PUBLIC FINANCE LIMITED

INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

PUBLIC FINANCE LIMITED

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

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The Board of Directors ("the Board") of Public Finance Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Interest income	6	**424,062**	462,846
Interest expense	6	**(33,853)**	(30,037)
NET INTEREST INCOME		**390,209**	432,809
Other operating income	7	**56,999**	65,472
OPERATING INCOME		**447,208**	498,281
Operating expenses	8	**(186,267)**	(187,061)
Changes in fair value of investment properties		**286**	526
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**261,227**	311,746
Impairment allowances for loans and advances and receivables	9	**(129,735)**	(160,072)
PROFIT BEFORE TAX		**131,492**	151,674
Tax	10	**(21,880)**	(24,890)
PROFIT FOR THE PERIOD		**109,612**	126,784
ATTRIBUTABLE TO:			
Owners of the Company		**109,612**	126,784

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**109,612**	126,784
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**109,612**	126,784
ATTRIBUTABLE TO:		
Owners of the Company	**109,612**	126,784

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
ASSETS			
Cash and short term placements	12	**965,810**	1,074,714
Loans and advances and receivables	13	**4,654,001**	4,489,442
Held-to-maturity investments	14	**9,999**	9,998
Investment properties	15	**36,101**	35,815
Property and equipment	16	**17,203**	16,687
Land held under finance leases	17	**34,887**	35,373
Deferred tax assets		**12,821**	15,001
Tax recoverable		**-**	19
Intangible assets		**486**	486
Other assets	18	**44,710**	33,835
TOTAL ASSETS		**5,776,018**	5,711,370
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	19	**4,076,002**	4,050,314
Current tax payable		**17,451**	9,391
Deferred tax liabilities		**4,000**	4,000
Other liabilities	18	**117,657**	89,337
TOTAL LIABILITIES		**4,215,110**	4,153,042
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	20	**671,038**	258,800
Reserves	21	**889,870**	1,299,528
TOTAL EQUITY		**1,560,908**	1,558,328
TOTAL EQUITY AND LIABILITIES		**5,776,018**	5,711,370

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at the beginning of the period	**1,558,328**	1,644,702
Profit for the period	**109,612**	126,784
Other comprehensive income	**-**	-
Total comprehensive income for the period	**109,612**	126,784
Dividends paid in respect of previous year	**(107,032)**	(120,324)
Balance at the end of the period	**1,560,908**	1,651,162

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	**12,740**	327,283
INVESTING ACTIVITIES	**(4,613)**	(3,373)
FINANCING ACTIVITIES	**(107,032)**	(120,324)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(98,905)**	203,586
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,074,714**	859,305
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**975,809**	1,062,891
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements repayable on demand	**290,132**	241,964
Money at call and short notice with an original maturity within three months	**675,678**	810,929
Held-to-maturity investments with an original maturity within three months	**9,999**	9,998
	975,809	1,062,891

NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the 2013 Audited Financial Statements of the Company and the Group.

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

2. BASIS OF CONSOLIDATION

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. BASIS OF CONSOLIDATION *(continued)*

The subsidiaries consolidated for accounting purpose are as follows:

Name	30 June 2014 Total Assets (Unaudited) HK$'000	30 June 2014 Total Equity (Unaudited) HK$'000	Principal Activities
Public Financial Limited	10,101	10,101	Investment holding
Public Securities Limited	191,197	139,980	Securities brokerage
Public Securities (Nominees) Limited	1,102	1,084	Provision of nominee services

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

3. BASIS OF CAPITAL DISCLOSURES

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

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

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

There are no major restrictions or impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited should satisfy the minimum requirements of the Securities and Futures (Financial Resources) Rules issued by the Securities and Futures Commission of Hong Kong.

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as non-distributable regulatory reserve as part of Common Equity Tier 1 ("CET1") capital and is included in the capital base pursuant to the HKMA capital requirements.

3. BASIS OF CAPITAL DISCLOSURES *(continued)*

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

4. ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2014 which are pertinent to its operations and relevant to these interim financial statements.

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

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

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments do not have any material impact on the Group.

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

4. ACCOUNTING POLICIES *(continued)*

Changes in accounting policies and disclosures *(continued)*

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

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

4. ACCOUNTING POLICIES *(continued)*

Impact of issued but not yet effective HKFRSs

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

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

[1] effective for annual periods beginning on or after 1 July 2014
[2] effective for annual periods beginning on or after 1 January 2016
[3] no mandatory effective date yet determined but is available for adoption

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

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

4. ACCOUNTING POLICIES *(continued)*

Impact of issued but not yet effective HKFRSs *(continued)*

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

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

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

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

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

4. ACCOUNTING POLICIES *(continued)*

Impact of issued but not yet effective HKFRSs *(continued)*

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

The Annual Improvements to HKFRSs 2010-2012 and 2011-2013 Cycles issued in January 2014 set out amendments to a number of HKFRSs and shall be applied for a financial period beginning on or after 1 July 2014, except where otherwise indicated. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

5. SEGMENT INFORMATION

Operating segment information

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

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

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

- other businesses segment comprises mainly the letting of investment properties.

