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 2018

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 2018 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Interest income	*6*	**916,142**	866,412
Interest expense	*6*	**(200,947)**	(191,344)
NET INTEREST INCOME		**715,195**	675,068
Other operating income	*7*	**117,622**	110,022
OPERATING INCOME		**832,817**	785,090
Operating expenses	*8*	**(437,332)**	(421,803)
Changes in fair value of investment properties		**3,512**	4,501
OPERATING PROFIT BEFORE CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES		**398,997**	367,788
Credit loss expenses/impairment allowances	*9*	**(78,670)**	(74,659)

* *For identification purpose only*

	Notes	For the six months ended 30 June **2018** **(Unaudited)** ***HK$'000***	2017 (Unaudited) *HK$'000*
PROFIT BEFORE TAX		**320,327**	293,129
Tax	*10*	**(59,446)**	(54,987)
PROFIT FOR THE PERIOD		**260,881**	238,142
ATTRIBUTABLE TO:			
Owners of the Company		**260,881**	238,142
EARNINGS PER SHARE (HK$)	*12*		
Basic		**0.238**	0.217
Diluted		**0.238**	0.217

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**260,881**	238,142
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	**(16,831)**	39,271
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**244,050**	277,413
ATTRIBUTABLE TO:		
Owners of the Company	**244,050**	277,413

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*
ASSETS			
Cash and short term placements		**3,670,020**	4,872,533
Placements with banks and financial institutions maturing after one month but not more than twelve months		**1,359,540**	1,514,095
Derivative financial instruments		**1,767**	4,317
Loans and advances and receivables	*13*	**29,811,461**	29,582,660
Available-for-sale financial assets		**–**	6,804
Equity investments at fair value through other comprehensive income		**6,804**	–
Held-to-maturity investments	*14*	**–**	5,671,749
Held-to-collect debt securities at amortised cost	*14*	**4,721,334**	–
Investment properties		**279,501**	328,739
Property and equipment		**134,754**	132,579
Land held under finance leases		**680,937**	634,368
Deferred tax assets		**42,806**	24,526
Tax recoverable		**40**	830
Goodwill		**2,774,403**	2,774,403
Intangible assets		**718**	718
Other assets		**155,689**	228,398
TOTAL ASSETS		**43,639,774**	45,776,719
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**536,235**	1,123,792
Derivative financial instruments		**6,985**	1,696
Customer deposits at amortised cost		**33,255,607**	33,984,095
Certificates of deposit issued at amortised cost		**–**	753,293
Dividends payable		**54,896**	175,667
Unsecured bank loans at amortised cost		**1,538,023**	1,581,852
Current tax payable		**64,295**	38,823
Deferred tax liabilities		**33,970**	33,579
Other liabilities		**434,909**	462,671
TOTAL LIABILITIES		**35,924,920**	38,155,468
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital		**109,792**	109,792
Reserves	*15*	**7,605,062**	7,511,459
TOTAL EQUITY		**7,714,854**	7,621,251
TOTAL EQUITY AND LIABILITIES		**43,639,774**	45,776,719

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
TOTAL EQUITY			
As at 1 January (Reported)		**7,621,251**	7,279,305
Impact of adopting HKFRS 9	*4*	**(95,551)**	–
Restated opening balance under HKFRS 9		**7,525,700**	7,279,305
Profit for the period		**260,881**	238,142
Other comprehensive income in translation reserve		**(16,831)**	39,271
Total comprehensive income for the period		**244,050**	277,413
Dividends declared on shares	*11(a)*	**(54,896)**	(54,896)
Balance at the end of the period		**7,714,854**	7,501,822

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 2017 Annual Report.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2017 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 2018.

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.

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 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 is 1.875%.

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 2018. The Group has adopted the following new and revised standards for the first time for the current year's financial statements:

•	Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
•	Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
•	HKFRS 9	*Financial Instruments*
•	HKFRS 15	*Revenue from Contracts with Customers*
•	Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
•	Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28
•	Amendments to HKAS 40	*Transfers of Investment Property*
•	HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*

Except for the amendments included in Amendments to HKFRS 2, Amendments to HKFRS 4 and Annual Improvements 2014-2016 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.

The Group has adopted HKFRS 9 on 1 January 2018. HKFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting which have resulted in the following significant changes in accounting policies.

The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained earnings, provisions/impairment allowances, deferred tax assets and other relevant statement of financial position items as of 1 January 2018.

Except for certain trade receivables, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs under HKFRS 9.

Under HKFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represents "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are as follows:

a) Debt instruments at amortised cost for financial assets – that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's cash and placements with banks and financial institutions, loans and advances and receivables, held-to-collect debt securities at amortised cost and other assets.

b) Equity investments at FVOCI – with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity investments as equity investments at FVOCI. Equity investments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity investments were classified as available-for-sale financial assets.

c) Financial assets at FVPL – include derivative instruments and debt instruments of which the cash flow characteristics fail the SPPI criterion or they are not held within a business model with objective either to collect contractual cash flows, or to both collect contractual cash flows and sell; and equity investments which the Group has not irrevocably elected, at initial recognition or transition, to classify as FVOCI. This category includes derivative financial instruments held by the Group.

d) Debt instruments at FVOCI – with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. The Group does not have any financial assets classified in this category.

The assessment of the Group's business models was made as of the date of initial application, i.e. 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities in non-financial host contracts has not been changed from that required by HKAS 39.

Changes to the provisions/impairment allowances calculation

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record provisions/impairment allowances for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowances are based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowances are based on the change in the ECLs over the life of the asset.

