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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 2016

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 2016 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Interest income	6	832,752	847,426
Interest expense	6	(163,924)	(194,483)
NET INTEREST INCOME		668,828	652,943
Other operating income	7	100,718	118,855
OPERATING INCOME		769,546	771,798
Operating expenses	8	(396,065)	(398,061)
Changes in fair value of investment properties		(439)	14,017
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		373,042	387,754
Impairment allowances for loans and advances and receivables	9	(128,058)	(126,481)

* For identification purpose only

		For the six months ended	
		30 June	
		2016	2015
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
PROFIT BEFORE TAX		244,984	261,273
Tax	<i>10</i>	<u>(44,619)</u>	<u>(42,448)</u>
PROFIT FOR THE PERIOD		<u>200,365</u>	<u>218,825</u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>200,365</u>	<u>218,825</u>
EARNINGS PER SHARE (HK\$)	<i>12</i>		
Basic		<u>0.182</u>	<u>0.199</u>
Diluted		<u>0.182</u>	<u>0.199</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	200,365	218,825
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange loss on translating foreign operations, net of tax	<u>(16,025)</u>	<u>(170)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>184,340</u>	<u>218,655</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>184,340</u>	<u>218,655</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2016 (Unaudited) <i>HK\$'000</i>	31 December 2015 (Audited) <i>HK\$'000</i>
ASSETS			
Cash and short term placements		4,907,628	3,928,212
Placements with banks and financial institutions maturing after one month but not more than twelve months		1,497,333	1,018,133
Derivative financial instruments		2,605	3,864
Loans and advances and receivables	13	29,009,597	29,587,136
Available-for-sale financial assets		6,804	6,804
Held-to-maturity investments	14	5,321,454	5,342,872
Investment properties		308,133	267,384
Property and equipment		117,668	108,428
Land held under finance leases		646,207	643,223
Interest in a joint venture		1,892	1,892
Deferred tax assets		23,680	25,986
Tax recoverable		13	–
Goodwill		2,774,403	2,774,403
Intangible assets		718	718
Other assets		133,432	112,007
TOTAL ASSETS		44,751,567	43,821,062
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		956,425	984,093
Derivative financial instruments		745	588
Customer deposits at amortised cost		33,394,354	33,031,821
Certificates of deposit issued at amortised cost		1,072,869	499,977
Dividends payable		54,896	142,729
Unsecured bank loans at amortised cost		1,629,641	1,642,400
Current tax payable		49,491	22,207
Deferred tax liabilities		27,051	26,433
Other liabilities		314,100	348,263
TOTAL LIABILITIES		37,499,572	36,698,511
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	15	7,142,203	7,012,759
TOTAL EQUITY		7,251,995	7,122,551
TOTAL EQUITY AND LIABILITIES		44,751,567	43,821,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
	<i>Note</i>	
TOTAL EQUITY		
Balance at the beginning of the period	7,122,551	6,923,192
Profit for the period	200,365	218,825
Other comprehensive income in translation reserve	(16,025)	(170)
Total comprehensive income for the period	184,340	218,655
Dividends declared on shares	11(a) (54,896)	(54,896)
Balance at the end of the period	<u>7,251,995</u>	<u>7,086,951</u>

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 Group’s 2015 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2015 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 2016.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (i) the contractual arrangement with the other vote holders of the investee;
- (ii) rights arising from other contractual arrangements; and
- (iii) the Group’s voting rights and potential voting rights.

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 above. 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 referred to the Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

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

The computation of the consolidated total capital 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 ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a new capital conservation buffer ("CCB") ratio of 2.5%. Furthermore, the leverage ratio that forms part of Basel III implementation is under parallel run until January 2017 and relevant information has been submitted by Public Bank (Hong Kong) and Public Finance for regulatory monitoring since 2014. Additional capital requirements, including a new countercyclical capital buffer ("CCyB") ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The CCyB ratio requirement for 2016 is 0.625%.

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2016. The Group has adopted the following revised standards for the first time for the current period’s interim financial statements.

- | | |
|---|--|
| • Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
| • Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i> |
| • Amendments to HKFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> |
| • Amendments to HKAS 1 | <i>Disclosure Initiative</i> |
| • Amendments to HKAS 16 and HKAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| • Amendments to HKAS 16 and HKAS 41 | <i>Agriculture: Bearer Plants</i> |
| • Amendments to HKAS 27 (2011) | <i>Equity Method in Separate Financial Statements</i> |
| • Annual Improvements to 2012-2014 Cycle | Amendments to a number of HKFRSs |

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are applied prospectively and do not have any material impact on the Group.

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the cost of applying the standards. The amendments do not have any impact to the Group.

Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments do not have any impact to the Group as there was no interest acquired in a joint operation during the period.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the income statement and the statement of financial position may be disaggregated;

- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. These amendments do not have any impact on the Group.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its assets.

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*¹
- HKFRS 15 *Revenue from Contracts with Customers*¹
- HKFRS 16 *Leases*²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. For lessee accounting, the standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, the standard substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its lease as operating leases or finance leases, and to account for these two types of leases differently. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

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 discloses the revenue and profit information for operating segments for the six months ended 30 June 2016 and 2015.

	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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(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	668,824	652,936	4	7	-	-	-	-	668,828	652,943
Other operating income:										
Fees and commission income	71,749	74,072	14,126	28,893	217	356	-	-	86,092	103,321
Others	5,769	7,156	7	(56)	8,850	8,434	-	-	14,626	15,534
Inter-segment transactions:										
Fees and commission income	-	-	-	-	8	30	(8)	(30)	-	-
Operating income	746,342	734,164	14,137	28,844	9,075	8,820	(8)	(30)	769,546	771,798
Profit before tax	238,786	231,530	3,445	12,878	2,753	16,865	-	-	244,984	261,273
Tax									(44,619)	(42,448)
Profit for the period									200,365	218,825
Other segment information										
Depreciation of property and equipment and land held under finance leases										
	(13,735)	(13,443)	-	-	-	-	-	-	(13,735)	(13,443)
Changes in fair value of investment properties										
	-	-	-	-	(439)	14,017	-	-	(439)	14,017
Impairment allowances for loans and advances and receivables										
	(128,058)	(126,481)	-	-	-	-	-	-	(128,058)	(126,481)
Net losses on disposal of property and equipment										
	(11)	(20)	-	-	-	-	-	-	(11)	(20)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2016 and 31 December 2015.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets other than intangible assets and goodwill	41,341,957	40,423,442	299,712	324,052	309,192	270,569	-	-	41,950,861	41,018,063
Intangible assets	-	-	718	718	-	-	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	-	-	2,774,403	2,774,403
Segment assets	44,116,360	43,197,845	300,430	324,770	309,192	270,569	-	-	44,725,982	43,793,184
Unallocated assets:										
Interest in a joint venture									1,892	1,892
Deferred tax assets and tax recoverable									23,693	25,986
Total assets									44,751,567	43,821,062
Segment liabilities	37,267,343	36,380,740	92,511	118,515	8,280	7,887	-	-	37,368,134	36,507,142
Unallocated liabilities:										
Deferred tax liabilities and tax payable									76,542	48,640
Dividends payable									54,896	142,729
Total liabilities									37,499,572	36,698,511
Other segment information										
Additions to non-current assets - capital expenditure	67,149	17,422	-	-	-	-	-	-	67,149	17,422

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 discloses the segment revenue information for geographical segments for the six months ended 30 June 2016 and 2015.

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	731,067	731,455
Mainland China	38,479	40,343
	<u>769,546</u>	<u>771,798</u>

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

The following table discloses the non-current assets information for geographical segments as at 30 June 2016 and 31 December 2015.

	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	3,831,841	3,778,123
Mainland China	17,180	17,925
	<u>3,849,021</u>	<u>3,796,048</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, including a group of entities which are known to be under common control with that 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Interest income from:		
Loans and advances and receivables	775,631	773,952
Short term placements and placements with banks	29,675	38,204
Held-to-maturity investments	27,446	35,270
	<hr/>	<hr/>
	832,752	847,426
	<hr/> <hr/>	<hr/> <hr/>
Interest expense on:		
Deposits from banks and financial institutions	8,019	2,066
Deposits from customers	140,177	176,716
Bank loans	15,728	15,701
	<hr/>	<hr/>
	163,924	194,483
	<hr/> <hr/>	<hr/> <hr/>

Interest income and interest expense for the six months ended 30 June 2016, 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\$832,752,000 and HK\$163,924,000 (2015: HK\$847,426,000 and HK\$194,483,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2016 amounted to HK\$2,802,000 (2015: HK\$2,794,000).

7. OTHER OPERATING INCOME

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	72,672	75,078
Wealth management services, stockbroking and securities management	14,126	28,893
	86,798	103,971
Less: Fees and commission expenses	(706)	(650)
Net fees and commission income	86,092	103,321
Gross rental income	8,828	8,189
Less: Direct operating expenses	(49)	(41)
Net rental income	8,779	8,148
Gains less losses arising from dealing in foreign currencies	2,481	11,510
Net gains/(losses) on derivative financial instruments	1,860	(5,863)
	4,341	5,647
Net losses on disposal of property and equipment	(11)	(20)
Dividend income from listed investments	39	28
Dividend income from unlisted investments	700	800
Others	778	931
	100,718	118,855

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, financial assets and financial liabilities designated at fair value through profit or loss for the six months ended 30 June 2016 and 2015.

