Audited Financial Statements

# PUBLIC FINANCE LIMITED
# 大眾財務有限公司

31 December 2015

PUBLIC FINANCE LIMITED
大眾財務有限公司

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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 (collectively referred to as the "Group") for the year ended 31 December 2015.

## 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.

Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

## Results and dividends

The Group's profit for the year ended 31 December 2015 and the Group's financial position as at that date are set out in the financial statements on pages 6 to 96.

Interim dividend of HK$45.544 cents (2014: HK$41.905 cents) per ordinary share was declared and paid during the year. The Directors recommend the payment of a final dividend of HK$46.952 cents (2014: HK$47.125 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 Group during the year are set out in notes 14, 15 and 16 to the financial statements, respectively.

## Share capital

Details of movement in the Company's share capital during the year are set out in note 21 to the financial statements.

## Reserves

Details of movements in the reserves of the Group and of the Company during the year are set out in notes 22 and 30(b) to the financial statements respectively, 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
Quah Poh Keat
Dato' Chang Kat Kiam
Chong Yam Kiang

*Independent Non-Executive Directors:*
Tan Sri Datuk Seri Utama Thong Yaw Hong, Former Co-Chairman (Demised on 28 May 2015)
Tang Wing Chew, Co-Chairman (Appointed as Co-Chairman on 16 July 2015)
Lee Chin Guan
Lai Wan

Directors (Continued)
*Executive Director:*
Lee Huat Oon

In accordance with Articles 110 and 111 of the Company's Articles of Association, Mr. Lee Chin Guan, Mr. Lee Huat Oon and Mr. Chong Yam Kiang shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

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

Lee Huat Oon
Chiu Chik Shang

Directors' rights to acquire shares and debentures
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** | **Expired during the year** | **At the end of the year** | **Exercise Price HK$** | **Exercise period** |
| Lee Huat Oon | 3,170,000 | - | (3,170,000) | - | 6.35 | 10.6.2005 to 9.6.2015 |
| Dato' Chang Kat Kiam | 1,380,000 | - | (1,380,000) | - | 6.35 | 10.6.2005 to 9.6.2015 |
| Lee Chin Guan | 350,000 | - | (350,000) | - | 6.35 | 10.6.2005 to 9.6.2015 |

Notes:

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. All the options expired on 10 June 2015.

Save as disclosed above and set out in note 23 to the financial statements, at no time during the year or at the end of the year has been/was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked agreements

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Directors' interests in transactions, arrangements or contracts

Except as detailed in note 26 to the financial statements, there has been no transaction, arrangement or contract of significance to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company or an entity connected with the Director is or was materially interested, either directly or indirectly, subsisting during or at the end of the year.

Permitted indemnity provision

Pursuant to Article 158 of the Company's Articles of Association and subject to the provisions of the statutes, every Director, secretary or officer of the Company shall be entitled to be indemnified out of the funds of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has maintained Directors and officers liability insurance during the year.

Compliance with Supervisory Policy Manual

The Company 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";
(ii) Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions"; and
(iii) Module CG-5 "Guideline on a Sound Remuneration System".

The Company has also 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
Tang Wing Chew
Director

14 January 2016

INDEPENDENT AUDITORS' REPORT

To the members 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 set out on pages 6 to 96, which comprise the consolidated statement of financial position as at 31 December 2015, 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 405 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 (Continued)

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

14 January 2016

PUBLIC FINANCE LIMITED
大眾財務有限公司

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Interest income | 4 | 877,006 | 857,741 |
| Interest expense | 4 | (62,964) | (71,437) |
| **NET INTEREST INCOME** | | 814,042 | 786,304 |
| Other operating income | 5 | 124,003 | 114,466 |
| **OPERATING INCOME** | | 938,045 | 900,770 |
| Operating expenses | 6 | (402,003) | (389,076) |
| Changes in fair value of investment properties | 14 | 829 | 1,093 |
| **OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES** | | 536,871 | 512,787 |
| Impairment allowances for loans and advances and receivables | 7 | (240,522) | (233,242) |
| **PROFIT BEFORE TAX** | | 296,349 | 279,545 |
| Tax | 9 | (48,592) | (45,886) |
| **PROFIT FOR THE YEAR** | | 247,757 | 233,659 |
| **ATTRIBUTABLE TO:** | | | |
| Owners of the Company | | 247,757 | 233,659 |

