Audited Financial Statements

PUBLIC FINANCE LIMITED
大眾財務有限公司

31 December 2013

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONTENTS

PUBLIC FINANCE LIMITED
大眾財務有限公司

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of Public Finance Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2013.

Principal activities

The principal activities of the Group have not changed during the year and consisted of deposit taking, personal and commercial lending, which comprised mainly the granting of personal loans, overdrafts, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, the provision of finance to purchasers of taxis, the letting of investment properties and the provision of stockbroking.

Results and dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 6 to 88.

Interim dividend of HK$45.559 cents (2012: HK$43.998 cents) and special dividend of HK$31.721 cents (2012: Nil) per ordinary share were declared and paid during the year. The Directors recommend the payment of a final dividend of HK$41.357 cents (2012: HK$46.493 cents) per ordinary share for the year.

Investment properties, property and equipment and land held under finance leases

Details of movements in the investment properties, property and equipment and land held under finance leases of the Company and of the Group are set out in notes 15, 16 and 17 to the financial statements, respectively.

Share capital

There was no movement in either the Company's authorised or issued share capital during the year.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements and the consolidated statement of changes in equity.

Directors

The Directors of the Company during the year and up to the date of this report were as follows:

Non-executive Directors:
Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*
Tan Sri Dato' Sri Tay Ah Lek
Quah Poh Keat (Re-designated as Non-executive Director on 3 October 2013)
Dato' Chang Kat Kiam
Chong Yam Kiang

Independent Non-executive Directors:
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Co-Chairman*
Lee Chin Guan

Executive Director:
Lee Huat Oon

In accordance with Article 112 of the Company's Articles of Association, all Directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

Directors' rights to acquire shares

Pursuant to the share option scheme of Public Financial Holdings Limited ("PFHL"), the Company's intermediate holding company, certain Directors of the Company have been granted options to subscribe for ordinary shares of PFHL.

During the year, the interests of the Directors in any rights to subscribe for ordinary shares in PFHL were as follows:

	Number of ordinary shares attached to the share options					
Name of Directors	**At the beginning of the year**	**Granted during the year**	**Exercised during the year**	**At the end of the year**	**Exercise price**	**Exercise period**
Lee Huat Oon	3,170,000	-	-	3,170,000	HK$6.35	10.6.2005 to 9.6.2015
Tan Sri Dato' Sri Tay Ah Lek	1,230,000	-	-	1,230,000	HK$6.35	10.6.2005 to 9.6.2015
Dato' Chang Kat Kiam	1,380,000	-	-	1,380,000	HK$6.35	10.6.2005 to 9.6.2015
Lee Chin Guan	350,000	-	-	350,000	HK$6.35	10.6.2005 to 9.6.2015

Note:

The options to subscribe for ordinary shares of HK$0.10 each in PFHL under the share option scheme of PFHL are only exercisable during certain periods as notified by the board of directors of PFHL or the Share Option Committee of PFHL to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.

Directors' rights to acquire shares (Continued)
Save as disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

Directors' interests in contracts
Save as disclosed in notes 28 and 29 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

Compliance with Supervisory Policy Manual
The Group has complied with the guidelines in the Supervisory Policy Manual ("SPM") issued by the Hong Kong Monetary Authority (the "HKMA") as follows: (i) Module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules ("BDR")", (ii) Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions"; and (iii) Module CG-5 "Guideline on a Sound Remuneration System" under the Supervisory Policy Manual ("SPM") issued by the Hong Kong Monetary Authority (the "HKMA"). The Company has complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Auditors
Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD
Lee Huat Oon
Director

Hong Kong
16 January 2014

INDEPENDENT AUDITORS' REPORT

To the shareholders of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Public Finance Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 88, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
16 January 2014

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Interest income	4	911,538	925,219
Interest expense	4	(61,196)	(69,731)
NET INTEREST INCOME		850,342	855,488
Other operating income	5	118,769	123,899
OPERATING INCOME		969,111	979,387
Operating expenses	6	(370,085)	(373,220)
Changes in fair value of investment properties		704	11,610
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		599,730	617,777
Impairment allowances for loans and advances and receivables	7	(319,835)	(318,216)
PROFIT BEFORE TAX		279,895	299,561
Tax	9	(45,944)	(46,056)
PROFIT FOR THE YEAR		233,951	253,505
ATTRIBUTABLE TO:			
Owners of the Company	11	233,951	253,505

Details of dividends paid/payable are disclosed in note 10 to the financial statements.

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
PROFIT FOR THE YEAR	233,951	253,505
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	233,951	253,505
ATTRIBUTABLE TO:		
Owners of the Company	233,951	253,505

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

		Group		Company	
	Notes	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
ASSETS					
Cash and short term placements	12	1,074,714	859,305	909,269	701,570
Loans and advances and receivables	13	4,489,442	4,576,600	4,489,442	4,576,600
Held-to-maturity investments	14	9,998	9,997	9,998	9,997
Investment properties	15	35,815	42,150	35,815	42,150
Property and equipment	16	16,687	18,913	16,118	17,932
Land held under finance leases	17	35,373	29,956	35,373	29,956
Investments in subsidiaries	18	-	-	10,110	10,110
Deferred tax assets	22	15,001	16,088	14,964	16,088
Tax recoverable		19	123	-	-
Intangible assets	20	486	486	-	-
Other assets	19	33,835	62,268	15,105	14,886
TOTAL ASSETS		5,711,370	5,615,886	5,536,194	5,419,289
EQUITY AND LIABILITIES					
LIABILITIES					
Customer deposits at amortised cost	21	4,050,314	3,830,376	4,050,314	3,830,376
Current tax payable		9,391	13,078	9,366	13,062
Deferred tax liabilities	22	4,000	4,185	4,000	4,163
Other liabilities	19	89,337	123,545	44,365	48,858
TOTAL LIABILITIES		4,153,042	3,971,184	4,108,045	3,896,459
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY					
Issued capital	23	258,800	258,800	258,800	258,800
Reserves	24	1,299,528	1,385,902	1,169,349	1,264,030
TOTAL EQUITY		1,558,328	1,644,702	1,428,149	1,522,830
TOTAL EQUITY AND LIABILITIES		5,711,370	5,615,886	5,536,194	5,419,289

Lee Huat Oon
Director

Chong Yam Kiang
Director

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
TOTAL EQUITY			
Balance at the beginning of the year		1,644,702	1,633,719
Profit for the year		233,951	253,505
Other comprehensive income		-	-
Total comprehensive income for the year		233,951	253,505
Dividends paid in respect of previous year	10 (a)	(120,324)	(128,655)
Dividends paid in respect of current year	10 (a)	(200,001)	(113,867)
Balance at the end of the year		1,558,328	1,644,702

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		279,895	299,561
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	6	10,206	7,571
Net losses on disposal of property and equipment		49	133
(Decrease)/increase in impairment allowances for loans and advances and receivables		(9,786)	5,896
Increase in fair value of investment properties	15	(704)	(11,610)
Profits tax paid		(48,625)	(52,469)
Operating profit before changes in operating assets and liabilities		231,035	249,082
Decrease/(increase) in operating assets:			
Decrease/(increase) in loans and advances and receivables		96,944	(48,183)
Increase in held-to-maturity investments		(1)	(6)
Decrease/(increase) in other assets		28,433	(24,915)
		125,376	(73,104)
Increase in operating liabilities:			
Increase in customer deposits at amortised cost		219,938	374,286
(Decrease)/increase in other liabilities		(34,208)	28,613
		185,730	402,899
Net cash inflow from operating activities		542,141	578,877

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		542,141	578,877
CASH FLOWS FROM INVESTING ACTIVITY			
Purchases of property and equipment	16	(6,407)	(11,790)
Net cash outflow from investing activity		(6,407)	(11,790)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		(320,325)	(242,522)
Net cash outflow from financing activities		(320,325)	(242,522)
NET INCREASE IN CASH AND CASH EQUIVALENTS		215,409	324,565
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		859,305	534,740
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,074,714	859,305
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	31	270,060	235,001
Money at call and short notice with an original maturity within three months		804,654	624,304
		1,074,714	859,305

1. CORPORATE INFORMATION

The Company is a company incorporated in Hong Kong with limited liability. The registered office of the Company is located at Room 1105-7, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong.

The principal activities of the Group have not changed during the year and consisted of deposit taking, personal and commercial lending, which comprised mainly the granting of personal loans, overdrafts, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, the provision of finance to purchasers of taxis, the letting of investment properties and the provision of stockbroking.

The Company is a wholly-owned subsidiary of Public Bank (Hong Kong) Limited. Public Bank Berhad, a company incorporated in Malaysia, is considered by the Directors to be the Company's ultimate holding company.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (a collective term which includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the disclosure requirements of the Guideline on the Application of the BDR under the SPM issued by the HKMA.

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and financial assets and financial liabilities at fair value through profit or loss. The consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The 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 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.

2.2 BASIS OF CONSOLIDATION (Continued)

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 other comprehensive income 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 purposes are as follows:

	31 December 2013		
Name	Total Assets HK$'000	Total Equity HK$'000	Principal Activities
Public Financial Limited	10,101	10,101	Investment holding
Public Securities Limited	158,340	139,172	Securities brokerage
Public Securities (Nominees) Limited	1,043	1,016	Provision of nominee services

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

2.3 BASIS OF CAPITAL DISCLOSURES

The Company has complied with the capital requirements during the 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 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.