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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	239,379	239,171
Pension contributions	10,924	11,174
Less: Forfeited contributions	(10)	–
Net contribution to retirement benefit schemes	10,914	11,174
	250,293	250,345
Other operating expenses:		
Operating lease rentals on leasehold buildings	33,413	32,581
Depreciation of property and equipment and land held under finance leases	13,735	13,443
Administrative and general expenses	36,336	36,162
Others	62,288	65,530
Operating expenses before changes in fair value of investment properties	396,065	398,061

At 30 June 2016 and 2015, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the period ended 30 June 2016 arose in respect of staff who left the schemes during the period.

9. IMPAIRMENT ALLOWANCES

	For the six months ended	
	30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net charge for/(write-back of) impairment losses and allowances:		
– loans and advances	128,097	125,803
– trade bills, accrued interest and receivables	(39)	678
	128,058	126,481
Net charge for/(write-back of) impairment losses and allowances:		
– individually assessed	129,310	124,675
– collectively assessed	(1,252)	1,806
	128,058	126,481
Of which:		
– new impairment losses and allowances (including any amount directly written off during the period)	198,616	212,404
– releases and recoveries	(70,558)	(85,923)
Net charge to the consolidated income statement	128,058	126,481

There were no impairment allowances for financial assets other than loans and advances and receivables for the six months ended 30 June 2016 and 2015.

10. TAX

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current tax charge:		
Hong Kong	36,685	38,327
Overseas	5,010	6,145
Over-provision in prior periods	–	(2,502)
Deferred tax charge, net	2,924	478
	<u>44,619</u>	<u>42,448</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 jurisdictions 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 tax rates for the jurisdictions 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 (i.e. statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June 2016 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>220,359</u>		<u>24,625</u>		<u>244,984</u>	
Tax at the applicable tax rate	36,359	16.5	6,156	25.0	42,515	17.4
Estimated tax losses from previous periods utilised	(16)	–	–	–	(16)	–
Estimated tax effect of net expenses that are not deductible	2,105	1.0	15	0.1	2,120	0.9
Adjustments in respect of current tax of previous periods	–	–	–	–	–	–
Tax charge at the Group's effective rate	<u>38,448</u>	<u>17.5</u>	<u>6,171</u>	<u>25.1</u>	<u>44,619</u>	<u>18.3</u>

For the six months ended 30 June 2015

	Hong Kong		(Unaudited) Mainland China		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>236,197</u>		<u>25,076</u>		<u>261,273</u>	
Tax at the applicable tax rate	38,972	16.5	6,269	25.0	45,241	17.3
Estimated tax losses from previous periods utilised	(1)	–	–	–	(1)	–
Estimated tax effect of net (income)/expenses that are (taxable)/not deductible	(309)	(0.1)	19	0.1	(290)	(0.1)
Adjustments in respect of current tax of previous periods	<u>(2,502)</u>	<u>(1.1)</u>	<u>–</u>	<u>–</u>	<u>(2,502)</u>	<u>(1.0)</u>
Tax charge at the Group's effective rate	<u>36,160</u>	<u>15.3</u>	<u>6,288</u>	<u>25.1</u>	<u>42,448</u>	<u>16.2</u>

11. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2016 (Unaudited) <i>HK\$ per ordinary share</i>	2015 (Unaudited) <i>HK\$ per ordinary share</i>	2016 (Unaudited) <i>HK\$'000</i>	2015 (Unaudited) <i>HK\$'000</i>
Interim dividend	<u>0.05</u>	<u>0.05</u>	<u>54,896</u>	<u>54,896</u>

(b) Dividends attributable to the previous financial year and paid during the interim period

	For the six months ended 30 June			
	2016 (Unaudited) <i>HK\$ per ordinary share</i>	2015 (Unaudited) <i>HK\$ per ordinary share</i>	2016 (Unaudited) <i>HK\$'000</i>	2015 (Unaudited) <i>HK\$'000</i>
Second interim dividend in respect of the previous period	<u>0.13</u>	<u>0.11</u>	<u>142,729</u>	<u>120,771</u>

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\$200,365,000 (2015: HK\$218,825,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2015: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the period ended 30 June 2016.