NOTES TO INTERIM FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(continued)*

Operating segment information *(continued)*

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

	Personal and commercial lending businesses For the six months ended 30 June		**Stockbroking For the six months ended 30 June**		**Other businesses For the six months ended 30 June**		**Total For the six months ended 30 June**	
	2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000
Segment revenue								
External:								
Net interest income	**390,206**	432,782	**3**	27	**-**	-	**390,209**	432,809
Other operating income:								
Fees and commission income	**49,684**	48,623	**6,623**	15,967	**-**	-	**56,307**	64,590
Others	**27**	227	**(4)**	(2)	**669**	657	**692**	882
Operating income	**439,917**	481,632	**6,622**	15,992	**669**	657	**447,208**	498,281
Profit before tax	**129,904**	141,132	**1,086**	9,812	**502**	730	**131,492**	151,674
Tax							**(21,880)**	(24,890)
Profit for the period							**109,612**	126,784
Other segment information								
Depreciation of property and equipment and land held under finance leases	**(4,499)**	(5,086)	**-**	-	**-**	-	**(4,499)**	(5,086)
Changes in fair value of investment properties	**-**	-	**-**	-	**286**	526	**286**	526
Impairment allowances for loans and advances and receivables	**(129,735)**	(160,072)	**-**	-	**-**	-	**(129,735)**	(160,072)
Net losses on disposal of property and equipment	**(85)**	(32)	**-**	-	**-**	-	**(85)**	(32)

5. SEGMENT INFORMATION *(continued)*

Operating segment information *(continued)*

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

	Personal and commercial lending businesses		**Stockbroking**		**Other businesses**		**Total**	
	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
Segment assets other than intangible assets	**5,506,882**	5,475,305	**219,728**	184,744	**36,101**	35,815	**5,762,711**	5,695,864
Intangible assets	**-**	-	**486**	486	**-**	-	**486**	486
Segment assets	**5,506,882**	5,475,305	**220,214**	185,230	**36,101**	35,815	**5,763,197**	5,696,350
Unallocated assets:								
Deferred tax assets and tax recoverable							**12,821**	15,020
Total assets							**5,776,018**	5,711,370
Segment liabilities	**4,114,397**	4,094,287	**78,870**	44,972	**392**	392	**4,193,659**	4,139,651
Unallocated liabilities:								
Deferred tax liabilities and tax payable							**21,451**	13,391
Total liabilities							**4,215,110**	4,153,042
Other segment information								
Additions to non-current assets - capital expenditure	**4,613**	6,407	**-**	-	**-**	-	**4,613**	6,407

Geographical information

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

The Group had no cross-border claims as at 30 June 2014 and 31 December 2013.

Operating income or revenue from major customers

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

6. INTEREST INCOME AND EXPENSE

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest income from:		
Loans and advances and receivables	**423,806**	462,629
Short term placements and placements with banks	**250**	212
Held-to-maturity investments	**6**	5
	424,062	462,846
Interest expense on:		
Deposits from customers	**33,796**	29,990
Bank loans	**57**	47
	33,853	30,037

Interest income and interest expense for the six months ended 30 June 2014, calculated using the effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss, amounted to HK$424,062,000 and HK$33,853,000 (2013: HK$462,846,000 and HK$30,037,000) respectively. Interest income on the impaired loans and advances for the six months ended 30 June 2014 amounted to HK$1,387,000 (2013: HK$1,340,000).

7. OTHER OPERATING INCOME

	For the six months ended 30 June 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
Fees and commission income:		
Personal and commercial lending	**49,684**	48,624
Stockbroking	**6,623**	15,967
	56,307	64,591
Gross rental income	**675**	665
Less: Direct operating expenses	**(6)**	(8)
Net rental income	**669**	657
Net losses on disposal of property and equipment	**(85)**	(32)
Others	**108**	256
	56,999	65,472

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

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

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

8. OPERATING EXPENSES

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Staff costs:		
Salaries and other staff costs	**105,053**	96,466
Pension contributions	**4,862**	4,738
Less: Forfeited contributions	**(4)**	(11)
Net contribution to retirement benefit schemes	**4,858**	4,727
	109,911	101,193
Other operating expenses:		
Operating lease rentals on leasehold buildings	**22,730**	21,568
Depreciation of property and equipment and land held under finance leases	**4,499**	5,085
Administrative and general expenses	**14,199**	13,979
Others	**34,928**	45,236
Operating expenses before changes in fair value of investment properties	**186,267**	187,061

At 30 June 2014 and 2013, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current period credits arose in respect of staff who left the schemes during the period.