2.3 BASIS OF CAPITAL DISCLOSURES (Continued)

With effect from 1 January 2013, 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.

2.4 ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2013. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2013 which are pertinent to its operations and relevant to these financial statements.

• HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Government Loans*
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
• HKFRS 10	*Consolidated Financial Statements*
• HKFRS 11	*Joint Arrangements*
• HKFRS 12	*Disclosure of Interests in Other Entities*
• HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 - Transition Guidance
• HKFRS 13	*Fair Value Measurement*
• HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income*
• HKAS 19 (2011)	*Employee Benefits*
• HKAS 27 (2011)	*Separate Financial Statements*
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
• HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets* (early adopted)
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
• Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The amendments do not have any material financial impact on the Group.

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation - Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled. The application of this new standard has no financial impact on the Group.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group adopted HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011). The application of this new standard has no material financial impact on the Group.

HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries are included in note 18 to the financial statements.

The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. These amendments have no material impact on the Group.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments are included in notes 15 and 30 to the financial statements. The application of this new standard has no material financial impact on the Group.

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (e.g., the revaluation of land and buildings). The amendments have affected the presentation only and have had no material financial impact on the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no material financial impact on the Group.

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no material financial impact on the Group.

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out the amendments to a number of standards. 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 have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and the change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 16 *Property, Plant and Equipment*: Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

(c) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 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 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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
• HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans : Employee Contributions*[2]
• HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
• HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
• HK(IFRIC)-Int 21	*Levies*[1]

[1] effective for annual periods beginning on or after 1 January 2014
[2] effective for annual periods beginning on or after 1 July 2014
[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 as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

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

2.4 ACCOUNTING POLICIES (Continued)

Impact of issued but not yet effective HKFRSs (Continued)

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.

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 Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefits 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.

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 are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter (“OTC”) 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 are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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 is not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in "Other operating income" or "Other operating expenses" in the consolidated income statement with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity which is taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rates of exchange ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement as part of gain or loss on disposal.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments are acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Held-to-maturity investments

Held-to-maturity investments measured at amortised cost are those which carry fixed or determinable payments and have fixed maturity and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as “Impairment allowances for held-to-maturity investments”.

(iv) Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables

Cash and short term placements, placements with banks and financial institutions, and loans and advances and receivables are categorised as loans and advances. They are carried at amortised cost and are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short term resale. After initial measurement, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest income” in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “Impairment allowances for loans and advances and receivables”.

(v) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process using effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(4) Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that will be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that will use the asset in its highest and best use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(5) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset has/have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is/are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

(i) Placements with banks and financial institutions, and loans and advances and receivables

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and the Group collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Impairment of financial assets (Continued)

(i) Placements with banks and financial institutions, and loans and advances and receivables (Continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral had been realised or had been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to "Impairment losses and allowances" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit risk-based system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Impairment of financial assets (Continued)

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to "Impairment allowances for held-to-maturity investments", to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(6) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item other than legal titles, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and classified as "Property and equipment" but represented on a separate line with the corresponding liability to the lessor included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest expense" in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised in the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and are included in "Operating expenses".

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years but not more than 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

(ii) Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Group leases out all of its investment properties as operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Leases (Continued)

(ii) Group as a lessor (Continued)

The amounts due from the lessees under finance leases are recorded in the consolidated statement of financial position as loans and advances to customers. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods. The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(7) Recognition of revenue and expenditure

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets had been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees earned from the provision of services over a period of time are accrued over that period. These fees include commission income and other management fees.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(iv) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the consolidated income statement as "Other operating income".

(8) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, amounts due from banks on demand or with original maturity within three months and held-to-maturity investments with original maturity within three months.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Subsidiaries

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

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

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

(10) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property and equipment, and depreciation

The property and equipment is stated at cost, except for certain buildings transferred from investment properties, which are stated at deemed cost at the date of transfer, less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Leasehold improvements:	
Own leasehold buildings	20% to 33 1/3%
Others	Over the shorter of the remaining lease terms and 2 years
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%
Land held under finance leases	Over the lease terms

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held under finance leases are stated at cost less accumulated depreciation and any impairment, and are depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

Medium term leases are leases with remaining lease periods of more than 10 years to 50 years. Long term leases are leases with remaining lease periods of more than 50 years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property and equipment and depreciation” above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the consolidated income statement.

(13) Intangible assets (other than goodwill)

Intangible assets, representing eligibility rights to trade on or through Hong Kong Exchanges and Clearing Limited, are stated at cost less impairment. The useful lives are assessed to be indefinite and they are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis. The carrying amount of intangible assets is subject to an annual impairment test, and impairment, if any, is charged to the consolidated income statement.

(14) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) the Group considered impaired is written down to its recoverable amount.

For assets excluding goodwill and deferred tax assets, an assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Repossessed assets and valuation of collateral

Collateral assets for loans and advances and receivables are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title and control of the repossessed collateral assets, in which cases the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. Individual impairment allowance is made on the shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Collateral assets (including repossessed assets and assets not yet repossessed) are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

(16) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in “Operating expenses” in the consolidated income statement.

(17) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(18) Employee benefits

(a) Retirement benefit schemes

The Group participates in two defined contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Scheme Ordinance Scheme is made based on the participating employees' basic salary, and the contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the respective schemes. When an employee leaves the Group prior to his/her interest in the Group's employer non-mandatory contributions vesting with the employee, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The Group's mandatory contributions vest fully with the employee.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Employee benefits (Continued)

(b) Share option scheme

PFHL operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of PFHL Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payments whereby employees render services as consideration for equity-settled transactions.

For share options granted under the share option scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognised as an expense and credited to an employee share-based compensation reserve under equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at the grant date. At the end of each reporting period, PFHL Group revises its estimates of the number of options that is expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(c) Employee leave entitlements

The cost of accumulating compensated absences is recognised as an expense and measured based on the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated as at the end of the reporting period.

(19) Dividends

Final dividends proposed by the Directors will remain in retained profits within reserves in the consolidated statement of financial position, until they have been approved by the shareholders in general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends and special dividends are simultaneously proposed and declared by the Directors. Consequently, interim dividends and special dividends are recognised directly as a liability when they are proposed and declared.

2.6 SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on loans and advances and receivables
The Group reviews its portfolios of loans and advances and receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted estimated future cash flows from a portfolio of loans and advances and receivables before the decrease can be identified with an individual loan in those portfolios. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

For loans and advances and receivables for which no individual impairment is observed, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the loan portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. 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 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 comprises securities dealing and receipt of commission income.

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

3. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table represents revenue and profit information for operating segments for the years ended 31 December 2013 and 2012.

	Personal and commercial businesses		Stockbroking		Other businesses		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue								
External:								
Net interest income	850,313	855,558	29	(70)	-	-	850,342	855,488
Other operating income:								
Fees and commission income	95,782	100,154	21,298	22,431	-	-	117,080	122,585
Others	369	108	(6)	(11)	1,326	1,217	1,689	1,314
Operating income	946,464	955,820	21,321	22,350	1,326	1,217	969,111	979,387
Profit before tax	269,054	279,057	9,708	8,577	1,133	11,927	279,895	299,561
Tax							(45,944)	(46,056)
Profit for the year							233,951	253,505
Other segment information								
Depreciation of property and equipment and land held under finance leases	(10,206)	(7,571)	-	-	-	-	(10,206)	(7,571)
Changes in fair value of investment properties	-	-	-	-	704	11,610	704	11,610
Impairment allowances for loans and advances and receivables	(319,835)	(318,216)	-	-	-	-	(319,835)	(318,216)
Net losses on disposal of property and equipment	(49)	(133)	-	-	-	-	(49)	(133)

3. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table represents certain assets and liabilities information regarding operating segments as at 31 December 2013 and 2012.

	Personal and commercial businesses		Stockbroking		Other businesses		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets other than intangible assets	5,475,305	5,350,942	184,744	206,097	35,815	42,150	5,695,864	5,599,189
Intangible assets	-	-	486	486	-	-	486	486
Segment assets	5,475,305	5,350,942	185,230	206,583	35,815	42,150	5,696,350	5,599,675
Unallocated assets:								
Deferred tax assets and tax recoverable							15,020	16,211
Total assets							5,711,370	5,615,886
Segment liabilities	4,094,287	3,878,859	44,972	74,686	392	376	4,139,651	3,953,921
Unallocated liabilities:								
Deferred tax liabilities and tax payable							13,391	17,263
Total liabilities							4,153,042	3,971,184
Other segment information								
Additions to non-current assets - capital expenditure	6,407	11,790	-	-	-	-	6,407	11,790

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 financial statements.

The Group had no cross-border claims as at 31 December 2013 and 2012.

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.

4. INTEREST INCOME AND EXPENSE

	2013 HK$'000	2012 HK$'000
Interest income from:		
Loans and advances and receivables	911,099	924,816
Short term placements and placements with banks	427	387
Held-to-maturity investments	12	16
	911,538	925,219
Interest expense on:		
Deposits from customers	61,129	69,639
Bank loans	67	92
	61,196	69,731

Interest income and interest expense for the year ended 31 December 2013, 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$911,538,000 and HK$61,196,000 (2012: HK$925,219,000 and HK$69,731,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2013 amounted to HK$2,710,000 (2012: HK$2,605,000).