For other receivables, cash and placements with banks and financial institutions and held-to-collect debt securities at amortised cost, the Group has applied the standard simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

For loan and advances, trade bills, accrued interests, loan commitments and financial guarantee contracts, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL.

In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increase in impairment allowances of the Group's debt financial assets. The increase in allowances resulted in adjustment to retained profits.

The transition effects arising from the adoption of HKFRS 9 are presented as below.

The following table analyses the impact, net of tax, of transition to HKFRS 9 on the statement of financial position of the Group.

	1 January 2018 *HK$'000*
Cash and short term placements	
Closing balance under HKAS 39 at 31 December 2017	4,872,533
– Recognition of expected credit loss under HKFRS 9	**(470)**
Opening balance under HKFRS 9 at 1 January 2018	**4,872,063**
Placements with banks and financial institutions	
Closing balance under HKAS 39 at 31 December 2017	1,514,095
– Recognition of expected credit loss under HKFRS 9	**(151)**
Opening balance under HKFRS 9 at 1 January 2018	**1,513,944**
Held-to-collect debt securities at amortised cost	
Closing balance under HKAS 39 at 31 December 2017	–
– Reclassification under HKFRS 9	**5,671,749**
– Recognition of expected credit loss under HKFRS 9	**(570)**
Opening balance under HKFRS 9 at 1 January 2018	**5,671,179**
Equity investments at fair value through other comprehensive income	
Closing balance under HKAS 39 at 31 December 2017	–
– Reclassification under HKFRS 9	**6,804**
Opening balance under HKFRS 9 at 1 January 2018	**6,804**
Loans and advances and receivables	
Closing balance under HKAS 39 at 31 December 2017	29,582,660
– Recognition of expected credit loss under HKFRS 9	**(113,282)**
Opening balance under HKFRS 9 at 1 January 2018	**29,469,378**
Deferred tax assets	
Closing balance under HKAS 39 at 31 December 2017	24,526
– Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	**18,922**
Opening balance under HKFRS 9 at 1 January 2018	**43,448**
Regulatory reserves	
Closing balance under HKAS 39 at 31 December 2017	439,762
– Transfer to retained profits	**(127,143)**
Opening balance under HKFRS 9 at 1 January 2018	**312,619**
Retained profits	
Closing balance under HKAS 39 at 31 December 2017	2,902,461
– Transfer from regulatory reserves	**127,143**
– Recognition of expected credit loss under HKFRS 9	**(114,473)**
– Deferred tax effect arising from the recognition of expected credit loss under HKFRS 9	**18,922**
Opening balance under HKFRS 9 at 1 January 2018	**2,934,053**

Statement of Financial Position	31 December 2017	**Reclassification**	**Provisions/ Impairment allowances**	**1 January 2018**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Cash and short term placements	4,872,533	**–**	**(470)**	**4,872,063**
Placements with banks and financial institutions maturing after one month but not more than twelve months	1,514,095	**–**	**(151)**	**1,513,944**
Derivative financial instruments	4,317	**–**	**–**	**4,317**
Loans and advances and receivables	29,582,660	**–**	**(113,282)**	**29,469,378**
Available-for-sale financial assets	6,804	**(6,804)**	**–**	**–**
Equity investments at fair value through other comprehensive income	–	**6,804**	**–**	**6,804**
Held-to-maturity investments	5,671,749	**(5,671,749)**	**–**	**–**
Held-to-collect debt securities at amortised cost	–	**5,671,749**	**(570)**	**5,671,179**
Investment properties	328,739	**–**	**–**	**328,739**
Property and equipment	132,579	**–**	**–**	**132,579**
Land held under finance leases	634,368	**–**	**–**	**634,368**
Deferred tax assets	24,526	**–**	**18,922**	**43,448**
Tax recoverable	830	**–**	**–**	**830**
Goodwill	2,774,403	**–**	**–**	**2,774,403**
Intangible assets	718	**–**	**–**	**718**
Other assets	228,398	**–**	**–**	**228,398**
Total Assets	45,776,719	**–**	**(95,551)**	**45,681,168**

Statement of Financial Position	31 December 2017 *HK$'000*	**Provisions/ Impairment allowances** ***HK$'000***	**1 January 2018** ***HK$'000***
Equity and Liabilities			
Liabilities			
Deposits and balances of banks and other financial institutions at amortised cost	1,123,792	**–**	**1,123,792**
Derivative financial instruments	1,696	**–**	**1,696**
Customer deposits at amortised cost	33,984,095	**–**	**33,984,095**
Certificates of deposit issued at amortised cost	753,293	**–**	**753,293**
Dividends payable	175,667	**–**	**175,667**
Unsecured bank loans at amortised cost	1,581,852	**–**	**1,581,852**
Current tax payable	38,823	**–**	**38,823**
Deferred tax liabilities	33,579	**–**	**33,579**
Other liabilities	462,671	**–**	**462,671**
Total Liabilities	38,155,468	**–**	**38,155,468**
Equity attributable to owners of the Company			
Issued capital	109,792	**–**	**109,792**
Reserves	7,511,459	**(95,551)**	**7,415,908**
Total Equity	7,621,251	**(95,551)**	**7,525,700**
Total Equity and Liabilities	45,776,719	**(95,551)**	**45,681,168**

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of HKFRS 15 does not have any material impact on the Group's consolidated financial statements.