PUBLIC FINANCE LIMITED
大眾財務有限公司

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **PROFIT FOR THE YEAR** | 247,757 | 233,659 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 247,757 | 233,659 |
| **ATTRIBUTABLE TO:** | | |
| Owners of the Company | 247,757 | 233,659 |

PUBLIC FINANCE LIMITED
大眾財務有限公司

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term placements | 11 | 1,171,984 | 932,532 |
| Loans and advances and receivables | 12 | 5,210,533 | 4,941,342 |
| Held-to-maturity investments | 13 | 19,998 | 9,999 |
| Investment properties | 14 | 30,657 | 29,828 |
| Property and equipment | 15 | 16,118 | 15,788 |
| Land held under finance leases | 16 | 39,659 | 40,812 |
| Deferred tax assets | 20 | 13,043 | 12,292 |
| Tax recoverable | | - | 69 |
| Intangible assets | 18 | 486 | 486 |
| Other assets | 17 | 35,693 | 50,130 |
| **TOTAL ASSETS** | | 6,538,171 | 6,033,278 |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| Customer deposits at amortised cost | 19 | 4,797,270 | 4,325,411 |
| Current tax payable | | 17,196 | 10,843 |
| Deferred tax liabilities | 20 | 3,473 | 3,600 |
| Other liabilities | 17 | 135,798 | 116,919 |
| **TOTAL LIABILITIES** | | 4,953,737 | 4,456,773 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | 21 | 671,038 | 671,038 |
| Reserves | 22 | 913,396 | 905,467 |
| **TOTAL EQUITY** | | 1,584,434 | 1,576,505 |
| **TOTAL EQUITY AND LIABILITIES** | | 6,538,171 | 6,033,278 |

Tang Wing Chew
Director

Lee Huat Oon
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

| | Note | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **TOTAL EQUITY** | | | |
| Balance at the beginning of the year | | 1,576,505 | 1,558,328 |
| Profit for the year | | 247,757 | 233,659 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 247,757 | 233,659 |
| Dividends paid in respect of previous year | 10(a) | (121,960) | (107,032) |
| Dividends paid in respect of current year | 10(a) | (117,868) | (108,450) |
| Balance at the end of the year | | 1,584,434 | 1,576,505 |

PUBLIC FINANCE LIMITED
大眾財務有限公司

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 296,349 | 279,545 |
| Adjustments for: | | | |
| Depreciation of property and equipment and land held under finance leases | 6 | 7,868 | 9,259 |
| Increase in fair value of investment properties | 14 | (829) | (1,093) |
| Increase/(decrease) in impairment allowances for loans and advances and receivables | | 2,341 | (16,449) |
| Net losses on disposal of property and equipment | | 22 | 126 |
| Profits tax paid | | (43,048) | (42,175) |
| Operating profit before changes in operating assets and liabilities | | 262,703 | 229,213 |
| Increase in operating assets: | | | |
| Increase in loans and advances and receivables | | (271,532) | (435,451) |
| Decrease/(increase) in held-to-maturity investments | | 9,999 | (1) |
| Decrease/(increase) in other assets | | 14,437 | (16,295) |
| | | (247,096) | (451,747) |
| Increase in operating liabilities: | | | |
| Increase in customer deposits at amortised cost | | 471,859 | 275,097 |
| Increase in other liabilities | | 18,879 | 27,582 |
| | | 490,738 | 302,679 |
| Net cash inflow from operating activities | | 506,345 | 80,145 |

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITY** | | | |
| Purchases of property and equipment | 15 | (7,067) | (6,845) |
| Net cash outflow from investing activity | | (7,067) | (6,845) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid on shares | | (239,828) | (215,482) |
| Net cash outflow from financing activities | | (239,828) | (215,482) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 259,450 | (142,182) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | 932,532 | 1,074,714 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | 1,191,982 | 932,532 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and short term placements repayable on demand | 28 | 360,157 | 258,592 |
| Money at call and short notice with an original maturity within three months | | 811,827 | 673,940 |
| Held-to-maturity investments with an original maturity within three months | | 19,998 | - |
| | | 1,191,982 | 932,532 |

## 1. CORPORATE AND GROUP 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.

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

| Name | Issued ordinary share capital HK$ | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|
| 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 service |

## 2.1 BASIS OF PREPARATION

These 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 provisions of the Hong Kong Companies Ordinance. They have also complied with the disclosure requirements of the Guideline on the Application of the Banking (Disclosure) Rules under the SPM issued by the HKMA.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties. The consolidated financial statements are presented in Hong Kong dollars ("HKD") 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 2015.