All the share options expired on 10 June 2015. The share options outstanding during the period ended 30 June 2015 had no dilutive effect on the basic earnings per share. The calculation of diluted earnings per share for the period ended 30 June 2015 was based on the profit for the period of HK\$218,825,000 and on the weighted average number of ordinary shares of 1,097,917,618, being the weighted average number of ordinary shares in issue of 1,097,917,618 during the period as used in the basic earnings per share calculation.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Loans and advances to customers	29,001,518	29,535,457
Trade bills	27,343	64,552
Loans and advances, and trade bills	29,028,861	29,600,009
Accrued interest	75,854	80,779
Other receivables	29,104,715 25,153	29,680,788 28,621
Gross loans and advances and receivables	29,129,868	29,709,409
Less: Impairment allowances for loans and advances and receivables		
– individually assessed	(105,769)	(106,509)
– collectively assessed	(14,502)	(15,764)
	(120,271)	(122,273)
Loans and advances and receivables	29,009,597	29,587,136

Over 90% (2015: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2015: 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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	28,491,225	29,127,545
Past due but not impaired loans and advances and receivables	452,927	392,599
Individually impaired loans and advances	181,426	185,253
Individually impaired receivables	4,290	4,012
	<hr/>	<hr/>
Gross loans and advances and receivables	29,129,868	29,709,409
	<hr/> <hr/>	<hr/> <hr/>

About 68% (2015: 66%) of “Neither past due nor impaired loans and advances and receivables” were 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 2016 (Unaudited)		31 December 2015 (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	94,962	0.33	85,958	0.29
One year or less but over six months	4,917	0.01	15,568	0.05
Over one year	25,925	0.09	24,767	0.09
	<hr/>	<hr/>	<hr/>	<hr/>
Loans and advances overdue for more than three months	125,804	0.43	126,293	0.43
Rescheduled loans and advances overdue for three months or less	22,611	0.08	35,162	0.12
Impaired loans and advances overdue for three months or less	33,011	0.12	23,798	0.08
	<hr/>	<hr/>	<hr/>	<hr/>
Total overdue and impaired loans and advances	181,426	0.63	185,253	0.63
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	590	288
One year or less but over six months	167	384
Over one year	3,362	3,181
Trade bills, accrued interest and other receivables overdue for more than three months	4,119	3,853
Impaired trade bills, accrued interest and other receivables overdue for three months or less	171	159
Total overdue and impaired trade bills, accrued interest and other receivables	4,290	4,012

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 2016 (Unaudited)			31 December 2015 (Audited)		
	Mainland		Total	Mainland		Total
	Hong Kong HK\$'000	China HK\$'000		Hong Kong HK\$'000	China HK\$'000	
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>117,291</u>	<u>12,632</u>	<u>129,923</u>	<u>117,398</u>	<u>12,748</u>	<u>130,146</u>
Individual impairment allowances	<u>69,352</u>	<u>11,506</u>	<u>80,858</u>	<u>73,889</u>	<u>11,457</u>	<u>85,346</u>
Current market value and fair value of collateral			<u>42,166</u>			<u>69,165</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>172,245</u>	<u>13,471</u>	<u>185,716</u>	<u>176,409</u>	<u>12,856</u>	<u>189,265</u>
Individual impairment allowances	<u>94,263</u>	<u>11,506</u>	<u>105,769</u>	<u>94,944</u>	<u>11,565</u>	<u>106,509</u>
Current market value and fair value of collateral			<u>112,006</u>			<u>128,237</u>

Over 90% (2015: over 90%) of the Group's gross loans and advances and receivables were 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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u><u>42,166</u></u>	<u><u>69,165</u></u>
Covered portion of overdue loans and advances	<u><u>23,757</u></u>	<u><u>24,324</u></u>
Uncovered portion of overdue loans and advances	<u><u>102,047</u></u>	<u><u>101,969</u></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 2016, the total value of repossessed assets of the Group amounted to HK\$22,680,000 (31 December 2015: Nil).

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

	30 June 2016 (Unaudited)		31 December 2015 (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>451,383</u>	<u>1.56</u>	<u>391,302</u>	<u>1.32</u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u>1,544</u>		<u>1,297</u>	

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

	30 June 2016 (Unaudited)		Total <i>HK\$'000</i>
	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	
At 1 January 2016	106,509	15,764	122,273
Amounts written off	(197,569)	–	(197,569)
Impairment losses and allowances charged to the consolidated income statement	198,559	57	198,616
Impairment losses and allowances released to the consolidated income statement	(69,249)	(1,309)	(70,558)
Net charge/(release) of impairment losses and allowances	129,310	(1,252)	128,058
Loans and advances and receivables recovered	67,680	–	67,680
Exchange difference	(161)	(10)	(171)
At 30 June 2016	<u>105,769</u>	<u>14,502</u>	<u>120,271</u>
Deducted from:			
Loans and advances	103,413	14,364	117,777
Trade bills, accrued interest and other receivables	2,356	138	2,494
	<u>105,769</u>	<u>14,502</u>	<u>120,271</u>