9. IMPAIRMENT ALLOWANCES

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net charge for impairment losses and allowances:		
- loans and advances	**129,735**	160,072
Net charge for impairment losses and allowances:		
- individually assessed	**127,584**	159,043
- collectively assessed	**2,151**	1,029
	129,735	160,072
Of which:		
- new impairment losses and allowances (including any amount directly written off during the period)	**207,792**	239,655
- releases and recoveries	**(78,057)**	(79,583)
Net charge to the consolidated income statement	**129,735**	160,072

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

10. TAX

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current tax charge	**19,659**	24,441
Under-provision in prior periods	**41**	-
Deferred tax charge, net	**2,180**	449
	21,880	24,890

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	For the six months ended 30 June			
	2014		2013	
	(Unaudited)		(Unaudited)	
	HK$'000	**%**	HK$'000	%
Profit before tax	**131,492**		151,674	
Tax at the applicable tax rate	**21,696**	**16.5**	25,026	16.5
Estimated tax effect of net expenses/ (income) that are/is not deductible/(taxable)	**143**	**0.1**	(136)	(0.1)
Adjustments in respect of current tax of previous periods	**41**	**-**	-	-
Tax charge at the Group's effective rate	**21,880**	**16.6**	24,890	16.4

NOTES TO INTERIM FINANCIAL STATEMENTS

11. DIVIDENDS

	For the six months ended 30 June			
	2014 (Unaudited) HK cents per ordinary share	2013 (Unaudited) HK cents per ordinary share	**2014 (Unaudited) HK$'000**	2013 (Unaudited) HK$'000
Interim	**41.905**	45.559	**108,450**	117,907
Special	**-**	31.721	**-**	82,094
	41.905	77.280	**108,450**	200,001

On 18 July 2014, the Board declared an interim dividend of HK$41.905 cents per ordinary share totalling HK$108,450,140.

On 19 February 2014, a dividend of HK$41.357 cents per ordinary share totalling HK$107,031,916 was paid to shareholders as the final dividend for 2013.

On 19 July 2013, an interim dividend of HK$45.559 cents per ordinary share share totalling HK$117,906,692 and a special dividend of HK$31.721 cents per ordinary share totalling HK$82,093,948 for 2013 were paid to shareholders.

12. CASH AND SHORT TERM PLACEMENTS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Cash and placements with banks and financial institutions	**290,132**	270,060
Money at call and short notice	**675,678**	804,654
	965,810	1,074,714

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

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

13. LOANS AND ADVANCES AND RECEIVABLES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Loans and advances to customers	**4,693,623**	4,539,171
Accrued interest	**43,251**	46,356
Gross loans and advances and receivables	**4,736,874**	4,585,527
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	**(69,845)**	(85,208)
- collectively assessed	**(13,028)**	(10,877)
	(82,873)	(96,085)
Loans and advances and receivables	**4,654,001**	4,489,442

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

Loans and advances and receivables are summarised as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Neither past due nor impaired loans and advances and receivables	**4,406,354**	4,219,005
Past due but not impaired loans and advances and receivables	**227,888**	241,831
Individually impaired loans and advances	**102,632**	124,691
Total loans and advances and receivables	**4,736,874**	4,585,527

About 29% of "Neither past due nor impaired loans and advances and receivables" were residential property mortgage loans, commercial property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

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

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

	30 June 2014 (Unaudited)		31 December 2013 (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	**65,447**	**1.39**	88,971	1.96
One year or less but over six months	**2,691**	**0.06**	2,843	0.06
Over one year	**-**	**-**	-	-
Loans and advances overdue for more than three months	**68,138**	**1.45**	91,814	2.02
Rescheduled loans and advances overdue for three months or less	**32,219**	**0.69**	31,595	0.70
Impaired loans and advances overdue for three months or less	**2,275**	**0.05**	1,282	0.03
Total overdue and impaired loans and advances	**102,632**	**2.19**	124,691	2.75

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

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

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	**68,138**	91,814
Individual impairment allowances	**49,206**	65,918
Current market value and fair value of collateral	**-**	-
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	**102,632**	124,691
Individual impairment allowances	**69,845**	85,208
Current market value and fair value of collateral	**-**	-

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

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

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	**-**	-
Covered portion of overdue loans and advances	**-**	-
Uncovered portion of overdue loans and advances	**68,138**	91,814

The assets taken as collateral should satisfy the following criteria:

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

(d) Repossessed assets

There were no repossessed assets of the Group as at 30 June 2014 and 31 December 2013.

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

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Gross amount HK$'000	**Percentage of total loans and advances %**	Gross amount HK$'000	Percentage of total loans and advances %
Loans and advances and receivables overdue for three months or less	**227,888**	**4.9**	241,831	5.3

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

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

	30 June 2014 (Unaudited)		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2014	**85,208**	**10,877**	**96,085**
Amounts written off	**(219,155)**	**-**	**(219,155)**
Impairment losses and allowances charged to the consolidated income statement	**203,792**	**4,000**	**207,792**
Impairment losses and allowances released to the consolidated income statement	**(76,208)**	**(1,849)**	**(78,057)**
Net charge of impairment losses and allowances	**127,584**	**2,151**	**129,735**
Loans and advances and receivables recovered	**76,208**	**-**	**76,208**
At 30 June 2014	**69,845**	**13,028**	**82,873**
Deducted from:			
Loans and advances and receivables	**69,845**	**13,028**	**82,873**

