,071	37,802,082	295,304	274,230	258,806	255,650	-	-	38,364,181	38,331,962
Interest in a joint venture	1,513	1,513	-	-	-	-	-	-	1,513	1,513
Intangible assets	-	-	718	718	-	-	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	-	-	2,774,403	2,774,403
Segment assets	40,585,987	40,577,998	296,022	274,948	258,806	255,650	-	-	41,140,815	41,108,596
Unallocated assets:										
Deferred tax assets and tax recoverable									28,974	39,022
Total assets									41,169,789	41,147,618
Segment liabilities	34,096,782	34,150,621	106,426	86,457	8,671	7,420	-	-	34,211,879	34,244,498
Unallocated liabilities:										
Deferred tax liabilities and tax payable									55,866	51,301
Dividends payable									54,896	120,771
Total liabilities									34,322,641	34,416,570
Other segment information										
Additions to non-current assets – capital expenditure	8,267	20,684	-	-	-	-	-	-	8,267	20,684

Geographical information

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

The following table represents segment revenue information for geographical segments for the six months ended 30 June 2014 and 2013.

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Segment revenue from external customers:		
Hong Kong	682,425	743,912
Mainland China	41,151	39,863
	723,576	783,775

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

The following table represents non-current assets information for geographical segments as at 30 June 2014 and 31 December 2013.

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Non-current assets:		
Hong Kong	3,770,990	3,772,797
Mainland China	17,249	17,414
	<u>3,788,239</u>	<u>3,790,211</u>

Non-current assets consist of investment properties, property and equipment, land held under finance leases, interest in a joint venture, goodwill and intangible assets.

Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest income from:		
Loans and advances and receivables	734,119	783,418
Short term placements and placements with banks	40,594	26,671
Held-to-maturity investments	30,250	23,327
	<u>804,963</u>	<u>833,416</u>
Interest expense on:		
Deposits from banks and financial institutions	4,082	1,844
Deposits from customers	170,455	139,404
Bank loans	12,623	21,716
	<u>187,160</u>	<u>162,964</u>

Interest income and interest expense for the six months ended 30 June 2014, 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\$804,963,000 and HK\$187,160,000 (2013: HK\$833,416,000 and HK\$162,964,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2014 amounted to HK\$2,655,000 (2013: HK\$4,952,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking	71,592	71,826
Wealth management services, stockbroking and securities management	15,258	28,617
	86,850	100,443
Less: Fees and commission expenses	(763)	(814)
Net fees and commission income	86,087	99,629
Gross rental income	7,727	7,215
Less: Direct operating expenses	(6)	(40)
Net rental income	7,721	7,175
Gains less losses arising from dealing in foreign currencies	4,538	25,769
Net gains/(losses) on derivative financial instruments	1,516	(21,220)
	6,054	4,549
Net losses on disposal of property and equipment	(86)	(202)
Dividend income from listed investments	17	20
Dividend income from unlisted investments	800	900
Others	5,180	1,252
	105,773	113,323

Direct operating expenses included repairs and maintenance expenses arising from investment properties.

There were no net gains or losses arising from available-for-sale financial assets, held-to-maturity investments, loans and advances and receivables, financial liabilities measured at amortised cost and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2014 and 2013.

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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	222,938	214,834
Pension contributions	10,433	10,662
Less: Forfeited contributions	(4)	(11)
Net contribution to retirement benefit schemes	10,429	10,651
	233,367	225,485
Other operating expenses:		
Operating lease rentals on leasehold buildings	31,699	30,940
Depreciation of property and equipment and land held under finance leases	14,218	15,625
Administrative and general expenses	35,168	36,827
Others	64,724	77,240
Operating expenses before changes in fair value of investment properties	379,176	386,117

At 30 June 2014 and 2013, 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	121,348	161,946
– trade bills, accrued interest and receivables	(2,062)	326
	119,286	162,272
Net charge for impairment losses and allowances:		
– individually assessed	117,095	160,171
– collectively assessed	2,191	2,101
	119,286	162,272
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	218,725	263,198
– releases and recoveries	(99,439)	(100,926)
Net charge to the consolidated income statement	119,286	162,272

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2014 and 2013.