5. OTHER OPERATING INCOME

	2013 HK$'000	2012 HK$'000
Fees and commission income:		
Personal and commercial lending	95,782	100,154
Stockbroking	21,298	22,431
	117,080	122,585
Gross rental income	1,340	1,238
Less: Direct operating expenses	(14)	(21)
Net rental income	1,326	1,217
Net losses on disposal of property and equipment	(49)	(133)
Others	412	230
	118,769	123,899

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 years ended 31 December 2013 and 2012.

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.

6. OPERATING EXPENSES

	Notes	2013 HK$'000	2012 HK$'000
Staff costs:			
Salaries and other staff costs		193,707	181,571
Pension contributions		9,618	9,032
Less: Forfeited contributions		(45)	(24)
Net contribution to retirement benefit schemes		9,573	9,008
		203,280	190,579
Other operating expenses:			
Operating lease rentals on leasehold buildings		43,914	41,522
Depreciation of property and equipment and land held under finance leases	16, 17	10,206	7,571
Auditors' remuneration		1,442	1,410
Administrative and general expenses		30,061	34,121
Others		81,182	98,017
Operating expenses before changes in fair value of investment properties		370,085	373,220

At 31 December 2013 and 2012, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The current year credits arose in respect of staff who left the schemes during the year.

7. IMPAIRMENT ALLOWANCES

	2013 HK$'000	2012 HK$'000
Net charge for impairment losses and allowances:		
- loans and advances	319,835	318,216
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	325,852	313,118
- collectively assessed	(6,017)	5,098
	319,835	318,216
Of which:		
- new impairment losses and allowances (including any amount directly written off during the year)	481,238	481,409
- releases and recoveries	(161,403)	(163,193)
Net charge to the consolidated income statement	319,835	318,216

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2013 and 2012.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance was as follows:

	Group	
	2013 HK$'000	2012 HK$'000
Fees	380	380
Other emoluments	2,117	1,976
	2,497	2,356

Other emoluments included basic salaries, bonus, allowances, benefits in kind and share option benefits. No share option benefits were paid in 2013 (2012: Nil) and the share option benefits represented fair value at the date of share options granted and accepted under the share option scheme of PFHL which were amortised to the consolidated income statement in the prior year disregarding whether the options have been exercised or not.

9. TAX

	2013 HK$'000	2012 HK$'000
Current tax charge	45,228	47,180
(Over-provision)/under-provision in prior years	(186)	11,427
Deferred tax charge/(credit), net (note 22)	902	(12,551)
	45,944	46,056

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations 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 to the effective tax rates, are as follows:

	2013		2012	
	HK$'000	%	HK$'000	%
Profit before tax	279,895		299,561	
Tax at the applicable tax rate	46,183	16.5	49,427	16.5
Estimated tax effect of net income that is not taxable	(53)	-	(1,351)	(0.4)
Adjustments in respect of deferred tax of previous periods	-	-	(13,447)	(4.5)
Adjustments in respect of current tax of previous periods	(186)	(0.1)	11,427	3.8
Tax charge at the Group's effective rate	45,944	16.4	46,056	15.4

10. DIVIDENDS

(a) Dividends approved and paid during the year

	Company			
	2013	2012	2013	2012
	HK cents per ordinary share		HK$'000	HK$'000
Interim dividend	45.559	43.998	117,907	113,867
Final dividend in respect of previous year	46.493	49.712	120,324	128,655
Special dividend	31.721	-	82,094	-
	123.773	93.710	320,325	242,522

Final dividend for the year ended 31 December 2012 was paid in 2013 with the consent of shareholders at the 2013 AGM.

(b) Dividends attributable to the year

	Company			
	2013	2012	2013	2012
	HK cents per ordinary share		HK$'000	HK$'000
Interim dividend	45.559	43.998	117,907	113,867
Special dividend	31.721	-	82,094	-
Proposed final dividend	41.357	46.493	107,032	120,324
	118.637	90.491	307,033	234,191

The proposed final dividend was recommended after respective year end and had not been recognised as a liability at respective year end dates. The proposed final dividend of 2012 was approved and paid in 2013 and the proposed final dividend of 2013 is subject to the approval of shareholders at the 2014 AGM.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2013 included a profit of HK$225,644,000 (2012: HK$245,801,000) which has been dealt with in the financial statements of the Company (note 24).

12. CASH AND SHORT TERM PLACEMENTS

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and placements with banks and financial institutions	270,060	235,001	219,147	191,490
Money at call and short notice	804,654	624,304	690,122	510,080
	1,074,714	859,305	909,269	701,570

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

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Loans and advances to customers	4,539,171	4,633,173
Accrued interest	46,356	49,298
Gross loans and advances and receivables	4,585,527	4,682,471
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	(85,208)	(88,977)
- collectively assessed	(10,877)	(16,894)
	(96,085)	(105,871)
Loans and advances and receivables	4,489,442	4,576,600

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.

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired loans and advances and receivables	4,219,005	4,296,153
Past due but not impaired loans and advances and receivables	241,831	254,489
Individually impaired loans and advances	124,691	131,829
Total loans and advances and receivables	4,585,527	4,682,471

About 26% 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

	Group and Company			
	2013		2012	
	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	88,971	1.96	92,154	1.99
One year or less but over six months	2,843	0.06	2,427	0.05
Over one year	-	-	-	-
Loans and advances overdue for more than three months	91,814	2.02	94,581	2.04
Rescheduled loans and advances overdue for three months or less	31,595	0.70	33,368	0.72
Impaired loans and advances overdue for three months or less	1,282	0.03	3,880	0.09
Total overdue and impaired loans and advances	124,691	2.75	131,829	2.85

There were no accrued interests on overdue and impaired loans and advances as at 31 December 2013 and 2012.

Impaired loans and advances are individually determined to be impaired after considering 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

	Group and Company	
	2013	2012
	HK$'000	HK$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	91,814	94,581
Individual impairment allowances	65,918	66,077
Current market value and fair value of collateral	-	-
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	124,691	131,829
Individual impairment allowances	85,208	88,977
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:

	Group and Company	
	2013	2012
	HK$'000	HK$'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	91,814	94,581

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 and the Company as at 31 December 2013 (2012: Nil).

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

	Group and Company			
	2013		2012	
	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	241,831	5.3	254,489	5.5

13. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Group and Company 2013		
	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)

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

	Group and Company 2012		
	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Total HK$'000
At 1 January 2012	88,179	11,796	99,975
Amounts written off	(475,004)	-	(475,004)
Impairment losses and allowances charged to the consolidated income statement	475,802	5,607	481,409
Impairment losses and allowances released to the consolidated income statement	(162,684)	(509)	(163,193)
Net charge of impairment losses and allowances	313,118	5,098	318,216
Loans and advances and receivables recovered	162,684	-	162,684
At 31 December 2012	88,977	16,894	105,871
Deducted from:			
Loans and advances and receivables	88,977	16,894	105,871

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:

	Group and Company			
	2013	2012	2013	2012
	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	59,899	54,232	47,148	42,507
In the second to fifth years, inclusive	141,854	131,285	102,025	93,487
Over five years	484,925	458,444	402,403	380,177
	686,678	643,961	551,576	516,171
Less: Unearned finance income	(135,102)	(127,790)		
Present value of minimum lease payments receivable	551,576	516,171		

The Group and the Company have 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

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	9,998	9,997
Analysed by type of issuers:		
- Central government	9,998	9,997

There were no impairment allowances made against held-to-maturity investments as at 31 December 2013 and 2012. There were no movements in impairment allowances for the years ended 31 December 2013 and 2012.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2013 and 2012. There were no listed held-to-maturity investments as at 31 December 2013 and 2012.

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

	Group and Company
	HK$'000
At valuation:	
At 1 January 2012	30,540
Changes in fair value recognised in income statement	11,610
At 31 December 2012 and 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 income statement	704
At 31 December 2013	35,815

15. INVESTMENT PROPERTIES (Continued)

The Group's and the Company's investment properties are situated in Hong Kong and are held under the following lease terms:

	Group and Company	
	2013	2012
	HK$'000	HK$'000
At valuation:		
Medium term leases	35,815	42,150

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, an investment property of HK$7,039,000 was transferred out of Level 3 to property and equipment and land held under finance lease as it is self-occupied. There were no transfers of fair value measurements between Level 1 and Level 2. The Group and the Company have assessed that the highest and best use of its properties did not differ from their existing use.

At 31 December 2013, 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:

	Group and Company
	Range (weighted average)
Price per square metre	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 and the Company are let under operating leases from which the Group and the Company earn rental income. Details of future annual rental receivables under operating leases are included in note 26(a) to the financial statements.