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

HK(IFRIC)-int 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expenses or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions of each payment or receipt of advance consideration. The Interpretation does not have any impact on the Group's consolidated 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 9 — *Prepayment Features with Negative Compensation*[1]
- HKFRS 16 — *Leases*[1]
- HK(IFRIC)-Int 23 — *Uncertainty over Income Tax Treatment*[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*

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

The HKICPA issued two amendments to HKFRS 9 in November 2017 and December 2017 respectively. The first amendment clarifies that prepayable financial assets with negative compensation can be measured at amortised cost or at FVOCI if specified conditions are met instead of at FVPL.

The second amendment clarifies, in the Basis for Conclusions, the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. HKFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. If entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the amendments retrospectively on transition to HKFRS 9.

The amendments are effective for annual periods beginning on or after 1 January 2019. Early application is permitted. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

HKFRS 16 replaces 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 recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. As at 30 June 2018, the Group had non-cancellable operating lease commitments of HK$121,037,000 as set out in note 16(b) to the interim financial statements. The interest expense on the lease liability and the depreciation expense on the right-of-use asset under HKFRS 16 will replace the rental charge under HKAS 17. The operating lease commitments as shown in off-balance sheet item will be replaced by "right-of-use asset" and "lease liability" in the statement of financial position of the Group. Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and 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 the following:

- Whether an entity considers uncertain tax treatments separately

- The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply this Interpretation from its effective date. The Group expects that applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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 2018 and 2017.

	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		Eliminated on consolidation For the six months ended 30 June		Total For the six months ended 30 June	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	(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/(expense)	**715,240**	675,111	**(45)**	(43)	**–**	–	**–**	–	**715,195**	675,068
Other operating income:										
Net fees and commission income	**76,279**	73,442	**25,716**	17,267	**194**	194	**–**	–	**102,189**	90,903
Others	**6,228**	9,942	**(1)**	8	**9,206**	9,169	**–**	–	**15,433**	19,119
Inter-segment transactions:										
Fees and commission income	**–**	–	**–**	–	**–**	9	**–**	(9)	**–**	–
Operating income	**797,747**	758,495	**25,670**	17,232	**9,400**	9,372	**–**	(9)	**832,817**	785,090
Operating profit after credit loss expenses/impairment allowances before tax	**300,115**	279,107	**13,192**	5,964	**7,020**	8,058	**–**	–	**320,327**	293,129
Tax									**(59,446)**	(54,987)
Profit for the period									**260,881**	238,142
Other segment information										
Depreciation of property and equipment and land held under finance leases	**(15,281)**	(14,341)	**–**	–	**–**	–	**–**	–	**(15,281)**	(14,341)
Changes in fair value of investment properties	**–**	–	**–**	–	**3,512**	4,501	**–**	–	**3,512**	4,501
Credit loss expenses/impairment allowances	**(78,670)**	(74,659)	**–**	–	**–**	–	**–**	–	**(78,670)**	(74,659)
Net losses on disposal of property and equipment	**(1)**	(67)	**–**	–	**–**	–	**–**	–	**(1)**	(67)

The following table discloses certain assets and liabilities information regarding operating segments as at 30 June 2018 and 31 December 2017.

	Retail and commercial banking businesses		Wealth management services, stockbroking and securities management		Other businesses		Eliminated on consolidation		Total	
	30 June 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	(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	**40,237,820**	42,275,084	**303,370**	370,729	**280,617**	330,429	**–**	–	**40,821,807**	42,976,242
Intangible assets	**–**	–	**718**	718	**–**	–	**–**	–	**718**	718
Goodwill	**2,774,403**	2,774,403	**–**	–	**–**	–	**–**	–	**2,774,403**	2,774,403
Segment assets	**43,012,223**	45,049,487	**304,088**	371,447	**280,617**	330,429	**–**	–	**43,596,928**	45,751,363
Unallocated assets:										
Deferred tax assets and tax recoverable									**42,846**	25,356
Total assets									**43,639,774**	45,776,719
Segment liabilities	**35,678,348**	37,740,061	**85,435**	159,502	**7,976**	7,836	**–**	–	**35,771,759**	37,907,399
Unallocated liabilities:										
Deferred tax liabilities and tax payable									**98,265**	72,402
Dividends payable									**54,896**	175,667
Total liabilities									**35,924,920**	38,155,468
Other segment information										
Additions to non-current assets – capital expenditure	**11,279**	26,136	**–**	–	**–**	–	**–**	–	**11,279**	26,136

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 2018 and 2017.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Segment revenue from external customers:		
Hong Kong	**765,782**	721,852
Mainland China	**67,035**	63,238
	832,817	785,090

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 asset information for geographical segments as at 30 June 2018 and 31 December 2017.

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Non-current assets:		
Hong Kong	**3,854,030**	3,853,822
Mainland China	**16,283**	16,985
	3,870,313	3,870,807

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

Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer amounts to less than 10% (2017: less than 10%) of the Group's total operating income or revenue.

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income from:		
Loans and advances and receivables	**810,349**	773,318
Short term placements and placements with banks	**64,499**	56,291
Held-to-maturity investments	**–**	36,803
Held-to-collect debt securities at amortised cost	**41,294**	–
	916,142	866,412
Interest expense on:		
Deposits from banks and financial institutions	**4,264**	4,092
Deposits from customers	**175,950**	170,192
Bank loans	**20,733**	17,060
	200,947	191,344

