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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 2019

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 2019 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest income	6	985,418	916,142
Interest expense	6	(295,969)	(200,947)
NET INTEREST INCOME		689,449	715,195
Other operating income	7	120,421	117,622
OPERATING INCOME		809,870	832,817
Operating expenses	8	(439,289)	(437,332)
Changes in fair value of investment properties		35,250	3,512
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES		405,831	398,997
Credit loss expenses	9	(96,809)	(78,670)

* For identification purpose only

		For the six months ended	
		30 June	
		2019	2018
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
PROFIT BEFORE TAX		309,022	320,327
Tax	<i>10</i>	<u>(52,052)</u>	<u>(59,446)</u>
PROFIT FOR THE PERIOD		<u>256,970</u>	<u>260,881</u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>256,970</u>	<u>260,881</u>
EARNINGS PER SHARE (HK\$)	<i>12</i>		
Basic		<u>0.234</u>	<u>0.238</u>
Diluted		<u>0.234</u>	<u>0.238</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended	
	30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	256,970	260,881
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations, net of tax	(1,209)	(16,831)
Surplus on revaluation of properties	<u>3,982</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>259,743</u>	<u>244,050</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>259,743</u>	<u>244,050</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2019 (Unaudited) <i>HK\$'000</i>	31 December 2018 (Audited) <i>HK\$'000</i>
ASSETS			
Cash and short term placements		4,442,751	3,953,773
Placements with banks and financial institutions maturing after one month but not more than twelve months		1,610,207	1,556,342
Derivative financial instruments		8,025	2,541
Loans and advances and receivables	13	29,169,627	29,877,579
Equity investments at fair value through other comprehensive income		6,804	6,804
Held-to-collect debt securities at amortised cost	14	6,658,915	6,202,949
Investment properties		396,661	345,715
Property and equipment		161,609	145,090
Land held under finance leases		660,928	676,073
Right-of-use assets		116,973	–
Deferred tax assets		43,919	41,338
Tax recoverable		36	1,222
Goodwill		2,774,403	2,774,403
Intangible assets		718	718
Other assets		199,558	166,343
TOTAL ASSETS		46,251,134	45,750,890
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		698,231	572,712
Derivative financial instruments		147	7,275
Customer deposits at amortised cost		35,280,143	35,284,322
Dividends payable		54,896	186,646
Unsecured bank loans at amortised cost		1,546,028	1,444,614
Lease liabilities		124,822	–
Current tax payable		49,001	15,298
Deferred tax liabilities		36,517	36,350
Other liabilities		515,279	455,863
TOTAL LIABILITIES		38,305,064	38,003,080
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		109,792	109,792
Reserves	15	7,836,278	7,638,018
TOTAL EQUITY		7,946,070	7,747,810
TOTAL EQUITY AND LIABILITIES		46,251,134	45,750,890

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Notes</i>	For the six months ended	
		30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
TOTAL EQUITY			
As at 1 January (Reported)		7,747,810	7,525,700
Impact of adopting HKFRS 16	4	(6,587)	–
Restated opening balance under HKFRS 16		7,741,223	7,525,700
Profit for the period		256,970	260,881
Other comprehensive income in translation reserve		(1,209)	(16,831)
Other comprehensive income in property revaluation reserve		3,982	–
Total comprehensive income for the period		259,743	244,050
Dividends declared on shares	11(a)	(54,896)	(54,896)
Balance at the end of the period		7,946,070	7,714,854

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 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 2018 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s 2018 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 2019.

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:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) 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.

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 Banking (Disclosure) Rules.

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 and other regulatory capital ratios of the Group is based on the consolidation of the Company, Public Bank (Hong Kong) and Public Finance for regulatory reporting purposes.

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 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 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 capital conservation buffer ("CCB") ratio of 2.5%. Additional capital requirements, including a countercyclical capital buffer ("CCyB") ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The required CCyB ratio for 2018 and 2019 is 1.875% and 2.5%, respectively.

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 2019. The Group has adopted the following new and revised standards for the first time for the interim financial statements:

- | | |
|---------------------------------------|---|
| • Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| • HKFRS 16 | <i>Leases</i> |
| • Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| • Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| • HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| • Annual Improvements 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Except for the amendments included in Amendments to HKFRS 9, Amendments to HKAS 19, Amendments to HKAS 28 and Annual Improvements 2015-2017 Cycle, which are not relevant to the preparation of the Group’s interim condensed consolidated financial statements, the nature and impact of the amendments are described below.

HKFRS 16

HKFRS 16 supersedes HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single lessee accounting model.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (“short-term leases”), and lease contracts for which the underlying asset is of low value (“leases of low-value assets”).

The transition effects arising from the adoption of HKFRS 16 are presented below.

The following tables analyse the impact, net of tax, of transition to HKFRS 16 on the statement of financial position of the Group.

	1 January 2019 HK\$'000
<hr/>	
Deferred tax assets	
Closing balance under HKAS 17 at 31 December 2018	41,338
– Deferred tax effect under HKFRS 16	<u>1,301</u>
Opening balance under HKFRS 16 at 1 January 2019	<u>42,639</u>
Right-of-use assets	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of right-of-use assets under HKFRS 16	<u>132,745</u>
Opening balance under HKFRS 16 at 1 January 2019	<u>132,745</u>
Lease liabilities	
Closing balance under HKAS 17 at 31 December 2018	–
– Recognition of lease liabilities under HKFRS 16	<u>140,633</u>
Opening balance under HKFRS 16 at 1 January 2019	<u>140,633</u>
Retained profits	
Closing balance under HKAS 17 at 31 December 2018	3,219,068
– Recognition of right-of-use assets under HKFRS 16	132,745
– Recognition of lease liabilities under HKFRS 16	(140,633)
– Deferred tax effect under HKFRS 16	<u>1,301</u>
Opening balance under HKFRS 16 at 1 January 2019	<u>3,212,481</u>