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

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

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Group's voting rights and potential voting rights.

The 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.

## 2.2 BASIS OF CONSOLIDATION (Continued)

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

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

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

The subsidiaries consolidated for accounting purposes are as follows:

| Name | 31 December 2015<br>Total assets<br>HK$'000 | <br>Total equity<br>HK$'000 | 31 December 2014<br>Total assets<br>HK$'000 | <br>Total equity<br>HK$'000 | Principal activities |
|---|---|---|---|---|---|
| Public Financial Limited | 10,101 | 10,101 | 10,101 | 10,101 | Investment holding |
| Public Securities Limited | 168,435 | 148,796 | 174,223 | 141,265 | Securities brokerage |
| Public Securities (Nominees) Limited | 1,109 | 1,094 | 1,091 | 1,077 | Provision of nominee services |

The computation of liquidity maintenance ratio and capital adequacy ratio for regulatory purpose is on a solo 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 Banking (Disclosure) Rules 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 total capital ratio of the Company is based on the ratio of the risk-weighted exposures to the capital base of the Company for regulatory reporting purposes. 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.

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 ratios, the components of eligible regulatory capital as well as the levels of those ratios at which banking institutions are required to operate. The Capital Rules have been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision. Under the Capital Rules, the minimum capital ratio requirements are progressively increased during the period from 1 January 2013 to 1 January 2019, and include a phased introduction of a new capital conservation buffer of 2.5%. Furthermore, the leverage ratio that forms part of Basel III implementation is under parallel run until January 2017 and relevant information has been submitted by the Company for regulatory monitoring since 2014. Additional capital requirements, including a new countercyclical capital buffer ranging from 0% to 2.5%, will be implemented from 1 January 2016.

## 2.4 ACCOUNTING POLICIES

### Changes in accounting policies and disclosures

The HKICPA has issued a number of revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2015. The Group has adopted the following revised standards for the first time for the current year's financial statements.

| | |
|---|---|
| • Annual Improvements 2010-2012 Cycle | Amendments to a number of HKFRSs |
| • Annual Improvements 2011-2013 Cycle | Amendments to a number of HKFRSs |
| • Amendments to HKAS 19 | *Defined Benefit Plans : Employee Contributions* |

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The Group has applied the aggregation criteria in HKFRS 8.12. The Group has disclosed the judgements made by management in applying the aggregation criteria and presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 3 to these financial statements.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments do not have any material impact on the Group.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e. an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment does not have any material impact on the Group.

## 2.4 ACCOUNTING POLICIES (Continued)

### Changes in accounting policies and disclosures (Continued)

The Annual Improvements to HKFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment does not have any material impact on the Group.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment does not have any material impact on the Group.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment does not have any material impact on the Group.

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

In addition, the requirements of Part 9 “Accounts and Audit” of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 2.4 ACCOUNTING POLICIES (Continued)

### 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* [2] |
| • Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4] |
| • Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception* [1] |
| • Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* [1] |
| • HKFRS 14 | *Regulatory Deferral Accounts* [3] |
| • HKFRS 15 | *Revenue from Contracts with Customers* [2] |
| • Amendments to HKAS 1 | *Disclosure Initiative* [1] |
| • Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* [1] |
| • Amendments to HKAS 16 and HKAS 41 | *Agriculture : Bearer Plants* [1] |
| • Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements* [1] |
| • Annual Improvements 2012-2014 Cycle | Amendments to a number of HKFRSs [1] |

[1] *Effective for annual periods beginning on or after 1 January 2016*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group*
[4] *No mandatory effective date yet determined but is available for adoption*

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

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

## 2.4 ACCOUNTING POLICIES (Continued)

### Issued but not yet effective HKFRSs (Continued)

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

Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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

## 2.4 ACCOUNTING POLICIES (Continued)

### Issued but not yet effective HKFRSs (Continued)

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

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the income statement and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 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

These financial statements are presented in HKD, which is the Company's functional 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.

#### (a) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (1) Foreign currency translation (Continued)

#### (b) 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) Financial instruments – initial recognition and subsequent measurement

#### (a) 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.

#### (b) 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.

#### (c) 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".

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (2) Financial instruments – initial recognition and subsequent measurement (Continued)

#### (d) 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 and receivables 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".