16. PROPERTY AND EQUIPMENT

	Group			
	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2012	4,243	67,352	1,609	73,204
Additions	-	11,790	-	11,790
Disposals/write-off	-	(1,741)	-	(1,741)
At 31 December 2012 and 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	4,894	82,444	1,609	88,947
Accumulated depreciation:				
At 1 January 2012	1,171	56,398	1,609	59,178
Provided during the year	87	6,683	-	6,770
Disposals/write-off	-	(1,608)	-	(1,608)
At 31 December 2012 and 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	1,357	69,294	1,609	72,260
Net carrying amount:				
At 31 December 2013	3,537	13,150	-	16,687
At 31 December 2012	2,985	15,928	-	18,913

16. PROPERTY AND EQUIPMENT (Continued)

	Company			
	Buildings HK$'000	Leasehold improvements, furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2012	4,243	64,042	1,609	69,894
Additions	-	11,776	-	11,776
Disposals/write-off	-	(1,741)	-	(1,741)
At 31 December 2012 and 1 January 2013	4,243	74,077	1,609	79,929
Additions	-	6,279	-	6,279
Transfer from investment properties	651	-	-	651
Disposals/write-off	-	(1,271)	-	(1,271)
At 31 December 2013	4,894	79,085	1,609	85,588
Accumulated depreciation:				
At 1 January 2012	1,171	54,708	1,609	57,488
Provided during the year	87	6,030	-	6,117
Disposals/write-off	-	(1,608)	-	(1,608)
At 31 December 2012 and 1 January 2013	1,258	59,130	1,609	61,997
Provided during the year	99	8,599	-	8,698
Disposals/write-off	-	(1,225)	-	(1,225)
At 31 December 2013	1,357	66,504	1,609	69,470
Net carrying amount:				
At 31 December 2013	3,537	12,581	-	16,118
At 31 December 2012	2,985	14,947	-	17,932

No valuation has been made for the above items of property and equipment for the years ended 31 December 2013 and 2012.

All property and equipment are situated in Hong Kong.

17. LAND HELD UNDER FINANCE LEASES

	Group and Company HK$'000
Cost:	
At 1 January 2012, 31 December 2012, and 1 January 2013	40,965
Transfer from investment properties	6,388
At 31 December 2013	47,353
Accumulated depreciation and impairment:	
At 1 January 2012	10,208
Depreciation provided during the year	801
At 31 December 2012 and 1 January 2013	11,009
Depreciation provided during the year	971
At 31 December 2013	11,980
Net carrying amount:	
At 31 December 2013	35,373
At 31 December 2012	29,956

The land held under finance leases at net carrying amount is held under the following lease terms:

	Group and Company	
	2013 HK$'000	2012 HK$'000
Leaseholds held in Hong Kong :		
On medium term lease	35,373	29,956

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. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	10,110	10,110

Particulars of the Company's subsidiaries, which were incorporated and operate in Hong Kong, are as follows:

Name	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
	HK$	Direct %	Indirect %	
Public Financial Limited	10,100,000	100	-	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	100	-	Provision of nominee services

19. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Interest receivables from authorised institutions	6	4	6	4
Other debtors, deposits and prepayments	17,149	60,796	14,023	13,414
Amount due from a fellow subsidiary	1,076	1,468	1,076	1,468
Net amount of financial assets after offsetting	15,604	-	-	-
	33,835	62,268	15,105	14,886

The amount due from a fellow subsidiary is 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

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Creditors, accruals and interest payable	89,337	86,113	44,365	48,858
Net amount of financial liabilities after offsetting	-	37,432	-	-
	89,337	123,545	44,365	48,858

Public Securities Limited maintains accounts with the Hong Kong Securities Clearing Company Limited ("HKSCC") through which it conducts securities trading transactions and settlement on a net basis.

In presenting the amounts due from and to HKSCC, the individual subsidiary concerned has offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

Group

	Gross amount	Amount offset	Net amount
2013	HK$'000	HK$'000	HK$'000
Amount of accounts receivable from HKSCC	19,577	(3,973)	15,604
2012			
Amount of accounts payable to HKSCC	(48,781)	11,349	(37,432)

20. INTANGIBLE ASSETS

	Group	
	2013	2012
	HK$'000	HK$'000
Cost:		
At the beginning of the year and at the end of the year	486	486
Accumulated impairment:		
At the beginning of the year and at the end of the year	-	-
Net carrying amount:		
At the beginning of the year and at the end of the year	486	486

Intangible assets represent trading rights held by the Group. The trading rights are retained for stock trading and stockbroking activities, and have indefinite useful lives as the trading rights have no expiry date. They comprise two units (2012: two units) of Stock Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

No intangible assets were held by the Company as at 31 December 2013 and 2012.

21. CUSTOMER DEPOSITS AT AMORTISED COST

The maturity profile of customer deposits at the end of the reporting period is analysed by the remaining periods to their contractual maturity dates as follows:

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Repayable:		
On demand	14,337	8,505
Within three months or less	2,941,482	2,951,318
Within one year or less but over three months	1,094,395	870,553
Over one year	100	-
	4,050,314	3,830,376

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

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000
At 1 January 2012	1,946
Deferred tax credited to consolidated income statement	14,142
At 31 December 2012 and 1 January 2013	16,088
Deferred tax charged to consolidated income statement	(1,087)
At 31 December 2013	15,001

Group

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2012	2,594
Deferred tax charged to consolidated income statement	1,591
At 31 December 2012 and 1 January 2013	4,185
Deferred tax credited to consolidated income statement	(185)
At 31 December 2013	4,000

22. DEFERRED TAX (Continued)

Company

Deferred tax assets:

	Impairment allowances for loans and advances and receivables HK$'000
At 1 January 2012	1,946
Deferred tax credited to consolidated income statement	14,142
At 31 December 2012 and 1 January 2013	16,088
Deferred tax charged to consolidated income statement	(1,124)
At 31 December 2013	14,964

Company

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2012	2,471
Deferred tax charged to consolidated income statement	1,692
At 31 December 2012 and 1 January 2013	4,163
Deferred tax credited to consolidated income statement	(163)
At 31 December 2013	4,000

23. SHARE CAPITAL

	Company	
	2013	2012
	HK$'000	HK$'000
Authorised:		
300,000,000 (2012: 300,000,000) ordinary shares of HK$1.00 each	300,000	300,000
Issued and fully paid:		
258,800,000 (2012: 258,800,000) ordinary shares of HK$1.00 each	258,800	258,800

24. RESERVES

Group

	Share premium account HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	412,238	83,190	879,491	1,374,919
Profit for the year	-	-	253,505	253,505
Transfer from retained profits	-	2,138	(2,138)	-
Dividends paid in respect of previous year	-	-	(128,655)	(128,655)
Dividends paid in respect of current year	-	-	(113,867)	(113,867)
At 31 December 2012 and 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	412,238	81,872	805,418	1,299,528

24. RESERVES (Continued)

Company

	Share premium account HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	412,238	83,190	765,323	1,260,751
Profit for the year	-	-	245,801	245,801
Transfer from retained profits	-	2,138	(2,138)	-
Dividends paid in respect of previous year	-	-	(128,655)	(128,655)
Dividends paid in respect of current year	-	-	(113,867)	(113,867)
At 31 December 2012 and 1 January 2013	412,238	85,328	766,464	1,264,030
Profit for the year	-	-	225,644	225,644
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	412,238	81,872	675,239	1,169,349

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 as at 31 December 2013 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.

25. SHARE OPTION SCHEME

The Company's holding company, PFHL, operates a share option scheme ("the Scheme") for the purpose of attracting, retaining and motivating talented eligible participants.

Under the Scheme approved on 28 February 2002, share options to subscribe for a total of 57,558,000 shares in PFHL were granted to and accepted by Directors and certain employees of the Company during the period from 18 May 2005 to 10 June 2005. Each share option gives the holder the right to subscribe for one ordinary share. PFHL is not legally bound or obliged to repurchase or settle the options in cash.

Pursuant to the terms of the Scheme, an adjustment was required to be made to the exercise price and/or the number of shares falling to be issued upon exercise of the outstanding share options as a result of a rights issue of PFHL. After the completion of the one for two rights issue in April 2006, the exercise price of the outstanding share options was adjusted from HK$7.29 per share to HK$6.35 per share on 14 June 2006 and there was no adjustment to the number of shares falling to be issued.

Particulars in relation to the Scheme are as follows:

(a) Summary of the Scheme

Period of acceptance by Directors and employees	:	18 May 2005 to 10 June 2005
Period within which the ordinary shares must be taken up under an option	:	Exercisable within open exercise periods determined by the board of directors of PFHL within 10 years from the commencement date on which the option is granted and accepted
Amount payable on acceptance	:	HK$1.00 payable to PFHL
The remaining life of the Scheme	:	The Scheme expired on 27 February 2012

25. SHARE OPTION SCHEME (Continued)

(b) Movement of share options

	2013	2012
	Number of share options	
Outstanding at 1 January	23,545,000	24,579,000
Lapsed during the year	(970,000)	(1,034,000)
(Exercised)/Granted during the year	-	-
Outstanding at 31 December	22,575,000	23,545,000

Notes:

(i) The share options are only exercisable at the exercise price of HK$6.35 per share during certain periods as notified by the board of directors of PFHL or the Share Option Committee of PFHL to each grantee which PFHL may in its absolute discretion determine from 10 June 2005 to 9 June 2015.

(ii) There was no open exercise period during the years ended 31 December 2013 and 2012.

(iii) The remaining contractual life of the 22,575,000 (2012: 23,545,000) outstanding options was 1.44 (2012: 2.44) years as at 31 December 2013.

(iv) The share options outstanding as at 31 December 2013 and 2012 could only be exercised in future open exercise periods.

26. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2013 and 2012, the Group and the Company had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	Group and Company	
	2013	2012
	HK$'000	HK$'000
Within one year	1,049	1,105
In the second to fifth years, inclusive	61	754
	1,110	1,859

(b) As lessee

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

At 31 December 2013 and 2012, the Group and the Company had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	28,540	29,149	27,968	28,390
In the second to fifth years, inclusive	12,788	12,666	12,788	12,666
	41,328	41,815	40,756	41,056

27. COMMITMENTS AND CONTINGENT LIABILITIES

Group

	2013		2012	
	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 statement of financial position:				
- With an original maturity of not more than one year	37	-	461	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	112	-	108	-
	149	-	569	-

Company

	2013		2012	
	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 statement of financial position:				
- With an original maturity of not more than one year	-	-	461	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	112	-	108	-
- A subsidiary	110,000	-	110,000	-
	110,112	-	110,569	-

27. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The Group and the Company 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 31 December 2013 and 2012, the Group and the Company had no material outstanding contingent liabilities and commitments save as disclosed above.