Statement of Financial Position	31 December 2018 <i>HK\$'000</i>	Remeasurement <i>HK\$'000</i>	1 January 2019 <i>HK\$'000</i>
Assets			
Cash and short term placements	3,953,773	–	3,953,773
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,556,342	–	1,556,342
Derivative financial instruments	2,541	–	2,541
Loans and advances and receivables	29,877,579	–	29,877,579
Equity investments at fair value through other comprehensive income	6,804	–	6,804
Held-to-collect debt securities at amortised cost	6,202,949	–	6,202,949
Investment properties	345,715	–	345,715
Property and equipment	145,090	–	145,090
Land held under finance leases	676,073	–	676,073
Right-of-use assets	–	132,745	132,745
Deferred tax assets	41,338	1,301	42,639
Tax recoverable	1,222	–	1,222
Goodwill	2,774,403	–	2,774,403
Intangible assets	718	–	718
Other assets	166,343	–	166,343
Total Assets	45,750,890	134,046	45,884,936
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	572,712	–	572,712
Derivative financial instruments	7,275	–	7,275
Customer deposits at amortised cost	35,284,322	–	35,284,322
Dividends payable	186,646	–	186,646
Unsecured bank loans at amortised cost	1,444,614	–	1,444,614
Lease liabilities	–	140,633	140,633
Current tax payable	15,298	–	15,298
Deferred tax liabilities	36,350	–	36,350
Other liabilities	455,863	–	455,863
Total Liabilities	38,003,080	140,633	38,143,713
Equity attributable to owners of the Company			
Issued capital	109,792	–	109,792
Reserves	7,638,018	(6,587)	7,631,431
Total Equity	7,747,810	(6,587)	7,741,223
Total Equity and Liabilities	45,750,890	134,046	45,884,936

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings. Before the adoption of HKFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal to the lease assets and liabilities recognised under HKAS 17). The requirements of HKFRS 16 were applied to these leases from 1 January 2019.

Leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equals to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term lease recognition exemption to leases with lease term that ends within 12 months at the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of HK\$132,745,000 were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of HK\$140,633,000 were recognised.
- Deferred tax assets increased by HK\$1,301,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings in the amount of HK\$6,587,000.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	113,913
Weighted average incremental borrowing rate as at 1 January 2019	2.73%
Discounted operating lease commitments as at 1 January 2019	102,647
Add:	
Estimated dismantling cost	4,544
Payments in optional extension periods not recognised as at 31 December 2018	33,442
Lease liabilities as at 1 January 2019	<u>140,633</u>

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of HKFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (i.e. a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered as low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms of two to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Amounts recognised in the statement of financial position and profit or loss

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets Buildings HK\$'000	Lease liabilities HK\$'000
As at 1 January 2019	132,745	140,633
Additions	21,818	21,818
Write-off	(4,735)	(5,651)
Depreciation expense	(32,855)	–
Interest expense	–	1,790
Payments	–	(33,768)
As at 30 June 2019	116,973	124,822

The Group recognised rent expenses from short-term leases of HK\$24,000 and leases of low-value assets of HK\$1,156,000 for the six months ended 30 June 2019.

HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The interpretation has had no significant impact on the Group's financial statements.

Issued but not yet effective HKFRSs

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

- Amendments to HKFRS 3 *Definition of a Business*¹
- Amendments to HKFRS 10 *Sale or Contribution of Assets between an Investor and its*
and HKAS 28 (2011) *Associate or Joint Venture*²
- Amendments to HKAS 1 *Definition of Material*¹
and HKAS 8

¹ Effective for annual periods beginning on or after 1 January 2020

² No mandatory effective date yet determined but available for adoption

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered as a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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 to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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 following table discloses the revenue and profit information for operating segments for the six months ended 30 June 2019 and 2018.

	Retail and commercial banking businesses For the six months ended 30 June		Wealth management services, stockbroking and securities management For the six months ended 30 June		Other businesses For the six months ended 30 June		Total For the six months ended 30 June	
	2019	2018	2019	2018	2019	2018	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	689,856	715,240	(407)	(45)	-	-	689,449	715,195
Other operating income:								
Net fees and commission income	72,945	76,279	27,002	25,716	151	194	100,098	102,189
Others	12,895	6,228	(1)	(1)	7,429	9,206	20,323	15,433
Operating income	<u>775,696</u>	<u>797,747</u>	<u>26,594</u>	<u>25,670</u>	<u>7,580</u>	<u>9,400</u>	<u>809,870</u>	<u>832,817</u>
Operating profit after credit loss expenses before tax	<u>268,036</u>	<u>300,115</u>	<u>13,895</u>	<u>13,192</u>	<u>27,091</u>	<u>7,020</u>	<u>309,022</u>	<u>320,327</u>
Tax							<u>(52,052)</u>	<u>(59,446)</u>
Profit for the period							<u><u>256,970</u></u>	<u><u>260,881</u></u>
Other segment information								
Depreciation of property and equipment and land held under finance leases	(17,734)	(15,281)	-	-	-	-	(17,734)	(15,281)
Changes in fair value of investment properties	-	-	-	-	35,250	3,512	35,250	3,512
Credit loss expenses	(96,809)	(78,670)	-	-	-	-	(96,809)	(78,670)
Net losses on disposal of property and equipment	<u>(54)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54)</u>	<u>(1)</u>

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2019 and 31 December 2018.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Total	
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Segment assets other than intangible assets and goodwill	42,713,950	42,277,363	320,567	309,555	397,541	346,291	43,432,058	42,933,209
Intangible assets	-	-	718	718	-	-	718	718
Goodwill	2,774,403	2,774,403	-	-	-	-	2,774,403	2,774,403
Segment assets	45,488,353	45,051,766	321,285	310,273	397,541	346,291	46,207,179	45,708,330
Unallocated assets:								
Deferred tax assets and tax recoverable							43,955	42,560
Total assets							46,251,134	45,750,890
Segment liabilities	38,066,126	37,667,853	91,062	89,378	7,462	7,555	38,164,650	37,764,786
Unallocated liabilities:								
Deferred tax liabilities and tax payable							85,518	51,648
Dividends payable							54,896	186,646
Total liabilities							38,305,064	38,003,080
Other segment information								
Additions to non-current assets								
– capital expenditure	30,944	81,876	-	-	-	-	30,944	81,876

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 2019 and 2018.