10. TAX

	For the six months ended	
	30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	31,376	34,168
Overseas	8,677	7,285
Under-provision/(over-provision) in prior periods	41	(139)
Deferred tax charge, net	2,604	3,645
	<u>42,698</u>	<u>44,959</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company, its subsidiaries and a joint venture 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 2014					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>192,109</u>		<u>37,039</u>		<u>229,148</u>	
Tax at the applicable tax rate	31,698	16.5	9,260	25.0	40,958	17.9
Estimated tax losses from previous periods utilised	(3)	–	–	–	(3)	–
Estimated tax effect of net expenses that are not deductible	1,702	0.9	–	–	1,702	0.7
Adjustments in respect of current tax of previous periods	<u>41</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>41</u>	<u>–</u>
Tax charge at the Group's effective rate	<u>33,438</u>	<u>17.4</u>	<u>9,260</u>	<u>25.0</u>	<u>42,698</u>	<u>18.6</u>

	For the six months ended 30 June 2013 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	198,889		41,767		240,656	
Tax at the applicable tax rate	32,817	16.5	10,442	25.0	43,259	18.0
Estimated tax losses from previous periods utilised	(2)	–	–	–	(2)	–
Estimated tax effect of net expenses that are not deductible	1,774	0.9	67	0.2	1,841	0.8
Adjustments in respect of current tax of previous periods	(186)	(0.1)	47	0.1	(139)	(0.1)
Tax charge at the Group's effective rate	34,403	17.3	10,556	25.3	44,959	18.7

11. DIVIDENDS

	For the six months ended 30 June			
	2014 (Unaudited) HK\$ per ordinary share	2013 (Unaudited) HK\$ per ordinary share	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interim	0.05	0.05	54,896	54,896

On 20 February 2014, a dividend of HK\$0.11 per share totalling HK\$120,770,938 was paid to shareholders as the second interim dividend for 2013.

On 21 February 2013, a dividend of HK\$0.09 per share totalling HK\$98,812,586 was paid to shareholders as the second interim dividend for 2012.

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\$186,450,000 (2013: HK\$195,697,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2013: 1,097,917,618) during the period.

(b) Diluted earnings per share

The share options outstanding during the periods ended 30 June 2014 and 2013 had no dilutive effect on the basic earnings per share for these periods. The calculation of diluted earnings per share for the period ended 30 June 2014 was based on the profit for the period of HK\$186,450,000 (2013: HK\$195,697,000) and on the weighted average number of ordinary shares of 1,097,917,618 (2013: 1,097,917,618), being the weighted average number of ordinary shares in issue of 1,097,917,618 (2013: 1,097,917,618) during the period as used in the basic earnings per share calculation.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Loans and advances to customers	27,674,842	27,223,903
Trade bills	55,745	55,322
Loans and advances, and trade bills	27,730,587	27,279,225
Accrued interest	71,761	76,119
Other receivables	27,802,348 35,997	27,355,344 40,173
Gross loans and advances and receivables	27,838,345	27,395,517
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	(89,548)	(119,480)
– collectively assessed	(23,070)	(20,894)
	(112,618)	(140,374)
Loans and advances and receivables	27,725,727	27,255,143

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, listed shares, taxi licences, public light bus licences and vehicles.

Loans and advances and receivables are summarised as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	27,380,938	26,860,899
Past due but not impaired loans and advances and receivables	302,614	358,671
Individually impaired loans and advances	152,175	171,837
Individually impaired receivables	2,618	4,110
Total loans and advances and receivables	27,838,345	27,395,517

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

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %
Loans and advances overdue for:				
Six months or less but over three months	78,837	0.29	107,681	0.40
One year or less but over six months	21,865	0.08	3,176	0.01
Over one year	11,416	0.04	23,022	0.08
Loans and advances overdue for more than three months	112,118	0.41	133,879	0.49
Rescheduled loans and advances overdue for three months or less	34,709	0.12	34,291	0.13
Impaired loans and advances overdue for three months or less	5,348	0.02	3,667	0.01
Total overdue and impaired loans and advances	152,175	0.55	171,837	0.63