	31 December 2015 (Audited)		
	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	86,174	19,015	105,189
Amounts written off	(396,338)	–	(396,338)
Impairment losses and allowances charged to the consolidated income statement	423,799	311	424,110
Impairment losses and allowances released to the consolidated income statement	(155,147)	(3,546)	(158,693)
Net charge/(release) of impairment losses and allowances	268,652	(3,235)	265,417
Loans and advances and receivables recovered	148,620	–	148,620
Exchange difference	(599)	(16)	(615)
At 31 December 2015	<u>106,509</u>	<u>15,764</u>	<u>122,273</u>
Deducted from:			
Loans and advances	104,202	15,538	119,740
Trade bills, accrued interest and other receivables	2,307	226	2,533
	<u>106,509</u>	<u>15,764</u>	<u>122,273</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 2016 (Unaudited) Minimum lease payments HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) Present value of minimum lease payments HK\$'000	31 December 2015 (Audited) HK\$'000
Amounts receivable under finance leases:				
Within one year	376,511	356,016	282,501	270,140
In the second to fifth years, inclusive	1,099,340	1,022,923	797,287	750,335
Over five years	3,742,582	3,425,481	3,117,402	2,862,167
	5,218,433	4,804,420	4,197,190	3,882,642
Less: Unearned finance income	(1,021,243)	(921,778)		
Present value of minimum lease payments receivable	4,197,190	3,882,642		

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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Certificates of deposit held	2,241,147	2,816,789
Treasury bills and government bonds (including Exchange Fund Bills)	1,739,917	1,767,836
Other debt securities	1,340,390	758,247
	5,321,454	5,342,872
Listed or unlisted:		
– Listed in Hong Kong	1,528,361	1,557,815
– Listed outside Hong Kong	72,826	58,025
– Unlisted	3,720,267	3,727,032
	5,321,454	5,342,872
Analysed by type of issuers:		
– Central governments	1,739,917	1,767,836
– Banks and other financial institutions	3,581,537	3,575,036
	5,321,454	5,342,872

There were no impairment allowances made against held-to-maturity investments as at 30 June 2016 and 31 December 2015. There were no movements in impairment allowances for the period ended 30 June 2016 and for the year ended 31 December 2015.

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2016 and 31 December 2015.

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, as at 30 June 2016 and 31 December 2015.

15. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Employee share-based compensation reserve (<i>Note 1</i>) <i>HK\$'000</i>	Regulatory reserve (<i>Note 2</i>) <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	4,013,296	829	96,116	45,765	438,936	2,150,305	68,153	6,813,400
Profit for the year	-	-	-	-	-	422,955	-	422,955
Other comprehensive income	-	-	-	-	-	-	(25,971)	(25,971)
Transfer of employee share-based compensation reserve upon the expiry of share options	-	-	-	(45,765)	-	45,765	-	-
Transfer from retained profits	-	-	-	-	16,507	(16,507)	-	-
Dividends for 2015	-	-	-	-	-	(197,625)	-	(197,625)
At 31 December 2015 and 1 January 2016 (Audited)	4,013,296	829	96,116	-	455,443	2,404,893	42,182	7,012,759
Profit for the period	-	-	-	-	-	200,365	-	200,365
Other comprehensive income	-	-	-	-	-	-	(16,025)	(16,025)
Transfer to retained profits	-	-	-	-	(20,755)	20,755	-	-
Dividends declared	-	-	-	-	-	(54,896)	-	(54,896)
At 30 June 2016 (Unaudited)	4,013,296	829	96,116	-	434,688	2,571,117	26,157	7,142,203

Notes:

- The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire.
- The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guideline.

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 2016 and 31 December 2015, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within one year	10,257	9,380
In the second to fifth years, inclusive	7,036	3,692
	17,293	13,072

(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 10 years.

At 30 June 2016 and 31 December 2015, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within one year	61,053	52,277
In the second to fifth years, inclusive	59,781	41,878
Over five years	335	382
	121,169	94,537

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 2016 (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	77,061	77,061	70,984	-	-
Transaction-related contingencies	11,089	5,545	992	-	-
Trade-related contingencies	50,534	10,106	8,767	-	-
Forward forward deposits placed	473,205	473,205	94,641	-	-
Forward asset purchases	433	433	87	-	-
	<u>612,322</u>	<u>566,350</u>	<u>175,471</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	683,295	9,439	1,893	2,605	745
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	4,000	2,000	2,000	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>2,884,093</u>	-	-	-	-
	<u><u>4,183,710</u></u>	<u><u>577,789</u></u>	<u><u>179,364</u></u>	<u><u>2,605</u></u>	<u><u>745</u></u>
				30 June 2016 (Unaudited) Contractual amount <i>HK\$'000</i>	
Capital commitments contracted for, but not provided in the consolidated statement of financial position				<u><u>9,813</u></u>	