#### (e) 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 the 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

#### (a) 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 (i.e., removed from the Group's consolidated statement of financial position) 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### (b) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (3) Derecognition of financial assets and financial liabilities (Continued)

#### (c) 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.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (4) Fair value measurement (Continued)

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.

#### (a) 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)**

**(a) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (5) Impairment of financial assets (Continued)

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

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.

#### (b) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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.

#### (a) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (6) Leases (Continued)

#### (b) 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.

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:

#### (a) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (7) Recognition of revenue and expenditure (Continued)

#### (a) Interest income and expense (Continued)

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.

#### (b) 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.

#### (c) Dividend income

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

#### (d) 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) 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (10) 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 33⅓% |
| 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 is stated at cost less accumulated depreciation and any impairment, and is depreciated over the remaining lease terms on a straight-line basis to the consolidated income statement.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (10) Property and equipment, and depreciation (Continued)

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.

### (11) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (12) 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.

### (13) 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 will make an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit ("CGU")) exceeds its recoverable amount, the asset (or CGU) 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 determine 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)

### (14) 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.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and receivables and fair value less costs to sell.

### (15) 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (16) 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 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.

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (16) Income tax (Continued)

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. 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 recovered.

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.

### (17) 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 (MPF) Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group while contribution for Occupational Retirement Schemes Ordinance (ORSO) 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)

### (17) Employee benefits (Continued)

#### (b) Share option scheme

PFHL operates the 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, the 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (18) 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 a general meeting. Final dividends are recognised as a liability when they are approved by the shareholders in the general meeting.

Interim dividends are simultaneously proposed and declared by the Directors. Consequently, interim 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 lending businesses, which comprise mainly the granting of personal loans, overdrafts, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, and the provision of finance to purchasers of taxis.

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

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

## 3. SEGMENT INFORMATION (Continued)

### Operating segment information (Continued)

The following table discloses the revenue and profit information for operating segments for the years ended 31 December 2015 and 2014.

| | Personal and commercial lending businesses | | Stockbroking | | Other businesses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Segment revenue** | | | | | | | | |
| External: | | | | | | | | |
| Net interest income | 814,075 | 786,312 | (33) | (8) | - | - | 814,042 | 786,304 |
| Other operating income: | | | | | | | | |
| Fees and commission income | 100,707 | 100,101 | 21,882 | 12,966 | - | - | 122,589 | 113,067 |
| Others | 174 | 125 | (76) | (45) | 1,316 | 1,319 | 1,414 | 1,399 |
| Operating income | 914,956 | 886,538 | 21,773 | 12,913 | 1,316 | 1,319 | 938,045 | 900,770 |
| Operating profit after impairment allowance | 286,128 | 275,441 | 9,049 | 2,640 | 1,172 | 1,464 | 296,349 | 279,545 |
| **Profit before tax** | | | | | | | 296,349 | 279,545 |
| Tax | | | | | | | (48,592) | (45,886) |
| **Profit for the year** | | | | | | | 247,757 | 233,659 |
| **Other segment information** | | | | | | | | |
| Depreciation of property and equipment and land held under finance leases | (7,868) | (9,259) | - | - | - | - | (7,868) | (9,259) |
| Changes in fair value of investment properties | - | - | - | - | 829 | 1,093 | 829 | 1,093 |
| Impairment allowances for loans and advances and receivables | (240,522) | (233,242) | - | - | - | - | (240,522) | (233,242) |
| Net losses on disposal of property and equipment | (22) | (126) | - | - | - | - | (22) | (126) |

## 3. SEGMENT INFORMATION (Continued)

### Operating segment information (Continued)

The following table discloses certain assets and liabilities information regarding operating segments as at 31 December 2015 and 2014.

| | Personal and commercial lending businesses | | Stockbroking | | Other businesses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment assets other than intangible assets | 6,256,934 | 5,779,496 | 237,051 | 211,107 | 30,657 | 29,828 | 6,524,642 | 6,020,431 |
| Intangible assets | - | - | 486 | 486 | - | - | 486 | 486 |
| Segment assets | 6,256,934 | 5,779,496 | 237,537 | 211,593 | 30,657 | 29,828 | 6,525,128 | 6,020,917 |
| Unallocated assets: | | | | | | | | |
| Deferred tax assets and tax recoverable | | | | | | | 13,043 | 12,361 |
| **Total assets** | | | | | | | 6,538,171 | 6,033,278 |
| Segment liabilities | 4,846,216 | 4,372,724 | 86,464 | 69,240 | 388 | 366 | 4,933,068 | 4,442,330 |
| Unallocated liabilities: Deferred tax liabilities and tax payable | | | | | | | 20,669 | 14,443 |
| **Total liabilities** | | | | | | | 4,953,737 | 4,456,773 |
| **Other segment information** | | | | | | | | |
| Additions to non-current assets - capital expenditure | 7,067 | 6,845 | - | - | - | - | 7,067 | 6,845 |