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

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

	31 December 2013 (Audited) Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2013	88,977	16,894	105,871
Amounts written off	(484,996)	-	(484,996)
Impairment losses and allowances charged to the consolidated income statement	481,227	11	481,238
Impairment losses and allowances released to the consolidated income statement	(155,375)	(6,028)	(161,403)
Net charge/(release) of impairment losses and allowances	325,852	(6,017)	319,835
Loans and advances and receivables recovered	155,375	-	155,375
At 31 December 2013	85,208	10,877	96,085
Deducted from:			
Loans and advances and receivables	85,208	10,877	96,085

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

(g) Finance lease receivables

Included in loans and advances and receivables were receivables in respect of assets leased under finance leases as set out below:

	30 June 2014 (Unaudited)	31 December 2013 (Audited)	**30 June 2014 (Unaudited)**	31 December 2013 (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	**62,695**	59,899	**48,601**	47,148
In the second to fifth years, inclusive	**156,421**	141,854	**111,910**	102,025
Over five years	**549,719**	484,925	**455,514**	402,403
	768,835	686,678	**616,025**	551,576
Less: Unearned finance income	**(152,810)**	(135,102)		
Present value of minimum lease payments receivable	**616,025**	551,576		

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

14. HELD-TO-MATURITY INVESTMENTS

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	**9,999**	9,998
Analysed by type of issuers:		
- Central government	**9,999**	9,998

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

There were neither impaired nor overdue held-to-maturity investments as at 30 June 2014 and 31 December 2013. There were no listed held-to-maturity investments as at 30 June 2014 and 31 December 2013.

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

15. INVESTMENT PROPERTIES

	HK$'000
At valuation:	
At 1 January 2013	42,150
Transfer to property and equipment	(651)
Transfer to land held under finance leases	(6,388)
Changes in fair value recognised in consolidated income statement	704
At 31 December 2013 and 1 January 2014 (Audited)	**35,815**
Changes in fair value recognised in consolidated income statement	**286**
At 30 June 2014 (Unaudited)	**36,101**

15. INVESTMENT PROPERTIES *(continued)*

All investment properties were classified under Level 3 in the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3. The Group has assessed that the highest and best use of its properties did not differ from their existing use.

At 30 June 2014, investment properties were revalued according to the revaluation reports issued by C S Surveyors Limited, a firm of independent professionally qualified valuers. Accounts Department has discussions with the valuer on the valuation methodology and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The fair value of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales prices of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	30 June 2014 (Unaudited) Range (weighted average)	31 December 2013 (Audited) Range (weighted average)
Price per square metre	**HK$65,000 to HK$71,000 (HK$68,000)**	HK$65,000 to HK$70,000 (HK$68,000)

A significant increase/decrease in the price per square metre would result in a significant increase/decrease in the fair value of the investment properties.

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 22(a) to the interim financial statements.

16. PROPERTY AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2013	4,243	77,401	1,609	83,253
Additions	-	6,407	-	6,407
Transfer from investment properties	651	-	-	651
Disposals/write-off	-	(1,364)	-	(1,364)
At 31 December 2013 and 1 January 2014 (Audited)	**4,894**	**82,444**	**1,609**	**88,947**
Additions	**-**	**4,613**	**-**	**4,613**
Disposals/write-off	**-**	**(1,058)**	**-**	**(1,058)**
At 30 June 2014 (Unaudited)	**4,894**	**85,999**	**1,609**	**92,502**
Accumulated depreciation:				
At 1 January 2013	1,258	61,473	1,609	64,340
Provided during the year	99	9,136	-	9,235
Disposals/write-off	-	(1,315)	-	(1,315)
At 31 December 2013 and 1 January 2014 (Audited)	**1,357**	**69,294**	**1,609**	**72,260**
Provided during the period	**50**	**3,963**	**-**	**4,013**
Disposals/write-off	**-**	**(974)**	**-**	**(974)**
At 30 June 2014 (Unaudited)	**1,407**	**72,283**	**1,609**	**75,299**
Net carrying amount:				
At 30 June 2014 (Unaudited)	**3,487**	**13,716**	**-**	**17,203**
At 31 December 2013 (Audited)	3,537	13,150	-	16,687

No valuation has been made for the above items of property and equipment for the period ended 30 June 2014 and for the year ended 31 December 2013.

17. LAND HELD UNDER FINANCE LEASES

	HK$'000
Cost:	
At 1 January 2013	40,965
Transfer from investment properties	6,388
At 31 December 2013, 1 January 2014 (Audited) and 30 June 2014 (Unaudited)	**47,353**
Accumulated depreciation and impairment:	
At 1 January 2013	11,009
Depreciation provided during the year	971
At 31 December 2013 and 1 January 2014 (Audited)	**11,980**
Depreciation provided during the period	**486**
At 30 June 2014 (Unaudited)	**12,466**
Net carrying amount:	
At 30 June 2014 (Unaudited)	**34,887**
At 31 December 2013 (Audited)	35,373

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

18. OTHER ASSETS AND OTHER LIABILITIES

Other assets	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
Interest receivables from financial institutions	**13**	6
Other debtors, deposits and prepayments	**43,951**	17,149
Amount due from a fellow subsidiary	**746**	1,076
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	**-**	15,604
	44,710	33,835

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

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

Other liabilities	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
Creditors, accruals and interest payable	**90,825**	89,337
Net amount of accounts payable to HKSCC	**26,832**	-
	117,657	89,337

19. CUSTOMER DEPOSITS AT AMORTISED COST

All the customer deposits were time deposits repayable at maturity dates.