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	353	192
One year or less but over six months	264	23
Over one year	<u>1,947</u>	<u>3,797</u>
Trade bills, accrued interest and other receivables overdue for more than three months	2,564	4,012
Impaired trade bills, accrued interest and other receivables overdue for three months or less	<u>54</u>	<u>98</u>
Total overdue and impaired trade bills, accrued interest and other receivables	<u>2,618</u>	<u>4,110</u>

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

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

	30 June 2014 (Unaudited)			31 December 2013 (Audited)		
	Mainland		Total	Mainland		Total
	Hong Kong <i>HK\$'000</i>	China <i>HK\$'000</i>		Hong Kong <i>HK\$'000</i>	China <i>HK\$'000</i>	
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>104,562</u>	<u>10,120</u>	<u>114,682</u>	<u>115,047</u>	<u>22,844</u>	<u>137,891</u>
Individual impairment allowances	<u>56,995</u>	<u>8,528</u>	<u>65,523</u>	<u>76,582</u>	<u>18,921</u>	<u>95,503</u>
Current market value and fair value of collateral			<u>98,337</u>			<u>63,853</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>144,330</u>	<u>10,463</u>	<u>154,793</u>	<u>152,098</u>	<u>23,849</u>	<u>175,947</u>
Individual impairment allowances	<u>80,677</u>	<u>8,871</u>	<u>89,548</u>	<u>99,553</u>	<u>19,927</u>	<u>119,480</u>
Current market value and fair value of collateral			<u>104,410</u>			<u>65,056</u>

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.

- (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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>98,337</u>	<u>63,853</u>
Covered portion of overdue loans and advances	<u>35,237</u>	<u>23,646</u>
Uncovered portion of overdue loans and advances	<u>76,881</u>	<u>110,233</u>

The assets taken as collateral should satisfy the following criteria:

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

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

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

(d) Repossessed assets

At 30 June 2014, the total value of repossessed assets of the Group amounted to HK\$27,415,000 (31 December 2013: HK\$6,200,000).

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %	Gross amount <i>HK\$'000</i>	Percentage of total loans and advances %
Loans and advances overdue for three months or less	<u>302,193</u>	<u>1.09</u>	<u>356,544</u>	<u>1.31</u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u>421</u>		<u>2,127</u>	

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

	30 June 2014 (Unaudited)		Total <i>HK\$'000</i>
	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	
At 1 January 2014	119,480	20,894	140,374
Amounts written off	(232,886)	–	(232,886)
Impairment losses and allowances charged to the consolidated income statement	213,727	4,998	218,725
Impairment losses and allowances released to the consolidated income statement	(96,632)	(2,807)	(99,439)
Net charge of impairment losses and allowances	117,095	2,191	119,286
Loans and advances and receivables recovered	86,366	–	86,366
Exchange difference	(507)	(15)	(522)
At 30 June 2014	<u>89,548</u>	<u>23,070</u>	<u>112,618</u>
Deducted from:			
Loans and advances	89,302	23,001	112,303
Trade bills, accrued interest and other receivables	246	69	315
	<u>89,548</u>	<u>23,070</u>	<u>112,618</u>

	31 December 2013 (Audited)		
	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2013	124,367	27,455	151,822
Amounts written off	(494,992)	–	(494,992)
Impairment losses and allowances charged to the consolidated income statement	512,724	307	513,031
Impairment losses and allowances released to the consolidated income statement	(180,815)	(7,304)	(188,119)
Net charge/(release) of impairment losses and allowances	331,909	(6,997)	324,912
Loans and advances and receivables recovered	157,841	–	157,841
Exchange difference	355	436	791
At 31 December 2013	<u>119,480</u>	<u>20,894</u>	<u>140,374</u>
Deducted from:			
Loans and advances	117,223	20,785	138,008
Trade bills, accrued interest and other receivables	2,257	109	2,366
	<u>119,480</u>	<u>20,894</u>	<u>140,374</u>

(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 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2014 (Unaudited)	31 December 2013 (Audited)
	Minimum lease payments HK\$'000	HK\$'000	Present value of minimum lease payments HK\$'000	HK\$'000
Amounts receivable under finance leases:				
Within one year	383,095	390,656	287,942	294,974
In the second to fifth years, inclusive	1,116,427	1,118,977	811,935	816,322
Over five years	3,886,816	3,850,125	3,244,428	3,215,212
	5,386,338	5,359,758	4,344,305	4,326,508
Less: Unearned finance income	(1,042,033)	(1,033,250)		
Present value of minimum lease payments receivable	4,344,305	4,326,508		