Interest income and interest expense for the six months ended 30 June 2018, calculated using the effective interest method for financial assets and financial liabilities which are not designated at FVPL, amounted to HK$916,142,000 and HK$200,947,000 (2017: HK$866,412,000 and HK$191,344,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2018 amounted to HK$6,082,000 (2017: HK$6,050,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Fees and commission income:		
Retail and commercial banking and other businesses	**77,143**	74,291
Wealth management services, stockbroking and securities management	**25,716**	17,267
	102,859	91,558
Less: Fees and commission expenses	**(670)**	(655)
Net fees and commission income	**102,189**	90,903
Gross rental income	**8,947**	8,915
Less: Direct operating expenses	**(38)**	(39)
Net rental income	**8,909**	8,876
Gains less losses arising from dealing in foreign currencies	**10,056**	512
Net (losses)/gains on derivative financial instruments	**(5,218)**	7,937
	4,838	8,449
Net losses on disposal of property and equipment	**(1)**	(67)
Dividend income from listed investments	**73**	45
Dividend income from unlisted investments	**700**	700
Others	**914**	1,116
	117,622	110,022

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 assets and liabilities measured at amortised cost and financial assets and liabilities designated at FVPL for the six months ended 30 June 2017. There were no net gains or losses arising from equity investments at 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 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Staff costs:		
Salaries and other staff costs	**266,706**	256,359
Pension contributions	**12,409**	10,859
Less: Forfeited contributions	**(8)**	(6)
Net contribution to retirement benefit schemes	**12,401**	10,853
	279,107	267,212
Other operating expenses:		
Operating lease rentals on leasehold buildings	**33,723**	33,723
Depreciation of property and equipment and land held under finance leases	**15,281**	14,341
Administrative and general expenses	**38,951**	39,167
Others	**70,270**	67,360
Operating expenses before changes in fair value of investment properties	**437,332**	421,803

As at 30 June 2018 and 2017, 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 2018 and 2017 arose in respect of staff who left the schemes during the periods.

9. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

The following table shows the changes in ECL on financial instruments for the period recorded in the consolidated income statement.

	For the six months ended 30 June 2018 (Unaudited)				
	12 months expected credit loss (Stage 1) *HK$'000*	**Lifetime expected credit loss not credit impaired (Stage 2)** *HK$'000*	**Lifetime expected credit loss credit impaired (Stage 3)** *HK$'000*	**Lifetime expected credit loss not credit impaired under simplified approach** *HK$'000*	**Total** *HK$'000*
Net charge for/(write-back of) credit loss expenses:					
– loans and advances	**(1,305)**	**341**	**80,076**	**–**	**79,112**
– trade bills, accrued interest and 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 commitment	**(21)**	**–**	**–**	**–**	**(21)**
– financial guarantee	**(1)**	**–**	**–**	**–**	**(1)**
	(1,270)	**336**	**79,833**	**(229)**	**78,670**

	For the six months ended 30 June 2017 (Unaudited)		
	Individual impairment allowances *HK$'000*	Collective impairment allowances *HK$'000*	Total *HK$'000*
Net charge for/(write-back of) impairment losses and allowances:			
– loans and advances	79,720	(2,737)	76,983
– trade bills, accrued interest and receivables	(2,047)	(277)	(2,324)
	77,673	(3,014)	74,659
Of which:			
– new impairment losses and allowances (including any amount directly written off during the period)			152,025
– releases and recoveries			(77,366)
Net charge to the consolidated income statement			74,659

10. TAX

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax charge:		
Hong Kong	**46,745**	38,841
Overseas	**11,669**	9,178
Under-provision in prior periods	**–**	426
Deferred tax charge, net	**1,032**	6,542
	59,446	54,987

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 2018 (Unaudited)					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Profit before tax	**269,168**		**51,159**		**320,327**	
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	**46,649**	**17.3**	**12,797**	**25.0**	**59,446**	**18.6**

	For the six months ended 30 June 2017 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	242,283		50,846		293,129	
Tax at the applicable tax rate	39,977	16.5	12,711	25.0	52,688	18.0
Estimated tax losses from previous periods utilised	(12)	–	–	–	(12)	–
Estimated tax effect of net expenses that are not deductible	1,875	0.8	10	–	1,885	0.6
Adjustments in respect of current tax of previous periods	–	–	426	0.8	426	0.1
Tax charge at the Group's effective rate	41,840	17.3	13,147	25.8	54,987	18.7

11. DIVIDENDS

(a) Dividends declared during the interim period

	For the six months ended 30 June			
	2018	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	*HK$ per ordinary share*	***HK$'000***	*HK$'000*
Interim dividend	**0.05**	0.05	**54,896**	54,896

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

	For the six months ended 30 June			
	2018	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ per ordinary share	*HK$ per ordinary share*	***HK$'000***	*HK$'000*
Second interim dividend in respect of the previous period	**0.16**	0.13	**175,667**	142,729

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$260,881,000 (2017: HK$238,142,000) and on the weighted average number of ordinary shares in issue of 1,097,917,618 (2017: 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 2018 and 2017.

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Loans and advances to customers	**29,869,075**	29,530,282
Trade bills	**37,783**	33,958
Loans and advances, and trade bills	**29,906,858**	29,564,240
Accrued interest	**78,481**	80,419
	29,985,339	29,644,659
Other receivables	**19,306**	22,457
Gross loans and advances and receivables	**30,004,645**	29,667,116
Less: Provisions/impairment allowances		
– specifically assessed	**(54,305)**	(74,418)
– collectively assessed	**(138,879)**	(10,038)
	(193,184)	(84,456)
Loans and advances and receivables	**29,811,461**	29,582,660

Over 90% (31 December 2017: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (31 December 2017: 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 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Neither past due nor impaired loans and advances and receivables	**29,316,804**	28,954,148
Past due but not impaired loans and advances and receivables	**545,030**	555,884
Credit impaired loans and advances	**142,025**	154,024
Credit impaired receivables	**786**	3,060
Gross loans and advances and receivables	**30,004,645**	29,667,116