20. ISSUED CAPITAL

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Issued and fully paid:		
258,800,000 (2013: 258,800,000) ordinary shares	**671,038**	258,800

A summary of the transactions in the Company's issued share capital recorded during the period is shown as follows:

	Issued capital HK$'000
At 1 January 2013, 31 December 2013 and 1 January 2014 (Audited)	**258,800**
Transfer from share premium (note)	**412,238**
At 30 June 2014 (Unaudited)	**671,038**

Note:

Pursuant to the transitional provisions for the abolition of the nominal value of shares included in the new Hong Kong Companies Ordinance (Chapter 622) which became effective on 3 March 2014, the balance of the share premium account as at 3 March 2014 has been transferred to issued capital.

21. RESERVES

	Note	Share premium account HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2013		412,238	85,328	888,336	1,385,902
Profit for the year		-	-	233,951	233,951
Transfer to retained profits		-	(3,456)	3,456	-
Dividends paid in respect of previous year		-	-	(120,324)	(120,324)
Dividends paid in respect of current year		-	-	(200,001)	(200,001)
At 31 December 2013 and 1 January 2014 (Audited)		**412,238**	**81,872**	**805,418**	**1,299,528**
Profit for the period		**-**	**-**	**109,612**	**109,612**
Transfer to issued capital	20	**(412,238)**	**-**	**-**	**(412,238)**
Transfer from retained profits		**-**	**9,012**	**(9,012)**	**-**
Dividends paid in respect of previous year		**-**	**-**	**(107,032)**	**(107,032)**
At 30 June 2014 (Unaudited)		**-**	**90,884**	**798,986**	**889,870**

Note:

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

22. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**435**	1,049
In the second to fifth years, inclusive	**-**	61
	435	1,110

(b) As lessee

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

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within one year	**36,920**	28,540
In the second to fifth years, inclusive	**18,598**	12,788
	55,518	41,328

23. COMMITMENTS AND CONTINGENT LIABILITIES

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Contractual amount HK$'000	**Credit risk-weighted amount HK$'000**	Contractual amount HK$'000	Credit risk-weighted amount HK$'000
Capital commitments contracted for, but not provided in the consolidated statement of financial position				
- with an original maturity of not more than one year	**1,878**	**-**	37	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- customers	**235**	**-**	112	-
	2,113	**-**	149	-

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk-weighted amounts are calculated in accordance with the Capital Rules and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

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

During the period, no derivative activities were transacted by the Group (2013: Nil).

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values of financial instruments which are not carried at fair value in the interim financial statements.

Liquid or/and very short term and variable rate financial instruments
Liquid or/and very short term and variable rate financial instruments include loans and advances and receivables. As these financial instruments are liquid or having a short term maturity or at variable rate, the carrying amounts are reasonable approximations of their fair values. In the case of loans and unquoted debt securities, their fair values do not reflect changes in their credit quality as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances.

Fixed rate financial instruments
Fixed rate financial instruments include placements with banks and financial institutions, loans and advances and receivables, held-to-maturity investments and customer deposits. The fair values of these fixed rate financial instruments carried at amortised cost are based on prevailing money-market interest rates or current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

(b) Financial assets and financial liabilities carried at fair value

There were no financial instruments carried at fair value at 30 June 2014 and 31 December 2013.

For the period ended 30 June 2014 and the year ended 31 December 2013, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the period ended 30 June 2014 and the year ended 31 December 2013, there were no purchases, issues and settlements related to the Level 3 financial instruments.

There were no gain or loss and no OCI reported in the consolidated income statement and consolidated statement of comprehensive income respectively related to Level 3 financial instruments for the period ended 30 June 2014 and the year ended 31 December 2013.

25. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	30 June 2014 (Unaudited)							
	Repayable on demand HK$'000	**Up to 1 month HK$'000**	**Over 1 month but not more than 3 months HK$'000**	**Over 3 months but not more than 12 months HK$'000**	**Over 1 year but not more than 5 years HK$'000**	**Over 5 years HK$'000**	**Repayable within an indefinite period HK$'000**	**Total HK$'000**
Financial assets:								
Cash and short term placements	**290,132**	**675,678**	**-**	**-**	**-**	**-**	**-**	**965,810**
Loans and advances and receivables	**21,077**	**229,910**	**378,512**	**1,279,650**	**1,684,436**	**1,037,125**	**106,164**	**4,736,874**
Held-to-maturity investments	**-**	**-**	**9,999**	**-**	**-**	**-**	**-**	**9,999**
Other assets	**-**	**28,352**	**-**	**-**	**-**	**-**	**16,358**	**44,710**
Total financial assets	**311,209**	**933,940**	**388,511**	**1,279,650**	**1,684,436**	**1,037,125**	**122,522**	**5,757,393**
Financial liabilities:								
Customer deposits at amortised cost	**12,093**	**958,921**	**1,805,053**	**1,299,935**	**-**	**-**	**-**	**4,076,002**
Other liabilities	**74**	**65,682**	**5,713**	**3,038**	**-**	**-**	**43,150**	**117,657**
Total financial liabilities	**12,167**	**1,024,603**	**1,810,766**	**1,302,973**	**-**	**-**	**43,150**	**4,193,659**