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 2014 (Unaudited)	31 December 2013 (Audited)
	HK\$'000	HK\$'000
Certificates of deposit held	1,783,023	1,894,973
Treasury bills (including Exchange Fund Bills)	1,949,256	1,993,645
Other debt securities	915,249	892,287
	4,647,528	4,780,905
Listed or unlisted:		
– Listed in Hong Kong	907,408	644,484
– Listed outside Hong Kong	260,261	282,261
– Unlisted	3,479,859	3,854,160
	4,647,528	4,780,905
Analysed by type of issuers:		
– Central government	1,949,256	1,993,645
– Banks and other financial institutions	2,698,272	2,787,260
	4,647,528	4,780,905

There were no impairment allowances made against held-to-maturity investments as at 30 June 2014 and 31 December 2013. There were no movements in impairment allowances for the period ended 30 June 2014 and for the year ended 31 December 2013.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2014 and 31 December 2013.

All exposures attributed to the held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of an external credit agency, Moody's.

15. RESERVES

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Employee share-based compensation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
At 1 January 2013	4,013,296	829	96,116	45,765	409,367	1,779,057	71,071	6,415,501
Profit for the year	-	-	-	-	-	367,761	-	367,761
Other comprehensive income	-	-	-	-	-	-	13,661	13,661
Transfer from retained profits	-	-	-	-	778	(778)	-	-
Dividends for 2013	-	-	-	-	-	(175,667)	-	(175,667)
At 31 December 2013 and 1 January 2014 (Audited)	4,013,296	829	96,116	45,765	410,145	1,970,373	84,732	6,621,256
Profit for the period	-	-	-	-	-	186,450	-	186,450
Other comprehensive income	-	-	-	-	-	-	(15,454)	(15,454)
Transfer from retained profits	-	-	-	-	13,488	(13,488)	-	-
Dividends declared	-	-	-	-	-	(54,896)	-	(54,896)
At 30 June 2014 (Unaudited)	4,013,296	829	96,116	45,765	423,633	2,088,439	69,278	6,737,356

Note: In accordance with the HKMA's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting" (the "Guideline"), the Group's regulatory reserve and collective impairment allowances were included as CET1 capital in the Group's capital base at 30 June 2014 as defined in the Guideline. The regulatory reserve was held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the Guideline from the HKMA.

16. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 30 June 2014 and 31 December 2013, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	8,139	9,771
In the second to fifth years, inclusive	3,319	5,677
	11,458	15,448

(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.

At 30 June 2014 and 31 December 2013, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	52,034	51,499
In the second to fifth years, inclusive	39,627	34,698
	91,661	86,197

17. OFF-BALANCE SHEET EXPOSURE

Contingent liabilities, commitments and derivatives

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

	30 June 2014 (Unaudited)				
	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
Direct credit substitutes	213,312	213,312	81,753	-	-
Transaction-related contingencies	16,991	8,495	3,799	-	-
Trade-related contingencies	30,135	6,027	5,771	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	637	637	127	-	-
	<u>261,075</u>	<u>228,471</u>	<u>91,450</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	1,618,184	7,673	-	2,303	787
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	82,657	41,329	41,329	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>3,960,966</u>	-	-	-	-
	<u>5,922,882</u>	<u>277,473</u>	<u>132,779</u>	<u>2,303</u>	<u>787</u>
Capital commitments contracted for, but not provided in the consolidated statement of financial position	<u>4,025</u>				

	31 December 2013 (Audited)				
	Contractual amount <i>HK\$'000</i>	Credit equivalent amount <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>	Positive fair value- assets <i>HK\$'000</i>	Negative fair value- liabilities <i>HK\$'000</i>
Direct credit substitutes	172,109	172,109	61,526	–	–
Transaction-related contingencies	11,080	5,540	2,150	–	–
Trade-related contingencies	53,464	10,693	10,216	–	–
Forward forward deposits placed	6,916	6,916	1,383	–	–
Forward asset purchases	2,970	2,970	594	–	–
	<u>246,539</u>	<u>198,228</u>	<u>75,869</u>	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	434,721	3,101	19	771	610
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	115,829	57,914	57,914	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>3,982,241</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>4,779,330</u>	<u>259,243</u>	<u>133,802</u>	<u>771</u>	<u>610</u>
Capital commitments contracted for, but not provided in the consolidated statement of financial position	<u>4,064</u>				

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 and from 0% to 50% for exchange rate contracts.