	31 December 2015 (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	171,846	171,846	89,632	-	-
Transaction-related contingencies	14,363	7,181	1,649	-	-
Trade-related contingencies	45,298	9,060	6,660	-	-
Forward forward deposits placed	-	-	-	-	-
Forward asset purchases	1,513	1,513	303	-	-
	<u>233,020</u>	<u>189,600</u>	<u>98,244</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	2,344,121	27,040	4,894	3,864	588
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	17,333	8,667	8,667	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>3,876,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>6,470,847</u></u>	<u><u>225,307</u></u>	<u><u>111,805</u></u>	<u><u>3,864</u></u>	<u><u>588</u></u>
				31 December 2015 (Audited) Contractual amount <i>HK\$'000</i>	

Capital commitments contracted for, but not provided
in the consolidated statement of financial position

17,031

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, commitments and derivatives.

At 30 June 2016 and 31 December 2015, 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 2016 (Unaudited)							Repayable within an indefinite period HK\$'000	Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over	Over	Over	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000		
			1 month but not more than 3 months HK\$'000	3 months but not more than 12 months HK\$'000	1 year but not more than 5 years HK\$'000				
Financial assets:									
Cash and short term placements	1,079,307	3,828,321	-	-	-	-	-	-	4,907,628
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	1,048,700	448,633	-	-	-	-	1,497,333
Loans and advances and receivables (gross)	1,008,606	1,348,196	1,175,064	2,906,899	6,407,950	16,097,437	185,716	29,129,868	
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804	
Held-to-maturity investments	-	99,977	645,295	3,489,124	1,087,058	-	-	5,321,454	
Other assets	196	71,370	8,917	28,266	-	-	24,683	133,432	
Foreign exchange contracts (gross)	-	456,785	226,510	-	-	-	-	683,295	
Total financial assets	2,088,109	5,804,649	3,104,486	6,872,922	7,495,008	16,097,437	217,203	41,679,814	
Financial liabilities:									
Deposits and balances of banks and other financial institutions at amortised cost	54,064	630,626	50,000	221,735	-	-	-	956,425	
Customer deposits at amortised cost	8,236,385	8,808,519	11,056,934	5,283,887	8,629	-	-	33,394,354	
Certificates of deposit issued at amortised cost	-	-	-	1,072,869	-	-	-	1,072,869	
Unsecured bank loans at amortised cost	-	90,000	-	450,000	1,089,641	-	-	1,629,641	
Other liabilities	118	98,786	21,088	21,873	8,750	-	163,485	314,100	
Foreign exchange contracts (gross)	-	454,984	226,451	-	-	-	-	681,435	
Total financial liabilities	8,290,567	10,082,915	11,354,473	7,050,364	1,107,020	-	163,485	38,048,824	
Net liquidity gap	(6,202,458)	(4,278,266)	(8,249,987)	(177,442)	6,387,988	16,097,437	53,718	3,630,990	

	31 December 2015							
	(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	1,028,166	2,900,046	-	-	-	-	-	3,928,212
Placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	444,339	573,794	-	-	-	1,018,133
Loans and advances and receivables (gross)	993,656	1,676,926	1,800,867	3,123,903	6,386,847	15,537,945	189,265	29,709,409
Available-for-sale financial assets	-	-	-	-	-	-	6,804	6,804
Held-to-maturity investments	-	204,276	792,086	3,313,255	1,033,255	-	-	5,342,872
Other assets	72	55,780	6,457	33,707	-	-	15,991	112,007
Foreign exchange contracts (gross)	-	1,521,753	512,407	309,961	-	-	-	2,344,121
Total financial assets	2,021,894	6,358,781	3,556,156	7,354,620	7,420,102	15,537,945	212,060	42,461,558
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	49,824	674,269	200,000	60,000	-	-	-	984,093
Customer deposits at amortised cost	8,151,701	8,947,867	10,517,342	5,396,063	18,848	-	-	33,031,821
Certificates of deposit issued at amortised cost	-	-	499,977	-	-	-	-	499,977
Unsecured bank loans at amortised cost	-	455,000	-	100,000	1,087,400	-	-	1,642,400
Other liabilities	92	81,588	22,279	50,389	2,381	-	191,534	348,263
Foreign exchange contracts (gross)	-	1,519,405	511,681	309,759	-	-	-	2,340,845
Total financial liabilities	8,201,617	11,678,129	11,751,279	5,916,211	1,108,629	-	191,534	38,847,399
Net liquidity gap	(6,179,723)	(5,319,348)	(8,195,123)	1,438,409	6,311,473	15,537,945	20,526	3,614,159