	For the six months ended	
	30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue from external customers:		
Hong Kong	743,087	765,782
Mainland China	66,783	67,035
	<u>809,870</u>	<u>832,817</u>

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

The following table discloses the non-current asset information for geographical segments as at 30 June 2019 and 31 December 2018.

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Non-current assets:		
Hong Kong	4,084,739	3,925,618
Mainland China	26,553	16,381
	<u>4,111,292</u>	<u>3,941,999</u>

Non-current assets consist of investment properties, property and equipment, land held under finance leases, goodwill, right-of-use assets 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% (2018: less than 10%) of the Group's total operating income or revenue.

6. INTEREST INCOME AND EXPENSE

	For the six months ended	
	30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Interest income from:		
Loans and advances and receivables	854,291	810,349
Short term placements and placements with banks	60,758	64,499
Held-to-collect debt securities at amortised cost	70,369	41,294
	<hr/>	<hr/>
	985,418	916,142
	<hr/> <hr/>	<hr/> <hr/>
Interest expense on:		
Deposits from banks and financial institutions	7,830	4,264
Deposits from customers	263,403	175,950
Bank loans	22,946	20,733
Lease liabilities	1,790	–
	<hr/>	<hr/>
	295,969	200,947
	<hr/> <hr/>	<hr/> <hr/>

Interest income and interest expense for the six months ended 30 June 2019, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss (“FVPL”), amounted to HK\$985,418,000 and HK\$295,969,000 (2018: HK\$916,142,000 and HK\$200,947,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2019 amounted to HK\$5,675,000 (2018: HK\$6,082,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Fees and commission income:		
Retail and commercial banking and other businesses	74,099	77,143
Wealth management services, stockbroking and securities management	27,002	25,716
	101,101	102,859
Less: Fees and commission expenses	(1,003)	(670)
Net fees and commission income	100,098	102,189
Gross rental income	7,419	8,947
Less: Direct operating expenses	(37)	(38)
Net rental income	7,382	8,909
Gains less losses arising from dealing in foreign currencies	2,988	10,056
Net gains/(losses) on derivative financial instruments	7,877	(5,218)
	10,865	4,838
Net losses on disposal of property and equipment	(54)	(1)
Gain on termination of leases	916	–
Dividend income from listed investments	69	73
Dividend income from unlisted investments	35	700
Others	1,110	914
	120,421	117,622

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

There were no net gains or losses arising from equity investments at fair value through other comprehensive income (“FVOCI”), loans and advances and receivables, financial assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2019 and 2018.

All fees and commission income and expenses are related to financial assets or financial liabilities which are not designated at FVPL. 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	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Staff costs:		
Salaries and other staff costs	266,100	266,706
Pension contributions	12,354	12,409
Less: Forfeited contributions	(82)	(8)
Net contribution to retirement benefit schemes	12,272	12,401
	278,372	279,107
Other operating expenses:		
Operating lease rentals on leasehold buildings	–	33,723
Depreciation of right-of-use assets	32,855	–
Depreciation of property and equipment and land held under finance leases	17,734	15,281
Administrative and general expenses	42,238	38,951
Others	68,090	70,270
Operating expenses before changes in fair value of investment properties	439,289	437,332

As at 30 June 2019 and 2018, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the periods ended 30 June 2019 and 2018 arose in respect of staff who left the schemes during the periods.

9. CREDIT LOSS EXPENSES

The following tables show the changes in expected credit loss (“ECL”) on financial instruments for the period recorded in the consolidated income statement.

	For the six months ended 30 June 2019			
	(Unaudited)			
	12-month expected credit loss (Stage 1) <i>HK\$'000</i>	Lifetime expected credit loss not credit impaired (Stage 2) <i>HK\$'000</i>	Lifetime expected credit loss credit impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	134	5,370	91,089	96,593
– trade bills, accrued interest and other receivables	98	4	21	123
– cash and short term placements	50	–	–	50
– placements with banks and financial institutions	5	–	–	5
– held-to-collect debt securities at amortised cost	46	–	–	46
– loan commitments	(8)	–	–	(8)
– financial guarantees and letters of credit	–	–	–	–
	325	5,374	91,110	96,809

	For the six months ended 30 June 2018			
	(Unaudited)			
	12-month expected credit loss (Stage 1) <i>HK\$'000</i>	Lifetime expected credit loss not credit impaired (Stage 2) <i>HK\$'000</i>	Lifetime expected credit loss credit impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net charge for/(write-back of) credit loss expenses:				
– loans and advances	(1,305)	341	80,076	79,112
– trade bills, accrued interest and other receivables	57	(5)	(243)	(191)
– cash and short term placements	(118)	–	–	(118)
– placements with banks and financial institutions	(15)	–	–	(15)
– held-to-collect debt securities at amortised cost	(96)	–	–	(96)
– loan commitments	(21)	–	–	(21)
– financial guarantees and letters of credit	(1)	–	–	(1)
	(1,499)	336	79,833	78,670

10. TAX

	For the six months ended	
	30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	40,421	46,745
Overseas	12,770	11,669
Deferred tax (credit)/charge, net	(1,139)	1,032
	<u>52,052</u>	<u>59,446</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 and its subsidiaries 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 2019					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>259,029</u>		<u>49,993</u>		<u>309,022</u>	
Tax at the applicable tax rate	42,740	16.5	12,498	25.0	55,238	17.8
Estimated tax losses from previous periods utilised	-	-	-	-	-	-
Estimated tax effect of net (income)/expenses that are not (taxable)/deductible	(3,238)	(1.2)	52	0.1	(3,186)	(1.0)
Adjustments in respect of current tax of previous periods	-	-	-	-	-	-
Tax charge at the Group's effective rate	<u>39,502</u>	<u>15.3</u>	<u>12,550</u>	<u>25.1</u>	<u>52,052</u>	<u>16.8</u>

For the six months ended 30 June 2018

(Unaudited)