During the year, no derivative activities were transacted by the Group and the Company (2012: Nil).

28. LOANS TO DIRECTORS AND OFFICERS

Loans granted by the Company to Directors and Officers disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Company	
	2013	2012
	HK$'000	HK$'000
Individual		
Aggregate amount of principal and interest outstanding at the end of the year	209	333
Maximum aggregate amount of principal and interest outstanding during the year	333	562
Body Corporate		
Aggregate amount of principal and interest outstanding at the end of the year	-	-
Maximum aggregate amount of principal and interest outstanding during the year	80,000	40,000

The loan was granted to Public Securities Limited, a wholly-owned subsidiary of the Company, of which a Director of the Company is also a Director of the subsidiary.

29. RELATED PARTY TRANSACTIONS

The Group had the following major transactions with related parties in the normal course of business. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at the year end were as follows:

		Group	
		2013	2012
	Notes	HK$'000	HK$'000
Related party transactions included in the consolidated income statement:			
Management fees from a fellow subsidiary	(a)	874	915
Management fees to the intermediate holding company	(b)	1,080	1,080
Management fees to the immediate holding company	(b)	1,250	3,040
Rental income from the immediate holding company	(c)	-	46
Rent paid to the intermediate holding company	(d)	9,761	9,761
Interest income from the immediate holding company	(e)	312	306
Interest income from key management personnel	(f)	3	6
Interest paid to a fellow subsidiary	(g)	41	87
Commission income from key management personnel	(h)	23	20
Commission and service fee to fellow subsidiaries	(i)	71	184
Building management fee to the intermediate holding company	(d)	83	83
Commitment fee to the ultimate holding company	(j)	976	970
Bank service charges to the immediate holding company	(k)	1,384	1,414
Key management personnel compensation:			
- Short-term employee benefits	(l)	3,308	3,149
- Post employment benefits	(l)	243	228

29. RELATED PARTY TRANSACTIONS (Continued)

		Group		Company	
		2013	2012	2013	2012
	Notes	HK$'000	HK$'000	HK$'000	HK$'000
Related party transactions included in the consolidated statement of financial position:					
Cash and short term funds with the ultimate holding company	(m)	48	30	-	-
Cash and short term funds with the immediate holding company	(e)	936,982	741,846	772,879	585,108
Interest receivable from the immediate holding company	(e)	5	3	5	3
Loans to key management personnel	(f)	209	333	209	333
Rental deposits to the intermediate holding company	(d)	143	143	143	143
Amounts due from a fellow subsidiary included in other assets	(n)	1,076	1,468	1,076	1,468
Co-financing interest and other payable to a fellow subsidiary included in other assets	(n)	177	351	177	351

29. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(a) Management fees arose from administrative services provided by the Company to a fellow subsidiary. They were charged based on the costs incurred by the Company during the year.

(b) Management fees were paid to the intermediate holding company and the immediate holding company for the provision of management services, senior management oversight and corporate governance.

(c) Rental income was derived from properties leased to the immediate holding company as its offices.

(d) Rent paid, rental deposits and building management fee were related to properties rented from the intermediate holding company as the Group's offices during the year.

(e) The Group and the Company placed deposits with the immediate holding company. Interest was received/receivable from the immediate holding company. The balances of the said deposits and interest receivable were included in cash and short term placements and other assets, respectively, in the consolidated statement of financial position.

(f) One of the key management personnel of the Company was granted a mortgage loan in the ordinary course of business.

(g) During the year, a bank loan was borrowed from a fellow subsidiary. Interest was paid to a fellow subsidiary in respect of the loan for the year.

(h) Commission income was received from the key management personnel of the Group for securities dealing through a subsidiary.

(i) The expenses represented commission and service fee paid for the referrals of stockbroking business and taxi financing loans from fellow subsidiaries during the year.

(j) Commitment fee was paid to the ultimate holding company in order to obtain standby facilities from the ultimate holding company to the Company.

(k) Bank service charges were paid to the immediate holding company for banking services provided to the Group and the Company during the year.

(l) The Group's post-employment benefit plan for the benefits of employees was detailed in note 6 to the financial statements.

(m) The Group maintained a current account with the ultimate holding company. Balance of the said deposits was included in cash and short term placements in the consolidated statement of financial position.

(n) These balances in respect of co-financing taxi loans include other receivable and payable to a fellow subsidiary.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial assets and 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 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 liabilities carried at fair value

There were no financial instruments carried at fair value as at 31 December 2013 and 2012.

For the years ended 31 December 2013 and 2012, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2013 and 2012, 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 the consolidated statement of comprehensive income respectively related to Level 3 financial instruments for the years ended 31 December 2013 and 2012.

31. 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. The Group's and the Company's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity Risk Management" in note 32 to the financial statements.

Group	2013							
	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

Group	2012							
	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	235,001	624,304	-	-	-	-	-	859,305
Loans and advances and receivables	21,038	229,932	366,556	1,305,572	1,827,812	795,702	135,859	4,682,471
Held-to-maturity investments	-	-	9,997	-	-	-	-	9,997
Other assets	-	46,776	-	-	-	-	15,492	62,268
Total financial assets	256,039	901,012	376,553	1,305,572	1,827,812	795,702	151,351	5,614,041
Financial liabilities:								
Customer deposits at amortised cost	8,505	1,046,593	1,904,725	870,553	-	-	-	3,830,376
Other liabilities	46	63,679	4,883	1,903	-	-	53,034	123,545
Total financial liabilities	8,551	1,110,272	1,909,608	872,456	-	-	53,034	3,953,921

31. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Company	2013							
	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	219,147	690,122	-	-	-	-	-	909,269
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	-	-	-	-	-	-	15,105	15,105
Total financial assets	241,070	918,937	381,662	1,295,563	1,624,051	915,124	143,492	5,519,899
Financial liabilities:								
Customer deposits at amortised cost	14,337	876,263	2,065,219	1,094,395	100	-	-	4,050,314
Other liabilities	94	3,923	5,674	2,342	-	-	32,332	44,365
Total financial liabilities	14,431	880,186	2,070,893	1,096,737	100	-	32,332	4,094,679

Company	2012							
	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	191,490	510,080	-	-	-	-	-	701,570
Loans and advances and receivables	21,038	229,932	366,556	1,305,572	1,827,812	795,702	135,859	4,682,471
Held-to-maturity investments	-	-	9,997	-	-	-	-	9,997
Other assets	-	-	-	-	-	-	14,886	14,886
Total financial assets	212,528	740,012	376,553	1,305,572	1,827,812	795,702	150,745	5,408,924
Financial liabilities:								
Customer deposits at amortised cost	8,505	1,046,593	1,904,725	870,553	-	-	-	3,830,376
Other liabilities	46	4,756	4,883	1,903	-	-	37,270	48,858
Total financial liabilities	8,551	1,051,349	1,909,608	872,456	-	-	37,270	3,879,234

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Management

The Group has established systems, policies and procedures for the control and monitoring of interest rate, credit, liquidity, capital, market and operational risks, which are approved and endorsed by the Board of Directors ("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 ALCO of the Company against limits approved by the Board.

Interest rate risk exposures in the Company's book:
The relevant interest rate risk arises from repricing risk and basis risk.

Repricing risk is one of the sources of interest rate risk which arises from timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets, liabilities and off-balance sheet financial instruments. Should the interest rate increase/decrease by 200 basis points and the negative net interest gap be HK$356 million (2012: HK$452 million) up to 12 months in 2013, profit before tax in 2013 would decrease/increase by HK$11 million or 0.80% of equity (2012: HK$14 million or 0.89% of equity). Profit before tax would decrease/increase by HK$8 million or 0.56% of equity (2012: HK$12 million or 0.79% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$1,060 million (2012: HK$1,187 million) up to five years, the economic value would increase by HK$54 million (2012: HK$66 million).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk (Continued)

Basis risk is one of the sources of interest rate risk which arises from the difference in the changes of interest rates earned and paid on different financial instruments with similar repricing characteristics. The Group adopts two stress-testing scenarios for sensitivity analysis:

(i) Interest rates on managed-rate assets would decrease by 200 basis points whilst interest rates on other interest-bearing assets and interest-bearing liabilities would be kept unchanged. Based on this scenario assumption, profit before tax would decrease by HK$21 million or 1.49% of equity (2012: HK$19 million or 1.25% of equity) for the year ended 31 December 2013. Profit before tax would decrease by HK$23 million or 1.62% of equity (2012: HK$20 million or 1.33% of equity) for the next 12 months after the reporting date.

(ii) Interest rates on interest-bearing assets and liabilities, except for interest rates on fixed rate assets and managed-rate assets, would increase by 200 basis points. Based on this scenario assumption, profit before tax would decrease by HK$65 million or 4.58% of equity (2012: HK$61 million or 4.01% of equity) for the year ended 31 December 2013. Profit before tax would decrease by HK$65 million or 4.55% of equity (2012: HK$63 million or 4.10% of equity) for the next 12 months after the reporting date.