About 62% (31 December 2017: 62%) 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 2018 (Unaudited)		31 December 2017 (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	**64,834**	**0.22**	56,869	0.19
One year or less but over six months	**6,812**	**0.02**	4,158	0.02
Over one year	**1,678**	**0.01**	32,630	0.11
Loans and advances overdue for more than three months	**73,324**	**0.25**	93,657	0.32
Rescheduled loans and advances overdue for three months or less	**56,113**	**0.19**	47,478	0.16
Impaired loans and advances overdue for three months or less	**12,588**	**0.04**	12,889	0.04
Total overdue and impaired loans and advances	**142,025**	**0.48**	154,024	0.52

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

	30 June 2018 (Unaudited) *HK$'000*	31 December 2017 (Audited) *HK$'000*
Trade bills, accrued interest and other receivables overdue for:		
Six months or less but over three months	**258**	117
One year or less but over six months	**234**	152
Over one year	**155**	2,545
Trade bills, accrued interest and other receivables overdue for more than three months	**647**	2,814
Impaired trade bills, accrued interest and other receivables overdue for three months or less	**139**	246
Total overdue and impaired trade bills, accrued interest and other receivables	**786**	3,060

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 provisions/impairment allowances

	30 June 2018 (Unaudited) Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000	31 December 2017 (Audited) Hong Kong HK$'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	**71,548**	**2,423**	**73,971**	82,466	14,005	96,471
Specific provisions based on lifetime expected credit loss/individual impairment allowances	**39,544**	**1**	**39,545**	45,398	–	45,398
Collective impairment allowances	**N/A**	**N/A**	**N/A**	–	1	1
Current market value and fair value of collateral			**58,471**			48,444
(ii) Analysis of impaired loans and advances and receivables						
Impaired loans and advances and receivables	**140,388**	**2,423**	**142,811**	139,291	17,793	157,084
Specific provisions based on lifetime expected credit loss/individual impairment allowances	**54,304**	**1**	**54,305**	74,418	–	74,418
Collective impairment allowances	**N/A**	**N/A**	**N/A**	1	2	3
Current market value and fair value of collateral			**88,483**			70,993

Over 90% (31 December 2017: 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 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**58,471**	48,444
Covered portion of overdue loans and advances	**20,451**	24,740
Uncovered portion of overdue loans and advances	**52,873**	68,917

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 2018, the total value of repossessed assets of the Group amounted to HK$2,900,000 (31 December 2017: HK$12,440,000).

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

	30 June 2018 (Unaudited)		31 December 2017 (Audited)	
	Gross amount	**Percentage of total loans and advances**	Gross amount	Percentage of total loans and advances
	HK$'000	***%***	*HK$'000*	*%*
Loans and advances overdue for three months or less	**543,005**	**1.82**	553,371	1.87
Trade bills, accrued interest and other receivables overdue for three months or less	**2,025**		2,513	

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

	30 June 2018 (Unaudited)			
	12 months expected credit loss (Stage 1) *HK$'000*	**Lifetime expected credit loss not credit impaired (Stage 2)** *HK$'000*	**Lifetime expected credit loss credit impaired (Stage 3)** *HK$'000*	**Total** *HK$'000*
As at 31 December 2017 (Reported)				84,456
Impact of adopting HKFRS 9				**113,282**
Restated opening balance under HKFRS 9 as at 1 January 2018	**106,767**	**33,048**	**57,923**	**197,738**
New loans/financing originated	**53,448**	**–**	**19**	**53,467**
Loans/financing derecognised or repaid during the period (other than write-offs)	**(50,734)**	**(3,893)**	**(74,677)**	**(129,304)**
Transfer to 12 months expected credit loss (Stage 1)	**2,258**	**(140)**	**(2,118)**	**–**
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	**(2,217)**	**2,440**	**(223)**	**–**
Transfer to lifetime expected credit loss credit impaired (Stage 3)	**(4,200)**	**(24,033)**	**28,233**	**–**
Total transfer between stages	**(4,159)**	**(21,733)**	**25,892**	**–**
Impact on period end expected credit loss of exposures transferred between stages during the period	**–**	**25,961**	**110,431**	**136,392**
Movements due to changes in credit risk	**175**	**1**	**18,168**	**18,344**
Recoveries	**–**	**–**	**66,009**	**66,009**
Write-offs	**–**	**–**	**(149,460)**	**(149,460)**
Exchange differences	**(2)**	**–**	**–**	**(2)**
As at 30 June 2018	**105,495**	**33,384**	**54,305**	**193,184**
Deducted from:				
Loans and advances	**103,573**	**33,378**	**54,143**	**191,094**
Trade bills, accrued interest and other receivables	**1,922**	**6**	**162**	**2,090**
	105,495	**33,384**	**54,305**	**193,184**

	31 December 2017 (Audited)		
	Individual impairment allowances	Collective impairment allowances	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2017	121,272	12,357	133,629
Amounts written off	(330,339)	–	(330,339)
Impairment losses and allowances charged to the consolidated income statement	302,931	1,261	304,192
Impairment losses and allowances released to the consolidated income statement	(154,475)	(3,624)	(158,099)
Net charge/(release) of impairment losses and allowances to the consolidated income statement	148,456	(2,363)	146,093
Loans and advances and receivables recovered	134,864	–	134,864
Exchange difference	165	44	209
As at 31 December 2017	74,418	10,038	84,456
Deducted from:			
Loans and advances	74,108	9,931	84,039
Trade bills, accrued interest and other receivables	310	107	417
	74,418	10,038	84,456