	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>269,168</u>		<u>51,159</u>		<u>320,327</u>	
Tax at the applicable tax rate	44,413	16.5	12,790	25.0	57,203	17.9
Estimated tax losses from previous periods utilised	(5)	–	–	–	(5)	–
Estimated tax effect of net expenses that are not deductible	2,241	0.8	7	–	2,248	0.7
Adjustments in respect of current tax of previous periods	–	–	–	–	–	–
Tax charge at the Group's effective rate	<u>46,649</u>	<u>17.3</u>	<u>12,797</u>	<u>25.0</u>	<u>59,446</u>	<u>18.6</u>

11. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2019 (Unaudited) <i>HK\$ per ordinary share</i>	2018 (Unaudited) <i>HK\$ per ordinary share</i>	2019 (Unaudited) <i>HK\$'000</i>	2018 (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			
	2019 (Unaudited) <i>HK\$ per ordinary share</i>	2018 (Unaudited) <i>HK\$ per ordinary share</i>	2019 (Unaudited) <i>HK\$'000</i>	2018 (Unaudited) <i>HK\$'000</i>
Second interim dividend in respect of the previous period	<u>0.17</u>	<u>0.16</u>	<u>186,646</u>	<u>175,667</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\$256,970,000 (2018: HK\$260,881,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2018: 1,097,917,618) during the period.

(b) Diluted earnings per share

The Group had no potentially dilutive ordinary shares in issue during the periods ended 30 June 2019 and 2018.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Loans and advances to customers	29,226,770	29,945,241
Trade bills	40,906	29,724
Loans and advances, and trade bills	29,267,676	29,974,965
Accrued interest	84,267	78,371
Other receivables	29,351,943	30,053,336
	17,443	18,819
Gross loans and advances and receivables	29,369,386	30,072,155
Less: Impairment allowances*		
– specifically assessed	(55,691)	(56,106)
– collectively assessed	(144,068)	(138,470)
	(199,759)	(194,576)
Loans and advances and receivables	29,169,627	29,877,579

Over 90% (31 December 2018: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2018: 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.

* The balances also include the impairment allowances of HK\$94,000 and HK\$102,000 on off-balance sheet credit exposures as at 30 June 2019 and 31 December 2018 respectively.

Loans and advances and receivables are summarised as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Neither past due nor impaired loans and advances and receivables	28,509,410	29,424,485
Past due but not impaired loans and advances and receivables	669,974	449,145
Credit impaired loans and advances	186,531	195,687
Credit impaired receivables	3,471	2,838
	<hr/>	<hr/>
Gross loans and advances and receivables	29,369,386	30,072,155
	<hr/> <hr/>	<hr/> <hr/>

About 61% (31 December 2018: 61%) 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 2019 (Unaudited)		31 December 2018 (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	45,780	0.16	93,214	0.31
One year or less but over six months	51,135	0.17	12,453	0.04
Over one year	1,559	0.01	4,424	0.02
	<hr/>	<hr/>	<hr/>	<hr/>
Loans and advances overdue for more than three months	98,474	0.34	110,091	0.37
Rescheduled loans and advances overdue for three months or less	72,232	0.25	67,162	0.22
Impaired loans and advances overdue for three months or less	15,825	0.05	18,434	0.06
	<hr/>	<hr/>	<hr/>	<hr/>
Total overdue and impaired loans and advances	186,531	0.64	195,687	0.65
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	58	1,647
One year or less but over six months	2,823	472
Over one year	163	288
Trade bills, accrued interest and other receivables overdue for more than three months	3,044	2,407
Impaired trade bills, accrued interest and other receivables overdue for three months or less	427	431
Total overdue and impaired trade bills, accrued interest and other receivables	3,471	2,838

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 impairment allowances

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
(i) Analysis of overdue loans and advances and receivables						
Loans and advances and receivables overdue for more than three months	<u>71,127</u>	<u>30,391</u>	<u>101,518</u>	<u>83,834</u>	<u>28,664</u>	<u>112,498</u>
Impairment allowances specifically assessed	<u>38,210</u>	<u>3</u>	<u>38,213</u>	<u>40,108</u>	<u>3</u>	<u>40,111</u>
Current market value and fair value of collateral			<u>82,130</u>			<u>118,970</u>
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	<u>153,759</u>	<u>36,243</u>	<u>190,002</u>	<u>161,622</u>	<u>36,903</u>	<u>198,525</u>
Impairment allowances specifically assessed	<u>55,687</u>	<u>4</u>	<u>55,691</u>	<u>56,102</u>	<u>4</u>	<u>56,106</u>
Current market value and fair value of collateral			<u>134,513</u>			<u>157,257</u>

Over 90% (31 December 2018: 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 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>82,130</u>	<u>118,970</u>
Covered portion of overdue loans and advances	<u>50,255</u>	<u>58,172</u>
Uncovered portion of overdue loans and advances	<u>48,219</u>	<u>51,919</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

As at 30 June 2019, the total value of repossessed assets of the Group amounted to HK\$14,150,000 (31 December 2018: HK\$33,160,000).

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

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Gross amount	Percentage of total loans and advances	Gross amount	Percentage of total loans and advances
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Loans and advances overdue for three months or less	<u><u>666,549</u></u>	<u><u>2.28</u></u>	<u><u>446,235</u></u>	<u><u>1.49</u></u>
Trade bills, accrued interest and other receivables overdue for three months or less	<u><u>3,425</u></u>		<u><u>2,910</u></u>	

(f) **Impairment allowances on loans and advances and receivables and off-balance sheet credit exposures**

An analysis of changes in the gross amount of loans and advances and receivables is as follows:

	30 June 2019			Total
	(Unaudited)			
	Stage 1	Stage 2	Stage 3	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances and receivables as at 1 January 2019	29,701,281	172,349	198,525	30,072,155
New loans/financing originated	5,175,700	235	974	5,176,909
Loans/financing derecognised or repaid during the period (other than write-offs)	(5,679,987)	(21,983)	(27,062)	(5,729,032)
Transfer to 12-month expected credit loss (Stage 1)	76,071	(37,361)	(38,710)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(137,823)	142,904	(5,081)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(157,954)	(54,048)	212,002	–
Total transfer between stages	(219,706)	51,495	168,211	–
Write-offs	–	–	(150,646)	(150,646)
As at 30 June 2019	<u>28,977,288</u>	<u>202,096</u>	<u>190,002</u>	<u>29,369,386</u>
Arising from:				
Loans and advances	28,839,447	200,792	186,531	29,226,770
Trade bills, accrued interest and other receivables	137,841	1,304	3,471	142,616
	<u>28,977,288</u>	<u>202,096</u>	<u>190,002</u>	<u>29,369,386</u>

The amount outstanding on financial assets that were written off during the period and are still subject to enforcement action amounted to HK\$121,663,000.