INTERIM DIVIDEND

The Board has on 28 June 2016 declared an interim dividend of HK\$0.05 (2015: HK\$0.05) per share payable on 5 August 2016 to shareholders whose names appear on the register of members of the Company on 20 July 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the period under review, the operating environment for financial institutions in Hong Kong was very challenging and affected by the weak credit demand due to the slowdown of economic growth momentum and market sentiment under volatile global economy conditions. The moderation of economic activities and excessive production capacities in Mainland China also adversely impacted business developments of Hong Kong enterprises having operations in Mainland China. The softening export of goods and services, the weak domestic retail sales and downturn in inbound tourism, coupled with slowdown in cross-border funding activities and adjustments in local property price, further dampened economic activities and domestic credit demand in the banking sector of Hong Kong. The loans and earnings growth of the Group was also affected during the period under review.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2016, the Group's profit after tax recorded a decrease of HK\$18.5 million or 8.4% to HK\$200.4 million as compared to the corresponding period in 2015. The decrease in profit of the Group was mainly attributed to the revaluation loss of HK\$0.4 million in the fair value of investment properties for the period under review against a revaluation gain of HK\$14.0 million in the corresponding period of previous year. Excluding the effect of the investment properties revaluation gain/loss, the operating profit after tax of the Group declined by HK\$4.0 million or 2.0% when compared to the corresponding period in 2015.

The Group's basic earnings per share for the six months ended 30 June 2016 was HK\$0.18. The Board of Directors has declared an interim dividend of HK\$0.05 per share on 28 June 2016, payable on 5 August 2016.

During the period under review, total interest income of the Group decreased by HK\$14.7 million or 1.7% to HK\$832.8 million due to decrease in interest on bank placements and held-to-maturity debts securities, whilst total interest expense decreased by HK\$30.6 million or 15.7% to HK\$163.9 million due to decrease in cost of funding of customer deposits. As a result, the Group's net interest income increased by HK\$15.9 million or 2.4% to HK\$668.8 million. Other operating income from loan transactions, stockbroking, insurance and other business activities of the Group decreased by HK\$18.1 million or 15.3% to HK\$100.7 million in the period under review, mainly due to lower fee income in stockbroking activities from decline in volume of turnover in the stock market of Hong Kong.

Operating expenses of the Group decreased slightly by HK\$2.0 million or 0.5% to HK\$396.1 million mainly due to the decrease in marketing related costs.

Impairment allowance for loans and advances increased by HK\$1.6 million or 1.2% to HK\$128.1 million for the period under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded a decrease of HK\$571.1 million or 1.9% to HK\$29.03 billion as at 30 June 2016 from HK\$29.60 billion as at 31 December 2015 partly due to repayments of foreign currency loans of some customers based in Mainland China driven by the depreciation of Renminbi during the period under review. The Group's customer deposits grew slightly by HK\$362.5 million or 1.1% to HK\$33.39 billion as at 30 June 2016 from HK\$33.03 billion as at 31 December 2015. Total assets of the Group stood at HK\$44.75 billion as at 30 June 2016.

Group's Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 3 branches in Shenzhen in the People's Republic of 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 which operates under a money lenders license, has a network of 8 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 85 branches as at 30 June 2016 to serve its customers.

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

Business performance in loans and customer deposits

Public Bank (Hong Kong)

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) decreased by HK\$554.3 million or 2.3% to HK\$23.53 billion as at 30 June 2016 from HK\$24.08 billion as at 31 December 2015. Customer deposits (excluding intra-group's deposits) increased by HK\$206.8 million or 0.7% to HK\$28.79 billion as at 30 June 2016 from HK\$28.59 billion as at 31 December 2015. Impaired loans to total loans ratio of the Bank was 0.28% as at 30 June 2016.

Public Bank (Hong Kong) will continue to develop and expand its retail banking business and customer base, identify suitable locations for the establishment of new branch and relocation of its branches to better sites in order to expand its reach of existing and potential customers, and develop its banking related financial services and stockbroking businesses.

Public Finance

Total loans and advances of Public Finance increased by HK\$3.9 million or 0.1% to HK\$5.25 billion as compared to the position as at 31 December 2015. Customer deposits increased by HK\$92.3 million or 1.9% to HK\$4.89 billion as at 30 June 2016 from HK\$4.80 billion as at 31 December 2015. Impaired loans to total loans ratio of Public Finance was 1.78% as at 30 June 2016.

Public Finance will continue to focus on its consumer financing business and deposit takings business.