	31 December 2013 (Audited)							
	Repayable on demand HK$'000	Up to 1 month HK$'000	Over 1 month but not more than 3 months HK$'000	Over 3 months but not more than 12 months HK$'000	Over 1 year but not more than 5 years HK$'000	Over 5 years HK$'000	Repayable within an indefinite period HK$'000	Total HK$'000
Financial assets:								
Cash and short term placements	270,060	804,654	-	-	-	-	-	1,074,714
Loans and advances and receivables	21,923	228,815	371,664	1,295,563	1,624,051	915,124	128,387	4,585,527
Held-to-maturity investments	-	-	9,998	-	-	-	-	9,998
Other assets	-	17,333	-	-	-	-	16,502	33,835
Total financial assets	291,983	1,050,802	381,662	1,295,563	1,624,051	915,124	144,889	5,704,074
Financial liabilities:								
Customer deposits at amortised cost	14,337	876,263	2,065,219	1,094,395	100	-	-	4,050,314
Other liabilities	94	33,149	5,674	2,342	-	-	48,078	89,337
Total financial liabilities	14,431	909,412	2,070,893	1,096,737	100	-	48,078	4,139,651

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, foreign currency price, credit, liquidity, capital, market and operational risks, which are approved and endorsed by the Board and reviewed regularly by the Group's management, Credit Committee, Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC") and other designated committees or working groups. Material risks are identified and assessed by designated committees and/or working groups before the launch of new products or business activities, and are monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Company also perform regular audits to ensure compliance with the policies and procedures.

Market risk management

(a) Interest rate risk

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

(b) Currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group has no significant foreign currency risk as the Group's assets and liabilities were mainly denominated in Hong Kong dollars for the six months ended 30 June 2014 and for the year ended 31 December 2013. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

(c) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including commodities, debt securities and equities. The Group did not actively trade in financial instruments and in the opinion of the Directors, the price risk related to trading activities to which the Group was exposed was not material. Accordingly, no quantitative market risk disclosures for price risk have been made.

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

Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy. Credit risk exposures are measured and monitored against credit limits and other control limits (such as connected exposures, large exposures and risk concentration limits set by the Credit Committee and approved by the Board). Segregation of duties in key credit functions is in place to ensure separate credit control and monitoring. Management and recovery of problem credits are handled by an independent work-out team.

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

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

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

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

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

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

Credit risk management *(continued)*

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

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

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

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations. Major sources of liquidity risk of the Group are the early or unexpected withdrawals of deposits in cash outflow and the delay in cash inflow from loan repayments. To manage liquidity risk, the Group has established a liquidity risk management framework which incorporates liquidity risk related policies and procedures, risk related metrics and tools, risk related assumptions, and the manner of reporting significant matters. The major objectives of liquidity risk management framework are to identify, measure and control liquidity risk exposures with proper implementation of funding strategies and with reporting of significant risk related matters to management. Liquidity risk related policies are reviewed by senior management and dedicated committees, and significant changes in such policies are approved by the Board or committees delegated by the Board. The Board is responsible for exercising management oversight over the liquidity risk management framework of the Group.

ALCO monitors the liquidity position as part of the ongoing management of assets and liabilities, and sets up trigger limits to monitor liquidity risk. It also closely monitors the liquidity of the subsidiaries on a periodic basis to ensure that the liquidity structure of the subsidiaries' assets, liabilities and commitments can meet their funding needs, and that internal liquidity trigger limits are complied with.

Accounts Department is responsible for carrying out the strategies and policies approved by the dedicated committees and the Board, and to develop operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

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

Liquidity risk management *(continued)*

Accounts Department is responsible for day-to-day monitoring of liquidity ratio, loans to deposits ratios, concentration related ratios and other liquidity risk related ratios coupled with the use of cash flow projections, maturity ladder, stress-testing methodologies and other applicable risk assessment tools and metrics to detect early warning signals and identify vulnerabilities to potential liquidity risk on forward-looking basis with the objective of ensuring different types of liquidity risks are appropriately identified, measured, assessed and reported. Accounts Department carries out analysis based on risk-based MIS reports, summarises the data from those reports and presents the key information to ALCO on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact are identified from the aforesaid MIS reports or market information obtained from business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of liquidity risk performance will be presented by ALCO to Risk Management Committee and the Board.