	31 December 2018 (Audited)			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	
Gross loans and advances and receivables as at 1 January 2018	29,326,385	183,647	157,084	29,667,116
New loans/financing originated	10,056,861	99	806	10,057,766
Loans/financing derecognised or repaid during the year (other than write-offs)	(9,263,819)	(42,384)	(45,329)	(9,351,532)
Transfer to 12-month expected credit loss (Stage 1)	58,413	(28,434)	(29,979)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(120,751)	123,207	(2,456)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(355,808)	(63,786)	419,594	–
Total transfer between stages	(418,146)	30,987	387,159	–
Write-offs	–	–	(301,195)	(301,195)
As at 31 December 2018	<u>29,701,281</u>	<u>172,349</u>	<u>198,525</u>	<u>30,072,155</u>
Arising from:				
Loans and advances	29,578,369	171,185	195,687	29,945,241
Trade bills, accrued interest and other receivables	<u>122,912</u>	<u>1,164</u>	<u>2,838</u>	<u>126,914</u>
	<u>29,701,281</u>	<u>172,349</u>	<u>198,525</u>	<u>30,072,155</u>

The amount outstanding on financial assets that were written off during the year and are still subject to enforcement action amounted to HK\$241,201,000.

An analysis of credit risk exposure by the Group's internal credit rating system is as follows:

	30 June 2019 (Unaudited)			
	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Internal rating grades:				
Performing				
Pass	28,784,061	–	–	28,784,061
Special Mention	193,227	202,096	–	395,323
Non-performing				
Substandard	–	–	123,666	123,666
Doubtful	–	–	62,757	62,757
Loss	–	–	3,579	3,579
Total	28,977,288	202,096	190,002	29,369,386
31 December 2018 (Audited)				
	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Internal rating grades:				
Performing				
Pass	29,582,035	–	–	29,582,035
Special Mention	119,246	172,349	–	291,595
Non-performing				
Substandard	–	–	128,919	128,919
Doubtful	–	–	64,829	64,829
Loss	–	–	4,777	4,777
Total	29,701,281	172,349	198,525	30,072,155

An analysis of changes in the corresponding ECL allowances is as follows:

	30 June 2019 (Unaudited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 1 January 2019	108,901	29,569	56,106	194,576
New loans/financing originated	54,499	5	14	54,518
Loans/financing derecognised or repaid during the period (other than write-offs)	(50,313)	(4,022)	(62,790)	(117,125)
Transfer to 12-month expected credit loss (Stage 1)	5,363	(743)	(4,620)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(2,326)	2,524	(198)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(4,249)	(23,572)	27,821	–
Total transfer between stages	(1,212)	(21,791)	23,003	–
Impact on period end expected credit loss of exposures transferred between stages during the period	(2,446)	31,182	113,362	142,098
Movements due to changes in credit risk	(304)	–	17,521	17,217
Recoveries	–	–	59,121	59,121
Write-offs	–	–	(150,646)	(150,646)
Exchange differences	–	–	–	–
As at 30 June 2019	<u>109,125</u>	<u>34,943</u>	<u>55,691</u>	<u>199,759</u>
Arising from:				
Loans and advances	107,224	34,936	55,605	197,765
Trade bills, accrued interest and other receivables	1,807	7	86	1,900
Loan commitments	91	–	–	91
Financial guarantees and letters of credit	3	–	–	3
	<u>109,125</u>	<u>34,943</u>	<u>55,691</u>	<u>199,759</u>

	31 December 2018 (Audited)			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 1 January 2018	106,767	33,048	57,923	197,738
New loans/financing originated	79,875	–	27	79,902
Loans/financing derecognised or repaid during the year (other than write-offs)	(69,595)	(7,773)	(146,682)	(224,050)
Transfer to 12-month expected credit loss (Stage 1)	4,070	(990)	(3,080)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,921)	2,245	(324)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(8,888)	(23,613)	32,501	–
Total transfer between stages	(6,739)	(22,358)	29,097	–
Impact on year end expected credit loss of exposures transferred between stages during the year	(2,019)	26,651	259,616	284,248
Movements due to changes in credit risk	618	1	21,360	21,979
Recoveries	–	–	135,960	135,960
Write-offs	–	–	(301,195)	(301,195)
Exchange differences	(6)	–	–	(6)
As at 31 December 2018	<u>108,901</u>	<u>29,569</u>	<u>56,106</u>	<u>194,576</u>
Arising from:				
Loans and advances	107,090	29,566	56,041	192,697
Trade bills, accrued interest and other receivables	1,709	3	65	1,777
Loan commitments	99	–	–	99
Financial guarantees and letters of credit	3	–	–	3
	<u>108,901</u>	<u>29,569</u>	<u>56,106</u>	<u>194,576</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 2019 (Unaudited)	31 December 2018 (Audited)	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	Minimum lease payments <i>HK\$'000</i>	<i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>	<i>HK\$'000</i>
Amounts receivable under finance leases:				
Within one year	416,041	405,397	294,414	284,240
In the second to fifth years, inclusive	1,228,392	1,213,656	861,196	839,341
Over five years	4,152,078	4,296,324	3,420,842	3,525,992
	5,796,511	5,915,377	4,576,452	4,649,573
Less: Unearned finance income	(1,220,059)	(1,265,804)		
Present value of minimum lease payments receivables	4,576,452	4,649,573		