At 30 June 2014 and 31 December 2013, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

18. 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 2014 (Unaudited)							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Cash and short term placements	913,291	2,796,494	-	-	-	-	-	3,709,785
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	634,445	508,347	-	-	-	1,142,792
Loans and advances and receivables	742,056	1,300,292	1,297,298	3,598,611	6,474,924	14,318,590	106,574	27,838,345
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	218,348	903,867	2,638,713	886,600	-	-	4,647,528
Other assets	118	57,685	8,177	5,789	-	-	45,868	117,637
Foreign exchange contracts (gross)	-	1,365,222	252,962	-	-	-	-	1,618,184
Total financial assets	1,655,465	5,738,041	3,096,749	6,751,460	7,361,524	14,318,590	159,246	39,081,075
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	38,760	227,731	150,000	50,000	-	-	-	466,491
Customer deposits at amortised cost	6,796,227	8,296,319	11,506,114	3,348,968	584,555	-	-	30,532,183
Certificates of deposit issued at amortised cost	-	579,962	-	665,467	-	-	-	1,245,429
Unsecured bank loans at amortised cost	-	337,878	1,319,344	-	-	-	-	1,657,222
Other liabilities	597	86,420	29,869	17,745	17,017	-	158,119	309,767
Foreign exchange contracts (gross)	-	1,363,953	252,715	-	-	-	-	1,616,668
Total financial liabilities	6,835,584	10,892,263	13,258,042	4,082,180	601,572	-	158,119	35,827,760

	31 December 2013 (Audited)							
	Repayable on demand <i>HK\$'000</i>	Up to 1 month <i>HK\$'000</i>	Over 1 month but not more than 3 months <i>HK\$'000</i>	Over 3 months but not more than 12 months <i>HK\$'000</i>	Over 1 year but not more than 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Repayable within an indefinite period <i>HK\$'000</i>	Total <i>HK\$'000</i>
Financial assets:								
Cash and short term placements	1,228,656	2,733,718	-	-	-	-	-	3,962,374
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	987,374	208,617	-	-	-	1,195,991
Loans and advances and receivables	604,386	1,121,638	1,572,326	3,474,264	6,519,184	13,974,951	128,768	27,395,517
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	1,110,396	651,539	2,355,704	663,266	-	-	4,780,905
Other assets	123	60,006	3,435	4,605	-	-	45,552	113,721
Foreign exchange contracts (gross)	-	433,194	1,527	-	-	-	-	434,721
Total financial assets	1,833,165	5,458,952	3,216,201	6,043,190	7,182,450	13,974,951	181,124	37,890,033
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	24,555	258,846	100,000	100,000	-	-	-	483,401
Customer deposits at amortised cost	6,422,009	9,153,909	10,981,098	3,101,896	315,440	-	-	29,974,352
Certificates of deposit issued at amortised cost	-	-	199,876	1,184,767	409,849	-	-	1,794,492
Unsecured bank loans at amortised cost	-	496,000	-	1,167,705	-	-	-	1,663,705
Other liabilities	416	85,850	31,784	32,462	8,576	-	168,850	327,938
Foreign exchange contracts (gross)	-	433,042	1,518	-	-	-	-	434,560
Total financial liabilities	6,446,980	10,427,647	11,314,276	5,586,830	733,865	-	168,850	34,678,448

INTERIM DIVIDEND

The Board has on 26 June 2014 declared an interim dividend of HK\$0.05 (2013: HK\$0.05) per share payable on 30 July 2014 to shareholders whose names appear on the register of members of the Company on 17 July 2014 (as clarified on 27 June 2014).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

During the period under review, the operating environment for financial institutions in Hong Kong remained challenging with intensified competition for loans and deposit takings leading to narrowing of yield on new loans and rising funding cost on customer deposits. The slow down in economic growth momentum and tightening monetary policies to address deteriorating credit conditions in Mainland China had impacted business developments of Hong Kong enterprises, which have business operations in Mainland China. The demand for property mortgage loans in Hong Kong continued to be affected by the low volume of property transactions during the period under review, caused by the prudential measures implemented by the Hong Kong Government and banking regulatory authority.