The carrying amounts, or notional amounts if applicable, of financial instruments exposed to interest rate risk based on the earlier of maturity dates and contractual repricing as at 31 December 2013 and 2012 are detailed as follows:

Group				2013				
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short-term placements	804,654	-	-	-	-	-	270,060	1,074,714
Loans and advances and receivables	1,825,683	805,378	436,064	150,870	23,746	3,982	169,770	3,415,493
Held-to-maturity investments	9,998	-	-	-	-	-	-	9,998
	2,640,335	805,378	436,064	150,870	23,746	3,982	439,830	4,500,205
Floating rate financial assets								
Loans and advances and receivables	1,168,757	-	-	-	-	-	1,277	1,170,034
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits at amortised cost	4,050,214	100	-	-	-	-	-	4,050,314
Total interest sensitivity gap	(241,122)	805,278	436,064	150,870	23,746	3,982	441,107	1,619,925

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk (Continued)

Group	2012							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short-term placements	624,304	-	-	-	-	-	235,001	859,305
Loans and advances and receivables	1,832,991	858,993	521,477	216,712	41,748	3,716	180,006	3,655,643
Held-to-maturity investments	9,997	-	-	-	-	-	-	9,997
	2,467,292	858,993	521,477	216,712	41,748	3,716	415,007	4,524,945
Floating rate financial assets								
Loans and advances and receivables	1,025,706	-	-	-	-	-	1,122	1,026,828
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits at amortised cost	3,830,376	-	-	-	-	-	-	3,830,376
Total interest sensitivity gap	(337,378)	858,993	521,477	216,712	41,748	3,716	416,129	1,721,397

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk (Continued)

Company	2013							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short-term placements	690,122	-	-	-	-	-	219,147	909,269
Loans and advances and receivables	1,825,683	805,378	436,064	150,870	23,746	3,982	169,770	3,415,493
Held-to-maturity investments	9,998	-	-	-	-	-	-	9,998
	2,525,803	805,378	436,064	150,870	23,746	3,982	388,917	4,334,760
Floating rate financial assets								
Loans and advances and receivables	1,168,757	-	-	-	-	-	1,277	1,170,034
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits at amortised cost	4,050,214	100	-	-	-	-	-	4,050,314
Total interest sensitivity gap	(355,654)	805,278	436,064	150,870	23,746	3,982	390,194	1,454,480

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk (Continued)

Company	2012							
	1 year or less HK$'000	Over 1 year but not more than 2 years HK$'000	Over 2 years but not more than 3 years HK$'000	Over 3 years but not more than 4 years HK$'000	Over 4 years but not more than 5 years HK$'000	Over 5 years HK$'000	Non-interest-bearing HK$'000	Total HK$'000
Assets:								
Fixed rate financial assets								
Cash and short-term placements	510,080	-	-	-	-	-	191,490	701,570
Loans and advances and receivables	1,832,991	858,993	521,477	216,712	41,748	3,716	180,006	3,655,643
Held-to-maturity investments	9,997	-	-	-	-	-	-	9,997
	2,353,068	858,993	521,477	216,712	41,748	3,716	371,496	4,367,210
Floating rate financial assets								
Loans and advances and receivables	1,025,706	-	-	-	-	-	1,122	1,026,828
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits at amortised cost	3,830,376	-	-	-	-	-	-	3,830,376
Total interest sensitivity gap	(451,602)	858,993	521,477	216,712	41,748	3,716	372,618	1,563,662

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk (Continued)

The table below summarises the effective average interest rates as at 31 December for monetary financial instruments:

	Group		Company	
	2013 Rate %	2012 Rate %	2013 Rate %	2012 Rate %
Assets				
Cash and short-term placements	0.066	0.053	0.075	0.059
Loans and advances and receivables	18.441	20.135	18.441	20.135
Held-to-maturity investments	0.125	0.175	0.125	0.175
Liabilities				
Customer deposits at amortised cost	1.610	1.640	1.610	1.640

(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 years ended 31 December 2013 and 2012. 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.

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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

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 the Company's 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, 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.

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 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk Management (Continued)

Maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Loan commitments	112	108	110,112	110,108

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.

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 the 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 aforesaid MIS reports or market information obtained from other business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to the ALCO whenever necessary. A high level summary of liquidity risk performance will then be presented by the ALCO to Risk Management Committee and the Board.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

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 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.

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. Core deposits ratio would decrease and there would be early withdrawals of some fixed deposits before contractual maturity dates. In market crisis scenario, some undrawn banking facilities are not to be honored upon drawdown as a portion of 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 latest liquidity positions of the Group.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Maturity analysis of financial liabilities, based on the contractual undiscounted cash flow, is as follows:

Group	2013							
	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
Customer deposits at amortised cost	14,430	880,724	2,076,207	1,103,782	102	-	-	4,075,245
Other liabilities	-	29,226	-	-	-	-	48,078	77,304
Gross loan commitments	112	-	-	-	-	-	-	112
	14,542	909,950	2,076,207	1,103,782	102	-	48,078	4,152,661

Group	2012							
	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
Customer deposits at amortised cost	8,550	1,052,067	1,914,474	878,127	-	-	-	3,853,218
Other liabilities	-	58,923	-	-	-	-	53,035	111,958
Gross loan commitments	108	-	-	-	-	-	-	108
	8,658	1,110,990	1,914,474	878,127	-	-	53,035	3,965,284

Company	2013							
	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
Customer deposits at amortised cost	14,430	880,724	2,076,207	1,103,782	102	-	-	4,075,245
Other liabilities	-	-	-	-	-	-	32,332	32,332
Gross loan commitments	110,112	-	-	-	-	-	-	110,112
	124,542	880,724	2,076,207	1,103,782	102	-	32,332	4,217,689

Company	2012							
	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
Customer deposits at amortised cost	8,550	1,052,067	1,914,474	878,127	-	-	-	3,853,218
Other liabilities	-	-	-	-	-	-	37,271	37,271
Gross loan commitments	110,108	-	-	-	-	-	-	110,108
	118,658	1,052,067	1,914,474	878,127	-	-	37,271	4,000,597

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 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 the monitoring and control of operational risk.

Capital Management

Capital of the Company for regulatory and risk management purposes includes share capital, share premium, 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Adequacy Ratios

With effect from 1 January 2013, 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. As a result, the capital ratios shown for 31 December 2013 are not directly comparable to those of 31 December 2012. The Company has adopted the standardised approach for the calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures during the years ended 31 December 2013 and 2012. The Company is granted an exemption by the HKMA for calculation of market risk exposures which are immaterial to the Company. The capital adequacy ratios of the Company of 31 December 2012 were based on the Basel II capital accord.

The capital ratios and relevant comparatives are set out in the table below:

	Company	
	Basel III 2013	Basel II 2012
CET1 Capital Ratio	25.3%	N/A
Tier 1 Capital Ratio	25.3%	26.5%
Total Capital Ratio	26.2%	27.7%

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures

The Basel III enhancement has changed the composition of the capital calculation. The new composition is not comparable to the previous Basel II calculation, hence comparative figures are not provided. Prior year figures under the Basel II rules are shown in a separate table.

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

	31 December 2013 HK$'000
CET1 capital instruments	258,800
Share premium	412,238
Retained earnings	568,207
Disclosed reserves	81,872
CET1 capital before deduction	1,321,117
Deduct:	
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(5,259)
Regulatory reserve for general banking risk	(81,872)
Deferred tax assets in excess of deferred tax liabilities	(10,964)
CET1 capital after deduction	1,223,022
Additional TIER 1 capital	-
TIER 1 capital after deductions	1,223,022
Reserve attributable to fair value gains	2,366
Regulatory reserve for general banking risk	32,342
Collective provisions	10,877
	43,219
TIER 2 capital	45,585
Capital base	1,268,607

Capital adequacy ratios at 31 December 2013 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

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

	31 December 2012 HK$'000
Core capital:	
Paid up ordinary share capital	258,800
Share premium account	412,238
Published reserves	400,338
Income statement	245,801
Less: Net deferred tax assets	(11,925)
Core capital before deductions	1,305,252
Less: Deductions from shareholdings in subsidiaries	(5,055)
Total core capital after deductions	1,300,197
Supplementary capital:	
Regulatory reserve	44,921
Collective impairment allowances	16,894
Supplementary capital before deductions	61,815
Less: Deductions from shareholdings in subsidiaries	(5,055)
Total supplementary capital after deductions	56,760
Capital base	1,356,957

The capital adequacy ratio of the Company is computed on a solo basis.

The subsidiaries not included in the computation of the capital adequacy ratio, 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 subsidiaries.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

Capital instruments

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

	31 December 2013 HK$'000
CET1 capital instruments issued by the Company	
Ordinary shares:	
258,800,000 issued and fully paid ordinary shares of HK$1 each	258,800

Additional information

To comply with the BDR, the Company has established a new section on "Regulatory Disclosure" on its website to present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published financial statements.