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-COLLECT DEBT SECURITIES AT AMORTISED COST

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Certificates of deposit held	2,622,037	2,269,082
Treasury bills and government bonds (including Exchange Fund Bills)	2,626,323	2,307,321
Other debt securities	<u>1,411,224</u>	<u>1,627,169</u>
Gross held-to-collect debt securities at amortised cost	6,659,584	6,203,572
Less: Impairment allowances collectively assessed		
As at 1 January 2019 and 2018	(623)	(570)
Credit loss expenses charged to the consolidated income statement during the period/year	(46)	(53)
	<u>(669)</u>	<u>(623)</u>
	<u>6,658,915</u>	<u>6,202,949</u>
Listed or unlisted:		
– Listed in Hong Kong	1,449,984	1,785,576
– Listed outside Hong Kong	183,303	189,670
– Unlisted	<u>5,026,297</u>	<u>4,228,326</u>
	<u>6,659,584</u>	<u>6,203,572</u>
Analysed by type of issuers:		
– Central governments	2,626,323	2,307,321
– Public sector entities	199,947	299,914
– Banks and other financial institutions	<u>3,833,314</u>	<u>3,596,337</u>
	<u>6,659,584</u>	<u>6,203,572</u>

There were no impairment allowances specifically assessed made against held-to-collect debt securities at amortised cost as at 30 June 2019 and 31 December 2018.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost as at 30 June 2019 and 31 December 2018.

All exposures attributed to the held-to-collect debt securities at amortised cost were rated with a grading of A3 or above based on the credit rating of Moody's as at 30 June 2019 and 31 December 2018.

15. RESERVES

	Note	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Regulatory reserve# HK\$'000	Retained profits HK\$'000	Translation reserve HK\$'000	Total HK\$'000
As at 1 January 2018		4,013,296	829	96,116	-	312,619	2,934,053	58,995	7,415,908
Profit for the year		-	-	-	-	-	510,478	-	510,478
Other comprehensive income		-	-	-	-	-	-	(46,826)	(46,826)
Transfer from regulatory reserve to retained profits		-	-	-	-	(16,079)	16,079	-	-
Dividends for 2018		-	-	-	-	-	(241,542)	-	(241,542)
As at 31 December 2018 (Reported)		4,013,296	829	96,116	-	296,540	3,219,068	12,169	7,638,018
Impact of adopting HKFRS 16	4	-	-	-	-	-	(6,587)	-	(6,587)
Restated opening balance under HKFRS 16 as at 1 January 2019		4,013,296	829	96,116	-	296,540	3,212,481	12,169	7,631,431
Profit for the period		-	-	-	-	-	256,970	-	256,970
Other comprehensive income		-	-	-	3,982	-	-	(1,209)	2,773
Transfer from regulatory reserve to retained profits		-	-	-	-	(76,739)	76,739	-	-
Dividends declared		-	-	-	-	-	(54,896)	-	(54,896)
As at 30 June 2019 (Unaudited)		<u>4,013,296</u>	<u>829</u>	<u>96,116</u>	<u>3,982</u>	<u>219,801</u>	<u>3,491,294</u>	<u>10,960</u>	<u>7,836,278</u>

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 guidelines.

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.

As at 30 June 2019 and 31 December 2018, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within one year	10,075	8,151
In the second to fifth years, inclusive	6,809	4,510
	16,884	12,661

(b) As lessee

The Group has entered into future lease arrangements with landlords, and the terms of the leases range from 1 to 6 years.

As at 30 June 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	30 June 2019 (Unaudited) HK\$'000
Within one year	4,927
In the second to fifth years, inclusive	13,858
Over five years	1,784
	20,569

As at 31 December 2018, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	31 December 2018 (Audited) HK\$'000
Within one year	60,989
In the second to fifth years, inclusive	52,608
Over five years	316
	113,913

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 reporting period:

	30 June 2019 (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	25,570	25,570	21,084	-	-
Transaction-related contingencies	7,046	3,523	775	-	-
Trade-related contingencies	20,136	4,027	3,885	-	-
Forward forward deposits placed	126,910	126,910	25,382	-	-
Forward asset purchases	-	-	-	-	-
	<u>179,662</u>	<u>160,030</u>	<u>51,126</u>	-	-
Derivatives held for trading:					
Foreign exchange rate contracts	775,347	15,784	3,157	8,025	147
Other commitments with an original maturity of:					
Not more than one year	-	-	-	-	-
More than one year	-	-	-	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>2,939,468</u>	-	-	-	-
	<u><u>3,894,477</u></u>	<u><u>175,814</u></u>	<u><u>54,283</u></u>	<u><u>8,025</u></u>	<u><u>147</u></u>
				30 June 2019	
				(Unaudited)	
				Contractual	
				amount	
				<i>HK\$'000</i>	
Capital commitments contracted for, but not provided in the consolidated statement of financial position					<u><u>25,804</u></u>

	31 December 2018 (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	25,674	25,674	21,482	–	–
Transaction-related contingencies	7,249	3,624	–	–	–
Trade-related contingencies	34,272	6,854	6,559	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	<u>67,195</u>	<u>36,152</u>	<u>28,041</u>	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	756,298	10,104	2,021	2,541	7,275
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	–	–	–	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	<u>3,110,113</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>3,933,606</u></u>	<u><u>46,256</u></u>	<u><u>30,062</u></u>	<u><u>2,541</u></u>	<u><u>7,275</u></u>

31 December
2018
(Audited)
Contractual
amount
HK\$'000

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

28,711

The corresponding ECLs for the outstanding off-balance sheet exposures are included in the analysis of changes in ECL allowances in note 13(f) to the interim financial statements.

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.

As at 30 June 2019 and 31 December 2018, 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 (including key off-balance sheet items) analysed by principal according to the periods that they are expected to be recovered or settled.