The examples of liquidity risk related metrics include internal minimum liquidity ratio of 30% and an internal trigger point of liquidity ratio which is higher than the aforesaid minimum liquidity ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits such as top ten deposits as a percentage of total deposits and the reliance of banking facilities, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

The funding strategies of the Group are to (i) diversify funding sources for containing liquidity risk exposures, (ii) minimise disruptions due to operational issues such as transfer of liquidity across group entities, (iii) ensure contingency funding is available to the Group; and (iv) maintain sufficient liquidity cushion to meet critical liquidity needs such as loan commitments and deposits' withdrawals in stressed situations. For illustration, concentration limits of funding sources such as intra-group funding limits are set to reduce reliance on single source of funding.

Contingency funding plan is formulated to address liquidity needs under different stages including the mechanism for the detection of early warning signals of potential crisis at early stage and obtaining of emergent funding in bank-run scenario at later stage. Designated roles and responsibilities of Crisis Management Team, departments and business units and their emergency contact information are documented clearly in contingency funding plan policy as part of business continuity planning, and contingency funding measures are in place to set priorities of funding arrangements with counterparties, to set procedures for intraday liquidity risk management and intragroup funding support, to manage media relationship and to communicate with internal and external parties during a liquidity crisis. The stress-testing results are updated and reported to senior management regularly and the results such as survival period for positive cashflow mismatches are used in contingency funding planning. Standby facilities and liquid assets are maintained to provide liquidity to meet unexpected and material cash outflows in stressed situations.

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

Liquidity risk management *(continued)*

The Group maintains sufficient liquidity cushion comprising mainly cash and treasury bills issued by eligible central governments to address critical and emergent liquidity needs on intraday basis and over other different time horizons. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

Apart from cash flow projections under normal scenario to manage liquidity under different time horizons, different stressed scenarios such as institution-specific scenario, market crisis scenario and the combination of such scenarios (combined scenario) with assumptions are set and reviewed by dedicated committees and approved by the Board. For instance, in institution-specific scenario, loan repayments from some customers are assumed to be delayed. The projected cash inflow would be reduced by the amount of retail loan delinquencies. Regarding cash outflow projection, part of undrawn loan facilities are not to be utilised by borrowers or honoured by the Group. Core deposits ratio would decrease as there would be early withdrawals of some fixed deposits before contractual maturity dates or there would be fewer renewals of fixed deposits on the contractual maturity dates. In market crisis scenario, some undrawn banking facilities are not to be honored upon drawdown as some bank counterparties will not have sufficient liquidity to honor their obligations in market. The Group may pledge or liquidate its liquid assets such as treasury bills issued by eligible central governments to secure funding to address potential liquidity crisis. Liquidity stress-tests are conducted regularly (at least monthly) and the results are utilised for part of contingency funding plan or for providing insights to management about the latest liquidity position of the Group.

Operational risk management

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

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

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

Capital management

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

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

Capital adequacy ratios

The capital adequacy ratios of the Company are computed in accordance with the provisions of the Banking (Amendment) Ordinance 2012 relating to Basel III capital standards and the amended Capital Rules. The Company has adopted the standardised approach for the calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for the calculation of market risk exposures which are immaterial to the Company.

	Company	
	30 June 2014 (Unaudited)	31 December 2013 (Audited)
CET1 Capital Ratio	**25.0%**	25.3%
Tier 1 Capital Ratio	**25.0%**	25.3%
Total Capital Ratio	**26.0%**	26.2%

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

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

Capital disclosures

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

	Note	**30 June 2014 (Unaudited) HK$'000**	31 December 2013 (Audited) HK$'000
CET1 capital instruments		**671,038**	258,800
Share premium	21	**-**	412,238
Retained earnings		**559,481**	568,207
Disclosed reserves		**90,884**	81,872
CET1 capital before deduction		**1,321,403**	1,321,117
Deduct:			
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)		**(5,545)**	(5,259)
Regulatory reserve for general banking risk		**(90,884)**	(81,872)
Deferred tax assets in excess of deferred tax liabilities		**(8,784)**	(10,964)
CET1 capital after deduction		**1,216,190**	1,223,022
Additional Tier 1 capital		**-**	-
Tier 1 capital after deductions		**1,216,190**	1,223,022
Reserve attributable to fair value gains		**2,495**	2,366
Regulatory reserve for general banking risk		**30,823**	32,342
Collective provisions		**13,028**	10,877
		43,851	43,219
Tier 2 capital		**46,346**	45,585
Capital base		**1,262,536**	1,268,607

Capital adequacy ratios at 30 June 2014 were compiled on solo basis in accordance with the Capital Rules and Section 97C of the Banking Ordinance for the implementation of the Basel III capital accord.

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

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

Capital disclosures *(continued)*

Capital instruments

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

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
CET1 capital instruments issued by the Company		
Ordinary shares:		
258,800,000 issued and fully paid ordinary shares	**671,038**	258,800

Additional information

To comply with the BDR, the Company will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published interim financial statements under "Regulatory Disclosure" section on its website: www.publicfinance.com.hk on or before 30 September 2014.