(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 2018 (Unaudited)	31 December 2017 (Audited)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
	Minimum lease payments		**Present value of minimum lease payments**	
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under finance leases:				
Within one year	**384,468**	368,156	**277,690**	270,373
In the second to fifth years, inclusive	**1,181,214**	1,103,310	**824,487**	779,899
Over five years	**4,362,594**	4,009,209	**3,616,928**	3,336,063
	5,928,276	5,480,675	**4,719,105**	4,386,335
Less: Unearned finance income	**(1,209,171)**	(1,094,340)		
Present value of minimum lease payments receivable	**4,719,105**	4,386,335		

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/HELD-TO-MATURITY INVESTMENTS

	Note	**30 June 2018 (Unaudited)** ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Certificates of deposit held		**1,631,045**	2,190,411
Treasury bills and government bonds (including Exchange Fund Bills)		**1,735,236**	1,664,246
Other debt securities		**1,355,527**	1,817,092
Gross held-to-collect debt securities at amortised cost/ held-to-maturity investments		**4,721,808**	5,671,749
Less: Provisions/impairment allowances for held-to-collect debt securities at amortised cost			
As at 31 December 2017 (Reported)		**–**	–
Impact of adopting HKFRS 9	*4*	**(570)**	–
Restated opening balance under HKFRS 9 as at 1 January 2018		**(570)**	–
Provisions released to the consolidated income statement during the period/year		**96**	–
		(474)	–
Held-to-maturity investments	*4*	**–**	5,671,749
Held-to-collect debt securities at amortised cost	*4*	**4,721,334**	–
Listed or unlisted:			
– Listed in Hong Kong		**1,416,870**	1,601,770
– Listed outside Hong Kong		**106,999**	30,390
– Unlisted		**3,197,939**	4,039,589
		4,721,808	5,671,749
Analysed by type of issuers:			
– Central governments		**1,735,236**	1,664,246
– Public sector entities		**299,879**	299,846
– Banks and other financial institutions		**2,686,693**	3,707,657
		4,721,808	5,671,749

There were no specific provisions made against held-to-collect debt securities at amortised cost/held-to-maturity investments as at 30 June 2018 and 31 December 2017.

There were neither impaired nor overdue held-to-collect debt securities at amortised cost/held-to-maturity investments as at 30 June 2018 and 31 December 2017.

All exposures attributed to the held-to-collect debt securities at amortised cost/held-to-maturity investments were rated with a grading of A3 or above based on the credit rating of Moody's Investors Service as at 30 June 2018 and 31 December 2017.

15. RESERVES

	Note	**Share premium** *HK$'000*	**Capital redemption reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Regulatory reserve** *(Note)* *HK$'000*	**Retained profits** *HK$'000*	**Translation reserve** *HK$'000*	**Total** *HK$'000*
As at 1 January 2017		4,013,296	829	96,116	438,738	2,630,534	(10,000)	7,169,513
Profit for the year		–	–	–	–	503,514	–	503,514
Other comprehensive income		–	–	–	–	–	68,995	68,995
Transfer from retained profits to regulatory reserve		–	–	–	1,024	(1,024)	–	–
Dividends for 2017		–	–	–	–	(230,563)	–	(230,563)
As at 31 December 2017 (Reported)		4,013,296	829	96,116	439,762	2,902,461	58,995	7,511,459
Impact of adopting HKFRS 9	4	**–**	**–**	**–**	**(127,143)**	**31,592**	**-**	**(95,551)**
Restated opening balance under HKFRS 9 as at 1 January 2018		**4,013,296**	**829**	**96,116**	**312,619**	**2,934,053**	**58,995**	**7,415,908**
Profit for the period		**–**	**–**	**–**	**–**	**260,881**	**–**	**260,881**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(16,831)**	**(16,831)**
Transfer from regulatory reserve to retained profits		**–**	**–**	**–**	**(15,259)**	**15,259**	**–**	**–**
Dividends declared		**–**	**–**	**–**	**–**	**(54,896)**	**–**	**(54,896)**
As at 30 June 2018 (Unaudited)		**4,013,296**	**829**	**96,116**	**297,360**	**3,155,297**	**42,164**	**7,605,062**

Note:

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 2018 and 31 December 2017, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Within one year	**9,035**	9,366
In the second to fifth years, inclusive	**3,074**	3,835
	12,109	13,201

(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.

As at 30 June 2018 and 31 December 2017, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Within one year	**61,099**	57,433
In the second to fifth years, inclusive	**59,457**	59,570
Over five years	**481**	639
	121,037	117,642

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 2018 (Unaudited)				
	Contractual amount	**Credit equivalent amount**	**Credit risk-weighted amount**	**Positive fair value-assets**	**Negative fair value-liabilities**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Direct credit substitutes	**26,166**	**26,166**	**21,172**	**–**	**–**
Transaction-related contingencies	**11,014**	**5,508**	**1,121**	**–**	**–**
Trade-related contingencies	**23,301**	**4,660**	**4,028**	**–**	**–**
Forward forward deposits placed	**119,217**	**119,217**	**23,843**	**–**	**–**
Forward asset purchases	**–**	**–**	**–**	**–**	**–**
	179,698	**155,551**	**50,164**	**–**	**–**
Derivatives held for trading:					
Foreign exchange rate contracts	**1,689,870**	**18,668**	**3,739**	**1,767**	**6,985**
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	**2,690,619**	**–**	**–**	**–**	**–**
	4,560,187	**174,219**	**53,903**	**1,767**	**6,985**