	30 June 2019 (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:								
Gross cash and short term placements	1,050,460	3,392,720	-	-	-	-	-	4,443,180
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	-	-	761,572	848,796	-	-	-	1,610,368
Gross loans and advances and receivables	1,423,785	2,563,841	942,951	3,100,597	6,885,737	14,262,473	190,002	29,369,386
Equity investments at fair value through other comprehensive income	-	-	-	-	-	-	6,804	6,804
Gross held-to-collect debt securities at amortised cost	-	891,364	951,610	3,193,867	1,622,743	-	-	6,659,584
Other assets	262	104,097	20,456	48,814	8,325	-	17,604	199,558
Gross foreign exchange contracts	76,617	697,271	780	-	-	-	-	774,668
Total financial assets	2,551,124	7,649,293	2,677,369	7,192,074	8,516,805	14,262,473	214,410	43,063,548
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	58,661	469,570	60,000	110,000	-	-	-	698,231
Customer deposits at amortised cost	11,844,597	7,551,001	10,431,689	5,447,597	5,259	-	-	35,280,143
Unsecured bank loans at amortised cost	-	455,000	-	-	1,091,028	-	-	1,546,028
Lease liabilities	-	5,122	10,329	42,214	66,218	939	-	124,822
Other liabilities	6,547	160,671	86,744	98,199	99	-	163,019	515,279
Gross foreign exchange contracts	76,571	689,438	781	-	-	-	-	766,790
Total financial liabilities	11,986,376	9,330,802	10,589,543	5,698,010	1,162,604	939	163,019	38,931,293
Net liquidity gap	(9,435,252)	(1,681,509)	(7,912,174)	1,494,064	7,354,201	14,261,534	51,391	4,132,255

	31 December 2018 (Audited)							
	Repayable on demand	Up to 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 12 months	Over 1 year but not more than 5 years	Over 5 years	Repayable within an indefinite period	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:								
Gross cash and short term placements	1,110,116	2,844,036	–	–	–	–	–	3,954,152
Gross placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	789,889	766,609	–	–	–	1,556,498
Gross loans and advances and receivables	1,110,127	3,357,657	960,785	2,973,979	6,730,206	14,740,876	198,525	30,072,155
Equity investments at fair value through other comprehensive income	–	–	–	–	–	–	6,804	6,804
Gross held-to-collect debt securities at amortised cost	–	618,823	1,080,279	2,607,993	1,896,477	–	–	6,203,572
Other assets	123	73,497	16,736	60,616	10,020	–	5,351	166,343
Gross foreign exchange contracts	–	666,893	89,405	–	–	–	–	756,298
Total financial assets	2,220,366	7,560,906	2,937,094	6,409,197	8,636,703	14,740,876	210,680	42,715,822
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	82,592	230,120	240,000	20,000	–	–	–	572,712
Customer deposits at amortised cost	11,516,233	7,227,387	8,656,581	7,252,688	631,433	–	–	35,284,322
Unsecured bank loans at amortised cost	–	355,000	–	–	1,089,614	–	–	1,444,614
Other liabilities	4,114	119,537	30,183	82,919	39,556	–	179,554	455,863
Gross foreign exchange contracts	–	669,297	91,735	–	–	–	–	761,032
Total financial liabilities	11,602,939	8,601,341	9,018,499	7,355,607	1,760,603	–	179,554	38,518,543
Net liquidity gap	(9,382,573)	(1,040,435)	(6,081,405)	(946,410)	6,876,100	14,740,876	31,126	4,197,279

INTERIM DIVIDEND

The Board has on 25 June 2019 declared an interim dividend of HK\$0.05 (2018: HK\$0.05) per share payable on 7 August 2019 to shareholders whose names appear on the register of members of the Company on 24 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the period under review, the economic outlook of Hong Kong was clouded with the risks of fund flow volatilities and weak consumer sentiment in Hong Kong and Mainland China, amidst global monetary/trade policy uncertainties and increase of geopolitical risks. The slowdown of economic growth momentum, caused partly by the lingering Sino-US trade disputes coupled with retaliatory tariffs from time to time, impacted the export performance of goods/services, private consumption growth and the overall gross domestic product growth of Hong Kong.

Nevertheless, the Group continued to conduct its loan and customer deposit businesses cautiously at reasonable interest yields and costs, and continued to diversify revenue sources into fee-based businesses during the period under review.

FINANCIAL REVIEW

Revenue and earnings

For the six months ended 30 June 2019, the Group's profit after tax decreased by HK\$3.9 million or 1.5% to HK\$257.0 million as compared to the corresponding period in 2018. The Group's basic earnings per share for the six months ended 30 June 2019 was HK\$0.23. The Board of Directors has declared an interim dividend of HK\$0.05 per share on 25 June 2019, payable on 7 August 2019.

During the period under review, total interest income of the Group increased by HK\$69.3 million or 7.6% to HK\$985.4 million contributed mainly from the increase in interest on loans and advances; whilst total interest expense increased by HK\$95.0 million or 47.3% to HK\$296.0 million mainly due to increase in cost of funding of customer deposits. As a result, the Group's net interest income decreased by HK\$25.7 million or 3.6% to HK\$689.4 million. Other operating income from stockbroking, foreign exchange earnings and other business activities of the Group increased by HK\$2.8 million or 2.4% to HK\$120.4 million in the period under review.

Operating expenses of the Group increased marginally by HK\$2.0 million or 0.4% to HK\$439.3 million mainly due to the increase in system and premises related costs.

Credit loss expense increased by HK\$18.1 million or 23.1% to HK\$96.8 million mainly due to increase in impairment allowances for consumer financing loans and advances during the period under review and recovery of a few large impaired loans in the corresponding period of last year.

Gain in fair value of investment properties increased by HK\$31.7 million during 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\$707.3 million or 2.4% to HK\$29.27 billion as at 30 June 2019 from HK\$29.97 billion as at 31 December 2018. To mitigate interest rate risk and to address funding need for loan growth, the Group markets for customer deposits at reasonable rates cautiously. The Group's customer deposits declined slightly by HK\$4.2 million and remained relatively the same level at HK\$35.28 billion as at 30 June 2019 as compared to the position of 31 December 2018. Total assets of the Group stood at HK\$46.25 billion as at 30 June 2019.

Group's Branch network

In first half of 2019, Public Bank (Hong Kong), a subsidiary of the Company, opened a new branch in Qianhai of Shenzhen in the People's Republic of China ("PRC"). Together with the opening of the new branch, Public Bank (Hong Kong) has 32 branches in Hong Kong and 5 branches in Shenzhen in the PRC 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. Winton Financial, another operating subsidiary of the Company which operates under a money lenders licence, has a network of 3 branches in Hong Kong to provide personal financing to its target customer segment. In total, the Group has a combined branch network of 82 branches as at 30 June 2019 to serve its customers.