The relevant disclosure will include the following information:

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

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

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

	30 June 2014								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Loans and advances for use In Hong Kong									
Manufacturing	**8,353**	**6**	**-**	**12**	**50**	**200**	**2.4**	**-**	**-**
Building and construction, property development and investment									
Property development	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Property investment	**985**	**-**	**-**	**-**	**-**	**985**	**100.0**	**-**	**-**
Civil engineering works	**9,715**	**6**	**-**	**223**	**223**	**165**	**1.7**	**-**	**-**
Electricity and gas	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Recreational activities	**31**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Information technology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Wholesale and retail trade	**18,825**	**6**	**-**	**38**	**54**	**3,111**	**16.5**	**-**	**-**
Transport and transport equipment	**571,967**	**-**	**-**	**-**	**-**	**571,954**	**100.0**	**-**	**-**
Hotels, boarding houses and catering	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial concerns	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stockbrokers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-stockbroking companies and individuals for the purchase of shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for the purchase of other residential properties	**699,968**	**-**	**-**	**-**	**-**	**699,968**	**100.0**	**-**	**-**
Loans for credit card advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for other business purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans for other private purposes	**3,373,630**	**13,010**	**69,845**	**207,342**	**218,651**	**49,501**	**1.5**	**102,632**	**68,138**
Trade finance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other loans and advances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans and advances for use outside Hong Kong	**10,149**	**-**	**-**	**177**	**177**	**-**	**-**	**-**	**-**
Total loans and advances (excluding other receivables)	**4,693,623**	**13,028**	**69,845**	**207,792**	**219,155**	**1,325,884**	**28.2**	**102,632**	**68,138**

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS *(continued)*

	31 December 2013								
	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to income statement HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loan and advances overdue for more than three months HK$'000
Loans and advances for use in Hong Kong									
Manufacturing	9,481	10	38	311	273	-	-	38	-
Building and construction, property development and investment									
Property development	4	-	-	-	-	-	-	-	-
Property investment	1,082	-	-	-	-	1,082	100.0	-	-
Civil engineering works	6,538	6	-	6	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	12	-	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	21,795	5	17	530	617	3,572	16.4	24	24
Transport and transport equipment	508,668	-	-	-	-	508,660	100.0	-	-
Hotels, boarding houses and catering	-	-	-	-	-	-	-	-	-
Financial concerns	-	-	-	-	-	-	-	-	-
Stockbrokers	-	-	-	-	-	-	-	-	-
Non-stockbroking companies and individuals for the purchase of shares	-	-	-	-	-	-	-	-	-
Professional and private individuals									
Loans for the purchase of flats covered by the guarantee issued by the Housing Authority under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	-	-	-	-	-	-	-	-	-
Loans for the purchase of other residential properties	616,082	-	-	-	-	616,082	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,367,114	10,851	85,153	480,339	484,059	39,607	1.2	124,629	91,790
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	8,395	5	-	52	47	-	-	-	-
Total loans and advances (excluding other receivables)	4,539,171	10,877	85,208	481,238	484,996	1,169,003	25.8	124,691	91,814

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

SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

LIQUIDITY RATIO

	Company For the six months ended 30 June 2014	2013
Average liquidity ratio	**106.6%**	102.8%

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

NON-BANK MAINLAND CHINA EXPOSURES

The following table illustrates the disclosure required to be made in respect of the Group's Mainland China exposures to non-bank counterparties:

	On-balance sheet exposure HK$'000	**Off-balance sheet exposure HK$'000**	**Total exposures HK$'000**	**Individual impairment allowances HK$'000**
As at 30 June 2014				
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**10,149**	**-**	**10,149**	**-**

	On-balance sheet exposure HK$'000	Off-balance sheet exposure HK$'000	Total exposures HK$'000	Individual impairment allowances HK$'000
As at 31 December 2013				
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	8,395	-	8,395	-

BUSINESS REVIEW

The Group recorded a profit after tax of HK$109.6 million for the six months ended 30 June 2014, representing a decrease of HK$17.2 million or 13.6% when compared to the corresponding period of last year, mainly due to lower interest income on loans and advances and decrease in fee income from stockbroking. Interest income decreased by HK$38.7 million or 8.4% to HK$424.1 million, while interest expense increased by HK$3.9 million or 13.0% to HK$33.9 million when compared to the corresponding period of last year. Non-interest income decreased by HK$8.5 million or 13.0% to HK$57.0 million mainly due to the decrease in stock brokerage income when compared to the corresponding period of last year.

The Group's operating expenses decreased slightly by HK$0.8 million or 0.4% to HK$186.3 million mainly due to lower marketing expenses. Impairment allowances for loans and advances decreased by HK$30.4 million or 19.0% to HK$129.7 million mainly due to the decrease in bad debts from consumer financing loans.

Total gross loans and advances of the Group increased by HK$154.4 million or 3.4% to HK$4.69 billion as at 30 June 2014 from HK$4.54 billion as at 31 December 2013. Total customer deposits grew by HK$25.7 million or 0.6% to HK$4.08 billion as at 30 June 2014 from HK$4.05 billion as at 31 December 2013. The impaired loan ratio improved to 2.19% as at 30 June 2014 from 2.75% as at 31 December 2013.

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

Hong Kong, 18 July 2014