	30 June 2018 (Unaudited) Contractual amount
	HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position	**9,306**

	31 December 2017 (Audited)				
	Contractual amount	Credit equivalent amount	Credit risk-weighted amount	Positive fair value-assets	Negative fair value-liabilities
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Direct credit substitutes	26,801	26,801	20,098	–	–
Transaction-related contingencies	11,806	5,903	1,121	–	–
Trade-related contingencies	37,546	7,510	7,016	–	–
Forward forward deposits placed	–	–	–	–	–
Forward asset purchases	–	–	–	–	–
	76,153	40,214	28,235	–	–
Derivatives held for trading:					
Foreign exchange rate contracts	1,310,892	17,429	3,486	4,317	1,696
Other commitments with an original maturity of:					
Not more than one year	–	–	–	–	–
More than one year	18,737	9,368	9,368	–	–
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	2,996,905	–	–	–	–
	4,402,687	67,011	41,089	4,317	1,696

	31 December 2017 (Audited) Contractual amount *HK$'000*
Capital commitments contracted for, but not provided in the consolidated statement of financial position	9,577

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 2018 and 31 December 2017, 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 periods that they are expected to be recovered or settled.

	30 June 2018 (Unaudited)							
	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:								
Cash and short term placements (gross)	**1,087,329**	**2,583,043**	**–**	**–**	**–**	**–**	**–**	**3,670,372**
Placements with banks and financial institutions maturing after one month but not more than twelve months (gross)	**–**	**–**	**837,667**	**522,009**	**–**	**–**	**–**	**1,359,676**
Loans and advances and receivables (gross)	**988,346**	**3,320,182**	**963,249**	**2,931,176**	**6,363,399**	**15,295,482**	**142,811**	**30,004,645**
Equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**6,804**	**6,804**
Held-to-collect debt securities at amoritised cost (gross)	**–**	**509,233**	**592,167**	**1,885,658**	**1,734,750**	**–**	**–**	**4,721,808**
Other assets	**385**	**64,794**	**16,970**	**46,656**	**9,990**	**–**	**16,894**	**155,689**
Foreign exchange contracts (gross)	**–**	**1,559,837**	**130,033**	**–**	**–**	**–**	**–**	**1,689,870**
Total financial assets	**2,076,060**	**8,037,089**	**2,540,086**	**5,385,499**	**8,108,139**	**15,295,482**	**166,509**	**41,608,864**
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	**45,689**	**340,546**	**80,000**	**70,000**	**–**	**–**	**–**	**536,235**
Customer deposits at amortised cost	**11,394,095**	**7,041,664**	**9,403,867**	**4,091,644**	**1,324,337**	**–**	**–**	**33,255,607**
Certificates of deposit issued at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Unsecured bank loans at amortised cost	**–**	**75,000**	**–**	**375,000**	**1,088,023**	**–**	**–**	**1,538,023**
Other liabilities	**3,908**	**102,988**	**40,413**	**14,915**	**49,661**	**–**	**223,024**	**434,909**
Foreign exchange contracts (gross)	**–**	**1,563,495**	**131,593**	**–**	**–**	**–**	**–**	**1,695,088**
Total financial liabilities	**11,443,692**	**9,123,693**	**9,655,873**	**4,551,559**	**2,462,021**	**–**	**223,024**	**37,459,862**
Net liquidity gap	**(9,367,632)**	**(1,086,604)**	**(7,115,787)**	**833,940**	**5,646,118**	**15,295,482**	**(56,515)**	**4,149,002**

	31 December 2017 (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:								
Cash and short term placements	1,177,541	3,694,992	–	–	–	–	–	4,872,533
Placements with banks and financial institutions maturing after one month but not more than twelve months	–	–	772,667	741,428	–	–	–	1,514,095
Loans and advances and receivables (gross)	1,088,833	3,042,193	1,047,003	2,976,115	6,319,096	15,036,792	157,084	29,667,116
Available-for-sale financial assets	–	–	–	–	–	–	6,804	6,804
Held-to-maturity investments	–	480,115	1,056,466	2,004,538	2,130,630	–	–	5,671,749
Other assets	236	138,452	21,668	37,600	–	–	30,442	228,398
Foreign exchange contracts (gross)	–	1,155,332	155,560	–	–	–	–	1,310,892
Total financial assets	2,266,610	8,511,084	3,053,364	5,759,681	8,449,726	15,036,792	194,330	43,271,587
Financial liabilities:								
Deposits and balances of banks and other financial institutions at amortised cost	45,728	848,064	200,000	30,000	–	–	–	1,123,792
Customer deposits at amortised cost	11,439,939	7,302,196	8,062,858	6,153,066	1,026,036	–	–	33,984,095
Certificates of deposit issued at amortised cost	–	–	753,293	–	–	–	–	753,293
Unsecured bank loans at amortised cost	–	385,000	–	1,196,852	–	–	–	1,581,852
Other liabilities	1,449	173,058	31,355	36,262	33,905	–	186,642	462,671
Foreign exchange contracts (gross)	–	1,152,127	156,144	–	–	–	–	1,308,271
Total financial liabilities	11,487,116	9,860,445	9,203,650	7,416,180	1,059,941	–	186,642	39,213,974
Net liquidity gap	(9,220,506)	(1,349,361)	(6,150,286)	(1,656,499)	7,389,785	15,036,792	7,688	4,057,613

INTERIM DIVIDEND

The Board has on 26 June 2018 declared an interim dividend of HK$0.05 (2017: HK$0.05) per share payable on 8 August 2018 to shareholders whose names appear on the register of members of the Company on 25 July 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the period under review, the operating environment for financial institutions in Hong Kong remained very challenging and affected by the volatilities of fund flows and conservative market sentiment under uncertain global economic environment. Nevertheless, an uptick in domestic retail sales and export of goods, coupled with stable low unemployment rate have supported sound asset quality and earnings potential of the banking sector in Hong Kong. The Group grew its loan portfolio cautiously at reasonable interest yields, 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 2018, the Group's profit after tax increased by HK$22.7 million or 9.5% to HK$260.9 million as compared to the corresponding period in 2017. The Group's basic earnings per share for the six months ended 30 June 2018 was HK$0.24. The Board of Directors has declared an interim dividend of HK$0.05 per share on 26 June 2018, payable on 8 August 2018.