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\$783.6 million or 3.3% to HK\$22.86 billion as at 30 June 2019 from HK\$23.65 billion as at 31 December 2018. Customer deposits (excluding a deposit from a subsidiary) decreased by HK\$133.9 million or 0.4% to HK\$29.89 billion as at 30 June 2019 from HK\$30.02 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.29% as at 30 June 2019.

Public Bank (Hong Kong) will continue to develop and expand its retail and commercial banking businesses and its core customer base, identify suitable locations for the establishment of new branches and the relocation of its existing branches 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\$54.8 million or 0.9% to HK\$6.12 billion as at 30 June 2019 from HK\$6.06 billion as at 31 December 2018. Customer deposits increased by HK\$143.8 million or 2.6% to HK\$5.61 billion as at 30 June 2019 from HK\$5.47 billion as at 31 December 2018. Impaired loans to total loans ratio of Public Finance was 1.95% as at 30 June 2019.

Public Finance will continue to focus on its consumer financing business and deposit taking 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. For the period under review, 95.8% of the Group's operating income and 86.7% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the first half of 2018, the Group's operating income from retail and commercial banking businesses decreased by HK\$22.1 million or 2.8% to HK\$775.7 million due to decrease in net interest income. Profit before tax from retail and commercial banking businesses also decreased by HK\$32.1 million or 10.7% to HK\$268.0 million during the period under review. The Group's operating income from stockbroking and wealth management services increased by HK\$0.9 million or 3.6% to HK\$26.6 million. Profit before tax from stockbroking and wealth management services increased by HK\$0.7 million or 5.3% to HK\$13.9 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 2019, there was no charge over the assets of the Group. There was also no important event affecting the Group which had occurred since 30 June 2019.

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 material acquisitions or disposals of subsidiaries or associates 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\$1.55 billion as at 30 June 2019. 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 0.19 times as at 30 June 2019, which was relatively the same as compared to the position of 31 December 2018. The bank borrowings have remaining maturity periods of less than three 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 and constituted less than 1% of equity. There were also no foreign currency investments hedged by foreign 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 Finance) stood at 18.7% and 19.9% respectively as at 30 June 2019.

Asset quality and credit management

The Group's impaired loans to total loans ratio stood at a healthy level of 0.64% as at 30 June 2019.

The core operations of the Group are principally based in Hong Kong, and direct exposures to United Kingdom and Europe were assessed as insignificant and less than 3% of total asset exposures.

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.

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 in order to update their technical knowledge and skills, to increase their awareness of the market and regulatory 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 2019, the Group's staff force stood at 1,329 employees. For the six months ended 30 June 2019, the Group's total staff related costs amounted to HK\$278.4 million.

PROSPECTS

The economic outlook and operating environment of Hong Kong and Mainland China are anticipated to be challenging in the remaining months of 2019. The geopolitical risks amongst global nations will continue to cast uncertainties over their political, monetary, fiscal and trade policy developments. The Sino-US trade and political tensions, coupled with the US's bilateral trade policies and retaliatory tariffs, are expected to boost production and transaction costs of traders/manufacturers which have key operations in Mainland China, and affect economic momentum in key industry/service sectors including imports/exports, manufacturing, logistics, and trade finance. The risk appetites for corporate investments and individuals' private consumption are expected to become more conservative with dampening effects on business expansions, corporate credit demand, and consumer financing growth in Hong Kong and Mainland China.

Competition in the banking and financing industry is also expected to intensify with financial institutions seeking greater market share in loans and advances and fee-based business. The Group's loan business and fee-based business growths are expected to be 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 maintain/boost business and profitability growth.

The overall funding costs of customer deposits and bank borrowings are expected to escalate due to the volatilities of fund/capital flows and intensified competition for deposits by banks. The Group will continue to seek loans at reasonable yields in anticipation of higher funding costs. The Group will continue to adopt sound and flexible marketing strategies to expand customer base and channels of services, launch attractive marketing promotions at reasonable costs, and optimise the utilisation of system resources to enhance service quality, resilience of information system and efficiency of banking operations. The Group will also strive for the diversification of income streams by developing fee-based businesses in stockbroking and insurance businesses.

The increase in the need for compliance related resources coupled with rising system related costs in meeting the increased regulatory and supervisory requirements and coping with potential cyber attacks are expected to have an adverse 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 lending business and its consumer financing business through its branch network, offering of premium business service, supporting its growth in fee-based businesses, and implementing 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 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 large scale but continue to optimise and refine its existing products and services in the near term.

Barring unforeseen circumstances, the Group will endeavour to register growth in its banking and financing businesses and improvement in its financial performance in the second half of 2019. The Group is also committed to fostering a healthy and strong corporate culture to enhance the Group's cohesiveness with shared vision and values by every staff in the Group.

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 2019.

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 2019 Interim Report, in compliance with the code provisions ("Code Provision(s)") of 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 Board Chairman of the Company, was absent from the 2019 AGM of the Company held in March 2019 due to other engagement. The 2019 AGM was chaired by the Co-Chairman of the Board, Mr. Lai Wan. The Chairmen of the Company's Audit Committee, Remuneration Committee and Nomination Committee, and the respective Chairmen of the Board Committees of Public Bank (Hong Kong) and Public Finance also attended the 2019 AGM to answer questions raised therein, if any.

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 Audit Committee of the Company comprises three Independent Non-Executive Directors, namely Mr. Tang Wing Chew, Mr. Lee Chin Guan and Mr. Lai Wan, and one Non-Executive Director, namely Mr. Quah Poh Keat. The unaudited interim results for the six months ended 30 June 2019 as set out in this announcement has been reviewed by the Audit Committee.

PUBLICATION OF 2019 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement of the Group for the six months ended 30 June 2019 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. The 2019 Interim Report containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in or around mid-August 2019.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group for their commitment and contribution during the period. I would also like to express my appreciation to the guidance from the regulators and continued support from our shareholders and customers.

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

18 July 2019

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.