The relevant disclosure will be published in our website: www.publicfinance.com.hk on or before 30 April 2014 according to the BDR and 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.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

Company

	2013					
	Exposures*			Risk-weighted amounts		
Class of exposures (Basel III)	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	9,998	-	9,998	-	-	-
Bank	889,280	-	889,280	177,856	-	177,856
Corporate	-	44,260	44,260	-	44,260	44,260
Cash items	-	20,383	20,383	-	-	-
Regulatory retail	-	3,757,006	3,757,006	-	2,817,755	2,817,755
Residential mortgage loan	-	659,180	659,180	-	230,713	230,713
Other non-past due	-	112,514	112,514	-	127,679	127,679
Past due	-	39,483	39,483	-	59,225	59,225
Off-balance sheet:						
Other off-balance sheet items	-	110,112	110,112	-	-	-
	899,278	4,742,938	5,642,216	177,856	3,279,632	3,457,488

Company

	2012					
	Exposures*			Risk-weighted amounts		
Class of exposures (Basel II)	Rated#	Unrated	Total	Rated	Unrated	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet:						
Sovereign	9,997	-	9,997	-	-	-
Bank	684,930	-	684,930	136,986	-	136,986
Corporate	-	20,206	20,206	-	20,206	20,206
Cash items	-	17,653	17,653	-	-	-
Regulatory retail	-	3,981,385	3,981,385	-	2,986,039	2,986,039
Residential mortgage loan	-	548,040	548,040	-	191,814	191,814
Other non-past due	-	104,922	104,922	-	104,922	104,922
Past due	-	42,852	42,852	-	64,278	64,278
Off-balance sheet:						
Other off-balance sheet items	-	110,108	110,108	-	-	-
	694,927	4,825,166	5,520,093	136,986	3,367,259	3,504,245

The Company had no credit exposures that were risk-weighted at 1250% at 31 December 2013 (2012: Nil).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Disclosures (Continued)

The Company did not enter into OTC derivative transactions during 2013 and 2012.

* Principal amount or credit equivalent amount, net of individual impairment allowances before and after credit risk mitigation.

Exposures are rated by the Company's External Credit Assessment Institutions ("ECAI"), Moody's with ECAI issue specific ratings or with ECAI inferred ratings. Risk weights are determined based on ECAI ratings pursuant to the Capital Rules.

	Company			
	2013		2012	
	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000	Risk-weighted exposures HK$'000	Capital requirements/ charge HK$'000
Credit risk	3,457,488	276,599	3,504,245	280,340
Market risk	-	-	-	-
Operational risk	1,437,213	114,977	1,440,938	115,275
Deductions	(52,423)	-	(40,407)	-
	4,842,278	391,576	4,904,776	395,615

The Company has adopted the standardised approach for calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures during the years 2013 and 2012. The Company is granted an exemption by the HKMA for calculation of market risk exposures which are immaterial to the Company.

As at 31 December 2013 and 2012 respectively, the Company had no securitisation and counterparty credit risk-related exposure.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 16 January 2014.

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2013

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 HKMA's guidelines as follows:

Group and Company	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$'000	Loans and advances overdue for more than three months HK$'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

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2013

Advances to customers by industry sectors (Continued)

Group and Company	31 December 2012								
	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	18,394	29	-	729	724	535	2.9	-	-
Building and construction, property development and investment									
Property development	21	-	-	-	-	-	-	-	-
Property investment	2,096	-	-	-	-	2,096	100.0	-	-
Civil engineering works	5,068	-	-	-	-	-	-	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	31	-	-	-	-	-	-	-	-
Information technology	65	-	-	-	-	-	-	-	-
Wholesale and retail trade	20,113	19	104	184	78	4,555	22.6	148	148
Transport and transport equipment	476,858	-	-	12	12	476,712	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	508,903	-	-	-	-	508,903	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,601,624	16,846	88,873	480,484	474,190	33,762	0.9	131,681	94,433
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	-	-	-	-	-	-	-	-	-
Total loans and advances (excluding other receivables)	4,633,173	16,894	88,977	481,409	475,004	1,026,563	22.2	131,829	94,581

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.

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2013

Liquidity ratio

	2013	2012
Average liquidity ratio of the Company for the year	101.6%	86.0%

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 year.

Non-bank Mainland China exposures

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

Group and Company

	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	-

There were no non-bank Mainland China exposures as at 31 December 2012.

Disclosure of the remuneration system

Remuneration Committee

The Company has established its Remuneration Committee with written terms of reference with effect from 1 January 2011 in compliance with the requirements of the SPM Module CG-5 on "Guideline on a Sound Remuneration System" (the "Remuneration Guideline") issued by the HKMA. There were four members in the Remuneration Committee and two were Independent Non-Executive Directors. The Remuneration Committee was chaired by Tan Sri Datuk Seri Utama Thong Yaw Hong, the independent Non-Executive Co-Chairman of the Company. The other members were Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat and Mr. Lee Chin Guan.

The Remuneration Committee meets at least once a year to review and make recommendations to the Board of the Company on the overall remuneration policy, specific remuneration packages and compensation arrangement relating to the termination of their office or appointment of Directors, Chief Executive, senior management and key personnel, and for the formulation of the remuneration policy applicable to all employees of the Company and its subsidiaries.

Three meetings were held in 2013. The attendance of each member in 2013 is set out below:

Name of members	Number of meetings attended in 2013	Attendance rate
Tan Sri Datuk Seri Utama Thong Yaw Hong, *Chairman*	3/3	100%
Tan Sri Dato' Sri Tay Ah Lek	3/3	100%
Mr. Quah Poh Keat	3/3	100%
Mr. Lee Chin Guan	3/3	100%

During the year, Directors' fees, movement of senior officials, 2013 annual salary review, allocation of discretionary bonus and annual review of the remuneration policy and system in compliance with the Remuneration Guideline of the HKMA were reviewed and noted.

Remuneration of the Directors, Chief Executive, senior management and key personnel is determined by reference to factors including the level of workload, responsibilities and commitments, performance and remuneration packages. No individual Director or any of his associate is involved in deciding his own remuneration.

Two Directors of the Company did not receive Director's fees in 2013 and 2012. The scales of Director's fees of the other Directors for the years 2013 and 2012 are outlined as follows:

	Range
Chairman/Co-Chairman	HK$60,000 – HK$102,500
Other Directors	HK$25,000 – HK$92,500

No remuneration was paid to members of the Remuneration Committee for the years 2013 and 2012 except the aforesaid Director's fees.

Disclosure of the remuneration system (Continued)

Design and structure of the remuneration processes

The Board of the Company oversees the formulation, maintenance and implementation of the Remuneration Policy.

The Remuneration Committee of the Company reviews and recommends the remuneration packages of key senior management personnel of the Group in accordance with the authorities and responsibilities as stipulated in its terms of reference to the Board of the Company for approval.

The Remuneration Committee of the Company also works closely with the Human Resources Committee, Audit Committee and other dedicated committees and departments to (i) review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and (ii) decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Company.

Proposal of a remuneration review is submitted to the Chairman of the Board of the Company by the Remuneration Committee for consideration each year.

Regular compliance monitoring is imposed to review the management and operation of the remuneration system.

Personnel Department continues to take initiatives on all human resources matters while Human Resources Committee continues to function in accordance with its terms of reference.

Discussions and recommendations related to employees at managerial level made in the meetings of Human Resources Committee are submitted to the Group Human Resources Committee of Public Bank Berhad, the ultimate holding company of the Company, and where appropriate, to the Remuneration Committee of the Company for endorsement while discussions and decisions related to non-managerial employees made in the meetings are normally noted in the Board Executive Committee of the Company.

The Remuneration Policy of the Group

The Company adopted the Remuneration Policy in compliance with the Remuneration Guideline in December 2010. The Remuneration Policy covers the Company and its subsidiaries which are subject to the HKMA's consolidated supervision. The Remuneration Policy was initiated by the Human Resources Committee and approved by the Board. The Human Resources Committee also reviews and keeps abreast of the legal and regulatory requirements from time to time, and liaises with risk control units including risk management, financial management and compliance functions to strike a balance among sufficient staff motivation, sound remuneration packages and prudent risk management. Any findings and recommendations to be incorporated into the Remuneration Policy will be put forth to the Remuneration Committee for consideration. Having discussed and agreed upon at the Remuneration Committee, the revisions to the Remuneration Policy will be recommended to the Board for approval.

Disclosure of the remuneration system (Continued)

The Remuneration Policy of the Group (Continued)

The Company's Remuneration Policy encourages employee behavior that supports the Company's risk tolerance, risk management framework and long-term financial soundness. The policy is established and implemented in line with the objectives, business strategies and long-term goals of the Company and formulated in a way that will not encourage excessive risks taking by employees but allows the Company to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions. The Company has considered the risks, including market, credit, liquidity and operational risks, when implementing the remuneration measures, which are closely monitored by various management committees and working groups. The Company considers and reviews the audit reports and various kinds of performance reports to take account of these risks in the remuneration process. Audit reports cover information on asset quality, credit risk management and operational risk management whilst performance reports state various kinds of business performance indicators such as delinquent rate, net impairment ratio, customer deposit, business growth, etc., which are useful for identification of current and future risks. The employees' performances in controlling these current and future risks are linked with their remuneration rewards. The Board will take the overall performance of the Group, risk management, market trends, and other non-financial measures when deciding the performance bonus pool. This will be adjusted as and when the Company considers appropriate. There is no change of remuneration measures over the past year.

Basically, the remuneration package consists of fixed and variable remuneration which are offered in cash. Fixed remuneration refers to basic salary, the year end double pay, and other fixed income while variable remuneration refers to discretionary bonus, sales commission and other variable income. The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance. The level of remuneration and the proportion of variable remuneration to fixed remuneration of senior management and key personnel are linked to their level of responsibility undertaken and contribution to business performance and enhancements of efficiency and effectiveness of operations.