FINANCIAL REVIEW

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) grew by HK\$451.4 million or 1.7% to HK\$27.73 billion as at 30 June 2014 from HK\$27.28 billion as at 31 December 2013. The Group's deposits from customers also grew by HK\$557.8 million or 1.9% to HK\$30.53 billion as at 30 June 2014 from HK\$29.97 billion as at 31 December 2013. Total assets of the Group stood at HK\$41.17 billion as at 30 June 2014.

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) increased by HK\$298.4 million or 1.3% to HK\$22.85 billion as at 30 June 2014 from HK\$22.55 billion as at 31 December 2013. Deposits from customers (excluding intra-group's deposits) increased by HK\$514.8 million or 2.0% to HK\$26.72 billion as at 30 June 2014 from HK\$26.20 billion as at 31 December 2013.

The consolidated capital adequacy ratio of Public Bank (Hong Kong) stood at 18.2% as at 30 June 2014.

Public Finance

Total loans and advances of Public Finance increased by HK\$154.5 million or 3.4% to HK\$4.69 billion as compared to the position as at 31 December 2013. Deposits from customers increased by HK\$25.7 million or 0.6% to HK\$4.08 billion as at 30 June 2014 from HK\$4.05 billion as at 31 December 2013.

Financial performance

For the six months ended 30 June 2014, the Group's profit after tax recorded a marginal decline of HK\$9.2 million or 4.7% to HK\$186.5 million as compared to the corresponding period in 2013. The decline in earnings of the Group for the period under review was mainly attributed to the decrease in net interest income due to narrowing net interest margin on the Group's interest-bearing assets.

The Group's basic earnings per share for the six months ended 30 June 2014 was HK\$0.17. The Board had declared an interim dividend of HK\$0.05 per share on 26 June 2014, payable on 30 July 2014.

During the period under review, total interest income of the Group decreased by HK\$28.4 million or 3.4% to HK\$805.0 million, and total interest expense increased by HK\$24.2 million or 14.8% to HK\$187.2 million due to increase in cost of funding of non-bank customer deposits. As a result, the Group's net interest income decreased by HK\$52.6 million or 7.9% to HK\$617.8 million. Other operating income from loan transactions, stockbroking and other business activities of the Group recorded a decrease of HK\$7.6 million or 6.7% to HK\$105.8 million in the period under review, mainly due to lower income from stockbroking activities.

Operating expenses of the Group decreased marginally by HK\$6.9 million or 1.8% to HK\$379.2 million mainly due to the decrease in marketing costs.

Impairment allowance for loans and advances decreased by HK\$43.0 million or 26.5% to HK\$119.3 million due to recovery of some impaired loans and improvement in the loan asset quality.

Asset quality

The Group's impaired loans to total loans ratio improved to 0.55% as at 30 June 2014 from 0.63% as at 31 December 2013 mainly due to recovery of some impaired loans.

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

Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in Mainland China to provide a broad range of commercial and retail banking services. Public Finance, a subsidiary of Public Bank (Hong Kong), has a network of 42 branches in Hong Kong. Another operating subsidiary of the Company, Winton Financial Limited ("Winton Financial") which operates under a money lenders license, has a network of 9 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 86 branches as at 30 June 2014 to serve its customers. During the period under review, the Group did not open any new branches in light of the market conditions.

The Group will continue to identify suitable locations for the relocation of the branches to better sites and will open new branches in appropriate locations where feasible to expand its customer reach and to further develop its banking related financial services and customer base.

Segmental information

The Group's businesses comprise three main segments: (i) retail and commercial banking businesses, (ii) stockbroking and wealth management services, and (iii) other businesses. 96% of the Group's operating income and 94% of the profit before tax were contributed by retail and commercial banking businesses for the period under review. When compared to the first half of 2013, the Group's operating income from retail and commercial banking businesses decreased by HK\$51.3 million or 6.9% to HK\$696.0 million due to narrowing net interest margin with increase in cost of customer deposits.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those in the normal course of its banking and finance businesses related to treasury and trade finance activities and loan commitments disclosed in the notes to the interim financial statements) as at the end of the period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. There was no material funding required for capital expenditure and its commitments. As at 30 June 2014, there was no charge over the assets of the Group.