During the period under review, total interest income of the Group increased by HK$49.7 million or 5.7% to HK$916.1 million contributed from the increase in interest on loans and advances; whilst total interest expense increased by HK$9.6 million or 5.0% to HK$200.9 million due to increase in cost of funding of customer deposits and bank borrowings. As a result, the Group's net interest income increased by HK$40.1 million or 5.9% to HK$715.2 million. Other operating income from loan transactions fees, stockbroking, bancassurance and other business activities of the Group increased by HK$7.6 million or 6.9% to HK$117.6 million in the period under review.

Operating expenses of the Group increased by HK$15.5 million or 3.7% to HK$437.3 million mainly due to the increase in staff related costs.

Credit loss expenses increased by HK$4.0 million or 5.4% to HK$78.7 million mainly due to increase in provisions for loans and advances during the period under review.

Loans and advances, customer deposits and total assets

The Group's total loans and advances (including trade bills) recorded an increase of HK$342.6 million or 1.2% to HK$29.91 billion as at 30 June 2018 from HK$29.56 billion as at 31 December 2017. To mitigate interest rate risk and to address funding need for loan growth, the Group took in customer deposits at reasonable rates cautiously. The Group's customer deposits declined by HK$728.5 million or 2.1% to HK$33.26 billion as at 30 June 2018 from HK$33.98 billion as at 31 December 2017. Total assets of the Group stood at HK$43.64 billion as at 30 June 2018.

Group's Branch network

Public Bank (Hong Kong), a subsidiary of the Company, has 32 branches in Hong Kong and 4 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 ("Winton Financial") which operates under a money lenders licence, has a network of 4 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 2018 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) increased by HK$124.3 million or 0.5% to HK$23.70 billion as at 30 June 2018 from HK$23.58 billion as at 31 December 2017. Customer deposits decreased by HK$904.0 million or 3.1% to HK$28.30 billion as at 30 June 2018 from HK$29.20 billion as at 31 December 2017. Impaired loans to total loans ratio of Public Bank (Hong Kong) was 0.13% as at 30 June 2018.

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$185.1 million or 3.2% to HK$5.91 billion as at 30 June 2018 from HK$5.73 billion as at 31 December 2017. Customer deposits increased by HK$82.2 million or 1.6% to HK$5.16 billion as at 30 June 2018 from HK$5.08 billion as at 31 December 2017. Impaired loans to total loans ratio of Public Finance was 1.89% as at 30 June 2018.

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 93.7% of the profit before tax were contributed by retail and commercial banking businesses. When compared to the first half of 2017, the Group's operating income from retail and commercial banking businesses increased by HK$39.3 million or 5.2% to HK$797.7 million due to increase in net interest income. Profit before tax from retail and commercial banking businesses also increased by HK$21.0 million or 7.5% to HK$300.1 million during the period under review. The Group's operating income from stockbroking and wealth management services increased by HK$8.4 million or 49.0% to HK$25.7 million. Profit before tax from stockbroking and wealth management services increased by HK$7.2 million or 121.2% to HK$13.2 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 2018, 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 2018.

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$1.54 billion as at 30 June 2018. 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 0.20 times as at 30 June 2018 as compared to 0.21 times as at 31 December 2017. The bank borrowings have remaining average maturity periods in the range of less than one year to four 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 net 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 Bank (Hong Kong) and Public Finance) stood at 18.7% and 19.9% respectively as at 30 June 2018.

Asset quality and credit management

The Group's impaired loans to total loans ratio improved to a healthy level of 0.48% as at 30 June 2018 due to more recovery of impaired loans from 0.52% as at 31 December 2017.

The direct exposures to United Kingdom and Europe were assessed as insignificant and less than 3% of total assets 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.

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 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 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 2018, the Group's staff force stood at 1,312 employees. For the six months ended 30 June 2018, the Group's total staff related costs amounted to HK$279.1 million.

PROSPECTS

The United States' bilateral trade policies and protectionism measures are expected to continue to impact Sino-US tensions with increase in geopolitical risks that will cast uncertainties over political, monetary and trade policy developments. The global volatilities of asset prices and currency rates in financial market will affect net worth and wealth of corporates and individuals. Private consumption growth and risk appetite for corporate investments and business expansions are constrained to some extent in Hong Kong and China.

Competition in the banking and financing industry is also 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 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 overall funding costs of customer deposits and bank borrowings are expected to escalate due to intensified competition for deposits by banks. 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 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 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 optimize and refine its existing products and services 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 2018. 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 2018.

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 2018 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 2018 AGM of the Company held in March 2018 due to other engagement. The 2018 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 2018 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 2018 as set out in this announcement has been reviewed by the Audit Committee.

PUBLICATION OF 2018 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement of the Group for the six months ended 30 June 2018 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.publicfinancial.com.hk. The 2018 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 2018.

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

19 July 2018

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.