### 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.

### Operating income or revenue from major customers

Operating income or revenue from transactions with each external customer, including a group of entities which are known to be under common control with that customer, amounts to less than 10% of the Group's total operating income or revenue.

## 4. INTEREST INCOME AND EXPENSE

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Interest income from: | | |
| Loans and advances and receivables | 876,465 | 857,144 |
| Short term placements and placements with banks | 538 | 588 |
| Held-to-maturity investments | 3 | 9 |
| | 877,006 | 857,741 |
| Interest expense on: | | |
| Deposits from customers | 62,814 | 71,345 |
| Bank loans | 150 | 92 |
| | 62,964 | 71,437 |

Interest income and interest expense for the year ended 31 December 2015, 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$877,006,000 and HK$62,964,000 (2014: HK$857,741,000 and HK$71,437,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2015 amounted to HK$2,584,000 (2014: HK$2,768,000).

## 5. OTHER OPERATING INCOME

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Fees and commission income: | | |
| Personal and commercial lending | 100,707 | 100,101 |
| Stockbroking | 21,882 | 12,966 |
| | 122,589 | 113,067 |
| Gross rental income | 1,327 | 1,338 |
| Less: Direct operating expenses | (11) | (19) |
| Net rental income | 1,316 | 1,319 |
| Net losses on disposal of property and equipment | (22) | (126) |
| Others | 120 | 206 |
| | 124,003 | 114,466 |

## 5. OTHER OPERATING INCOME (Continued)

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 assets and financial liabilities designated at fair value through profit or loss for the years ended 31 December 2015 and 2014.

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 | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Staff costs: | | | |
| Salaries and other staff costs | | 237,215 | 224,127 |
| Pension contributions | | 10,919 | 10,159 |
| Less: Forfeited contributions | | (38) | (21) |
| Net contribution to retirement benefit schemes | | 10,881 | 10,138 |
| | | 248,096 | 234,265 |
| Other operating expenses: | | | |
| Operating lease rentals on leasehold buildings | | 45,844 | 45,289 |
| Depreciation of property and equipment and land held under finance leases | 15, 16 | 7,868 | 9,259 |
| Auditors' remuneration | | 1,523 | 1,463 |
| Administrative and general expenses | | 31,404 | 30,987 |
| Others | | 67,268 | 67,813 |
| Operating expenses before changes in fair value of investment properties | | 402,003 | 389,076 |

At 31 December 2015 and 2014, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the year ended 31 December 2015 and 2014 arose in respect of staff who left the schemes during the year.

## 7. IMPAIRMENT ALLOWANCES

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Net charge for impairment losses and allowances: | | |
| - loans and advances | 240,522 | 233,242 |
| Net charge for/(write-back of) impairment losses and allowances: | | |
| - individually assessed | 240,270 | 235,196 |
| - collectively assessed | 252 | (1,954) |
| | 240,522 | 233,242 |
| Of which: | | |
| - new impairment losses and allowances (including any amount directly written off during the year) | 387,045 | 390,905 |
| - releases and recoveries | (146,523) | (157,663) |
| Net charge to the consolidated income statement | 240,522 | 233,242 |

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2015 and 2014.

## 8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Fees | 353 | 399 |
| Other emoluments: | | |
| Salaries, bonuses, allowances and benefits in kind | 2,233 | 2,083 |
| Retirement benefits contribution | 185 | 173 |
| | 2,771 | 2,655 |

No share option benefits were paid in 2015 (2014: Nil) and the share option benefits represented the fair value at the date of share options granted and accepted under the share option scheme amortised to the consolidated income statement in the prior years disregarding whether the options have been exercised or not.