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. 97.0% of the Group's operating income and 97.5% 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 2015, the Group's operating income from retail and commercial banking businesses increased by HK\$12.2 million or 1.7% to HK\$746.3 million due to increase in net interest income from improved net interest margin of loans and advances. As a result, profit before tax from retail and commercial banking businesses increased by HK\$7.3 million or 3.1% to HK\$238.8 million during the period under review.

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. The Group did not have plans for material investments or purchases of capital assets in the near term. As at 30 June 2016, 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-sufficient in funding their business growth. The Group did not have acquisitions or disposals of subsidiaries, associated companies and joint ventures during the period under review.

The Group relies principally on its internally generated capital, customer deposits, deposits from financial institutions and the issuance of certificates of deposit to fund its retail and commercial banking business and its consumer financing business. The Group's bank borrowings in the form of term loans denominated in Hong Kong dollars at floating interest rates stood at approximately HK\$1.63 billion as at 30 June 2016. Based on the level of bank borrowings as compared to the equity of the Group, the Group's gearing ratio remained at a healthy level of 0.22 times as at 30 June 2016 as compared to 0.23 times as at 31 December 2015. The bank borrowings have remaining average maturity period of more than one year and less than two years. In the normal course of its commercial banking business, Public Bank (Hong Kong) had entered into foreign exchange and interest rate swaps and forward contracts to reduce the foreign exchange rate risk and interest rate risk exposures of the Group. Exposures to fluctuations in foreign exchange rates and interest rates were minimal. There were also no foreign currency net investments hedged by currency borrowings and other hedging instruments during the period under review.

The consolidated common equity tier 1 capital ratio and total capital ratio of Public Bank (Hong Kong) Group (inclusive of Public Bank (Hong Kong) and Public Finance) stood at 16.6% and 17.8% respectively as at 30 June 2016.

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 are enrolled in external training courses, seminars, professional and technical courses 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 social responsibility to the community.

As at 30 June 2016, the Group's staff force stood at 1,389 employees. For the six months ended 30 June 2016, the Group's total staff related costs amounted to HK\$250.3 million.

Asset quality and credit management

The Group's impaired loans to total loans ratio remained the same at healthy level of 0.63% as at 30 June 2016 as compared to position of 31 December 2015.

The direct exposures to United Kingdom and Europe were assessed as insignificant and manageable as the core operations of the Group are principally based in Hong Kong.

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

PROSPECTS

The financial market volatility, followed by the United Kingdom's referendum in June 2016 to exit from the European Union is expected to cast uncertainties over global economic outlook in the second half of 2016. The volatility of currencies and interest rates in financial markets are also anticipated to take a toll on the effectiveness of easing monetary policies of some countries and slow down the pace of US interest rate rise in the near term. The easing economic growth momentum, caused by weak domestic and external demands, is expected to continue in Hong Kong and Mainland China.

The volatility and adjustments of property and equity prices will impact market sentiment adversely in Hong Kong and Mainland China, and subdue private consumption and risk adverse appetite for investments and business expansion. Competition in the banking and financing industry is expected to intensify with financial institutions seeking greater market share in loans and advances, deposit takings and fee income. The Group's loan business and fee-based business growth is expected to be more challenging in the near term. However, the Group will continue to safeguard its financial strength, manage risks cautiously and undertake prudent yet flexible business development strategies to diversify income streams from loan businesses and fee-based businesses.

The increase in demand for compliance related resources coupled with rising system related costs in meeting the increased regulatory and supervisory requirements are expected to have an impact on the earnings growth and cost efficiency of financial institutions in Hong Kong. Despite the foregoing, the Group will continue to pursue long-term business and profitability growth in line 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.

The Group will continue to focus on expanding its retail and commercial banking business and its consumer financing business through its branch network, offering of premium business service, support of growth in fee-based businesses and implementation of appropriate marketing strategies at reasonable costs. The Group will also continue to target selected market segments of Public Bank (Hong Kong), Public Finance and Winton Financial Limited to grow its retail and commercial lending business and consumer financing business. The Group does not plan to launch new products, services or businesses in material aspects in the near term.

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 2016.

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 2016.

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 2016 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”) of the Company 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 2016 AGM of the Company held in March 2016 due to other engagement. The 2016 AGM was chaired by the Co-Chairman of the Company, Mr. Lai Wan.

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 2016 Interim Report has been reviewed by the Company’s Audit Committee which comprises three Independent Non-Executive Directors and one Non-Executive Director.

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

Hong Kong, 22 July 2016

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 Mr. Lai Wan, Mr. Lee Chin Guan and Mr. Tang Wing Chew as Independent Non-Executive Directors.