OPERATIONAL REVIEW

Funding and capital management

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

The Group relies principally on its internally generated capital, deposits from customers, deposits from financial institutions and the issuance of certificates of deposit to fund its banking and finance businesses. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at approximately HK\$1.66 billion as at 30 June 2014. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio stood at a healthy level of 0.24 times as at 30 June 2014 as compared to 0.25 times as at 31 December 2013. The Group's bank borrowings have remaining maturity periods of less than one year. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange contracts and interest rate swaps and forward contracts to reduce the foreign exchange risk and interest rate risk exposures of the Group. The risk exposures to fluctuations in foreign exchange rates and interest rates were immaterial during the period under review.

Human resources management

The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff enroll in external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market developments, and to improve their management and business skills. Staff also 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 year of 2014, no share options to subscribe for shares in the Company were exercised by employees of the Group. As at 30 June 2014, options to subscribe for 24,075,000 shares in the Company remained unexercised.

As at 30 June 2014, the Group's staff force stood at 1,411 employees. For the six months ended 30 June 2014, the Group's total staff related costs amounted to HK\$233.4 million.

PROSPECTS

The economic outlook of Hong Kong and Mainland China is anticipated to remain challenging in the second half of 2014. Despite the US's continuing tapering of quantitative easing monetary policies, the timing of the interest rate rise cycle still remains uncertain. The potential increase in interest rates on loans is expected to exert pressure on debt servicing ability and purchasing power of consumers in Hong Kong. The potential rise in funding costs of non-bank customer deposits, the escalation of labour costs and property related costs, and increase demand for compliance related resources in meeting the increased regulatory and supervisory requirements, etc., are expected to impact the earnings of financial institutions in Hong Kong. Despite the foregoing, the Group will continue to seek long-term business and profitability growth and take steps to align the business strategies of the Group with its corporate mission and goals. The Group will also adopt prudent capital management and liquidity risk management to preserve adequate buffer to meet the challenges ahead.

Competition in the banking and financing industry is expected to remain intense with financial institutions seeking greater market share in loans and advances, customer deposits and fee income. The competitive environment of banking sector will add pressure on the cost of customer deposits and inter-bank borrowings, and adversely impact the Group's loans business growth. However, the Group will continue to safeguard its financial strength, manage risks cautiously and set prudent yet flexible business development strategies to diversify income streams.

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

Barring unforeseen circumstances, the Group expects to register moderate growth in its banking and financing businesses and improvement in its financial performance in the second half of 2014.

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 2014.

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 2014 Interim Report, in compliance with the Code Provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the deviations under Code Provision A.4.1 and Code Provision E.1.2 of the CG Code as explained below with considered reasons for such deviations.

Under Code Provision A.4.1 of the CG Code, non-executive directors shall be appointed for a specific term and subject to re-election. The Board is of the view that the current practice of appointing Non-Executive Directors without a specific term but otherwise subject to rotation and re-election by shareholders at an annual general meeting ("AGM") is fair and reasonable, and does not intend to change the current practice at the moment.

Under Code Provision E.1.2 of the CG Code, the chairman of the board shall attend the AGM. Tan Sri Dato' Sri Dr. Teh Hong Piow, the Chairman of the Company, was absent from the last AGM of the Company held in March 2014 due to other engagement. The last AGM was chaired by the Co-Chairman of the Company, Tan Sri Datuk Seri Utama Thong Yaw Hong.

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

REVIEW BY AUDIT COMMITTEE

The 2014 Interim Report has been reviewed by the Company's Audit Committee which comprises four 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, 18 July 2014

As at the date of this announcement, the Board of Directors of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Mr. Quah Poh Keat, Dato' Chang Kat Kiam and Mr. Chong Yam Kiang as Non-Executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Tan Sri Datuk Seri Utama Thong Yaw Hong, Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Lai Wan as Independent Non-Executive Directors.