When the amount of variable remuneration payout exceeds a predetermined percentage or amount of the annual fixed remuneration of the employee, a deferment period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk. The deferred remuneration will be vested gradually over the 3-year deferment period and no faster than on a pro-rata basis. To conform to the spirit of the Remuneration Guideline and not to undermine the risk management advantage by applying deferment of variable remuneration, if there is any deferred remuneration, hedging exposures in respect of the unvested portion of deferred remuneration by any trading, investment or other financial activities will be restricted.

Subject to the decision of the Remuneration Committee in accordance with the internal guidelines, the deferred remuneration will be forfeited and/or clawed back when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated; or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Group; or there has been a significant downward restatement of the financial performance of the Group; or the employment of the employee is terminated.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism which will be reviewed by the Remuneration Committee at least annually and subject to change when necessary.

Disclosure of the remuneration system (Continued)

The Remuneration Policy of the Group (Continued)

The remuneration of the employees within the risk control function, including those performing accounts, audit, compliance and credit management functions, etc., is determined by the performance of individual employees and is independent of the business they oversee. The performance factors of the appraisees in carrying out their core job responsibilities under their respective job functions are assessed in the performance appraisals. Appropriate remuneration will be recommended based on the results of the appraisals annually.

The Company uses a comprehensive performance measurement framework that incorporates both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial metrics link the variable remuneration to the profits, revenue and other performance measures of the Company as a whole, and the contribution of business units or departments and an individual employee to the Company as well. The applicable and material risks associated with the activities of employees, the cost and quantity of capital required to support the risks taken, and the cost and quantity of liquidity risk in the conduct of business are also taken into consideration. The non-financial metrics capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards; customer satisfaction; and effectiveness and efficiency of supporting operations. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

Annual review of remuneration system

An annual review of the remuneration system and its operation of the Group was conducted by the Remuneration Committee at the end of 2013. The review concludes that the remuneration system is consistent with the principles set out in the Remuneration Guideline.

Remuneration of senior management and key personnel

The aggregate quantitative information on remuneration for the Group's senior management (including the Executive Director who also holds the position of Chief Executive) and key personnel is set out below.

(i) The amount of remuneration for the financial years 2013 and 2012, split into fixed and variable remuneration and paid in cash, and number of beneficiaries were:

2013

Remuneration for senior management*:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK$5,579,958	Nil	HK$1,526,965	Nil	5

* Senior management includes General Manager/Chief Executive, Alternative Chief Executive, Assistant General Manager, Dealing Director and Information Technology Controller

Disclosure of the remuneration system (Continued)

Remuneration of senior management and key personnel (Continued)

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK$6,347,544	Nil	HK$1,571,669	Nil	11

Key personnel comprising individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Group, and the employees within risk control functions

2012

Remuneration for senior management*:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK$5,256,385	Nil	HK$1,505,163	Nil	5

* Senior management includes General Manager/Chief Executive, Alternative Chief Executive, Assistant General Manager, Dealing Director and Information Technology Controller

Remuneration for key personnel#:

Fixed remuneration		Variable remuneration		No. of beneficiaries
Non-deferred	Deferred	Non-deferred	Deferred	
HK$6,086,789	Nil	HK$1,599,343	Nil	11

Key personnel comprising individual employees whose duties or activities in the course of employment involve the assumption of material risk or the taking on material exposures on behalf of the Group, and the employees within risk control functions

(ii) The amount of variable remuneration for the financial years 2013 and 2012 was paid in cash. No variable remuneration in shares or share-linked instruments was granted.

(iii) There was no deferred remuneration awarded, paid out and reduced through performance adjustments and there was no outstanding deferred remuneration during the financial years 2013 and 2012.

(iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2013 and 2012.

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2013

Corporate governance

The Company is a deposit taking company incorporated in Hong Kong and is under the supervision of the HKMA. The Board is fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the SPM Module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Specialised committees with clear terms of references and specific authorities delegated by the Board have been set up by the Company.

1. Board Executive Committee
   Board Executive Committee is responsible for the management of the business of the Company in all aspects and implementation of strategic business plans and policies approved and formulated by the Board. The present members comprise Tan Sri Dato' Sri Dr. Teh Hong Piow (Chairman of Board Executive Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Dato' Chang Kat Kiam and Mr. Lee Huat Oon.

2. Risk Management Committee
   Risk Management Committee is established by the Board to oversee the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management. It reviews and approves risk management policies and risk tolerance limits, to assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively. It also conducts review of the compliance functions to ensure the resources are adequate and independence of Compliance Department. The minutes of Risk Management Committee meetings are tabled to the Board of the Company for noting and further action, where appropriate. The members of Risk Management Committee shall be appointed by the Board of the Company from amongst the Non-executive Directors of the Company and shall consist of not less than three members. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Risk Management Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat, Dato' Chang Kat Kiam and Mr. Lee Chin Guan.

3. Audit Committee
   Audit Committee was established in 2013. It reviews internal control issues identified by Internal Audit Department, external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems. It also conducts review of the internal audit functions with particular emphasis on the scope of audits, quality of internal audits and independence of Internal Audit Department. The minutes of Audit Committee meetings are tabled to the Board for noting and further action, where appropriate. The Chief Executive and Head of Internal Audit normally attend the meetings. The members of Audit Committee shall be appointed by the Board of the Company from amongst the Non-executive Directors of the Company and shall consist of not less than three members. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Audit Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat and Mr. Lee Chin Guan.

4. Remuneration Committee
   Remuneration Committee is responsible for reviewing and recommending to the Board the overall remuneration policy and remuneration packages of Directors, Chief Executive, senior management and key personnel, and the remuneration policy applicable to all employees of the Group. The members of Remuneration Committee comprise Non-executive Directors appointed by the Board, and the majority of them shall be Independent Non-executive Directors. The present members comprise Tan Sri Datuk Seri Utama Thong Yaw Hong (Chairman of Remuneration Committee), Tan Sri Dato' Sri Tay Ah Lek, Mr. Quah Poh Keat and Mr. Lee Chin Guan.

Corporate governance (Continued)

5. Management Committee
Management Committee is established by the Board to ensure the effectiveness of the daily operations and that the operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved. The members of Management Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit, Financial Controller/Head of Accounts Department, Senior Managers and Zone Managers.

6. Credit Committee
Credit Committee is responsible for making decision on loan applications for all types of loan facilities within its discretionary powers, assisting the Board in formulating policy guidelines for the Company's lending business, and recommending applications for loan facilities exceeding the discretionary powers of Credit Committee to the Board for approval. The members of Credit Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Head of Business Operations and Administration.

7. Assets and Liabilities Management Committee
Assets and Liabilities Management Committee reviews and assesses the risk profile and capital structure of the Company, sets the objectives for the assets and liabilities management function and implements relevant risk management strategy. This is monitored and managed within a framework of approved policies and limits, and is reported regularly to the Risk Management Committee. The members of Assets and Liabilities Management Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Financial Controller/Head of Accounts Department.

8. Human Resources Committee
Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration packages of all staff. The members of Human Resources Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Human Resources Manager.

9. Information Technology Committee
Information Technology Committee is responsible for establishing objectives, policies and strategies for the computerisation of the Company, recommending to the Board on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The members of Information Technology Committee comprise the General Manager, Deputy General Manager, Information Technology Controller and Financial Controller/Head of Accounts Department.

10. Finance Committee
Finance Committee assists the Board in the financial planning and budgeting process of the business of the Company and the review of the business performance, medium-term financial strategic business plan, statutory and half-year accounts. The members of Finance Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Financial Controller/Head of Accounts Department.

11. Operational Risk Management Committee
Operational Risk Management Committee is responsible for the implementation of the operational risk management framework approved by the Board, and the development of specific policies, processes and procedures for managing operational risk in the material products, activities, processes and systems. The members of Operational Risk Management Committee comprise the General Manager, Deputy General Manager, Assistant General Managers, Information Technology Controller, Financial Controller/Head of Accounts Department and Head of Business Operations and Administration.

Corporate governance (Continued)

12. Anti-Money Laundering Committee
Anti-Money Laundering Committee is responsible for ensuring that the Guidelines on Prevention of Money Laundering of the Company are reviewed, updated and implemented accordingly, and suspicious cases referred from branches or identified from relevant reports are reviewed and suspicious money laundering cases are reported to the Joint Financial Intelligence Unit. The members of Anti-Money Laundering Committee comprise the AML Compliance Officer/Alternate AML Compliance Officer, Head of Fixed Deposit Department, Head of Compliance Department, one Zone Manager and Assistant General Managers.

13. Compliance Working Group
Compliance Working Group is established to review the relevant policies and guidelines issued from time to time by the HKMA and other regulatory authorities, to assess the impact of the relevant regulatory requirements on the Company and to ensure that the relevant business units and/or departments comply with the relevant regulatory requirements and internal policy guidelines of business units and departments. The members of Compliance Working Group comprise the Assistant General Managers, Zone Managers, one nominated Branch Manager, Head of Internal Audit, Compliance Officer, Financial Controller/Head of Accounts Department/Company Secretary and Head of Business Operations and Administration.

14. Business Strategy Steering Committee
Business Strategy Steering Committee is responsible for establishing effective business strategies to meet corporate goals and objectives taking into account operating conditions in the market and formulating strategic business plans to achieve growth and return, efficiency and competitive advantage in the financial industry. The members of Business Strategy Steering Committee comprise the General Manager, Assistant General Managers, Zone Managers and nominated Branch Managers.