## 9. TAX

| | Note | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| Current tax charge | | 49,470 | 43,536 |
| Under-provision in prior years | | - | 41 |
| Deferred tax (credit)/charge, net | 20 | (878) | 2,309 |
| | | 48,592 | 45,886 |

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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 tax rates to the tax expense at the effective tax rates is as follows:

| | 2015 HK$'000 | % | 2014 HK$'000 | % |
|---|---|---|---|---|
| Profit before tax | 296,349 | | 279,545 | |
| Tax at the applicable tax rate | 48,898 | 16.5 | 46,125 | 16.5 |
| Estimated tax effect of net income that are not taxable | (306) | (0.1) | (280) | (0.1) |
| Adjustments in respect of current tax of previous periods | - | - | 41 | - |
| Tax charge at the Group's effective rate | 48,592 | 16.4 | 45,886 | 16.4 |

## 10. DIVIDENDS

### (a) Dividends approved and paid during the year

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | HK cents per ordinary share | | HK$'000 | HK$'000 |
| Interim dividend | 45.544 | 41.905 | 117,868 | 108,450 |
| Final dividend in respect of previous year | 47.125 | 41.357 | 121,960 | 107,032 |
| | 92.669 | 83.262 | 239,828 | 215,482 |

Final dividend of 2014 was paid in 2015 with the consent of shareholders at the 2015 AGM.

### (b) Dividends attributable to the year

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | HK cents per ordinary share | | HK$'000 | HK$'000 |
| Interim dividend | 45.544 | 41.905 | 117,868 | 108,450 |
| Proposed final dividend | 46.952 | 47.125 | 121,512 | 121,960 |
| | 92.496 | 89.030 | 239,380 | 230,410 |

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 2015 is subject to the approval of shareholders at the 2016 AGM.

## 11. CASH AND SHORT TERM PLACEMENTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Cash and placements with banks and financial institutions | 360,157 | 258,592 |
| Money at call and short notice | 811,827 | 673,940 |
| | 1,171,984 | 932,532 |

Over 90% (2014: over 90%) of the placements were deposited with banks and financial institutions 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.

## 12. LOANS AND ADVANCES AND RECEIVABLES

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Loans and advances to customers | 5,246,203 | 4,974,925 |
| Accrued interest | 46,307 | 46,053 |
| Gross loans and advances and receivables | 5,292,510 | 5,020,978 |
| Less: Impairment allowances for loans and advances and receivables | | |
| - individually assessed | (72,802) | (70,713) |
| - collectively assessed | (9,175) | (8,923) |
| | (81,977) | (79,636) |
| Loans and advances and receivables | 5,210,533 | 4,941,342 |

Over 90% (2014: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2014: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, taxi licences and vehicles.

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired loans and advances and receivables | 4,956,735 | 4,685,446 |
| Past due but not impaired loans and advances and receivables | 234,234 | 230,998 |
| Individually impaired loans and advances | 101,541 | 104,476 |
| Individually impaired receivables | - | 58 |
| Gross loans and advances and receivables | 5,292,510 | 5,020,978 |

About 30% (2014: 29%) of "Neither past due nor impaired loans and advances and receivables" were property mortgage loans and taxi financing loans secured by customer deposits, properties, taxi licences and vehicles.

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | 71,066 | 1.36 | 67,621 | 1.36 |
| One year or less but over six months | 1,178 | 0.02 | 3,840 | 0.08 |
| Over one year | - | - | - | - |
| Loans and advances overdue for more than three months | 72,244 | 1.38 | 71,461 | 1.44 |
| Rescheduled loans and advances overdue for three months or less | 28,064 | 0.54 | 29,246 | 0.59 |
| Impaired loans and advances overdue for three months or less | 1,233 | 0.02 | 3,769 | 0.07 |
| Total overdue and impaired loans and advances | 101,541 | 1.94 | 104,476 | 2.10 |

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (a) (ii) Ageing analysis of overdue and impaired accrued interest and other receivables

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Accrued interest and other receivables overdue for: | | |
| Six months or less but over three months | - | 58 |
| One year or less but over six months | - | - |
| Over one year | - | - |
| Accrued interest and other receivables overdue for more than three months | - | 58 |
| Impaired accrued interest and other receivables overdue for three months or less | - | - |
| Total overdue and impaired accrued interest and other receivables | - | 58 |

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

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| ***(i) Analysis of overdue loans and advances and receivables*** | | |
| Loans and advances and receivables overdue for more than three months | 72,244 | 71,519 |
| Individual impairment allowances | 54,731 | 50,274 |
| Current market value and fair value of collateral | - | 2,900 |
| ***(ii) Analysis of impaired loans and advances and receivables*** | | |
| Impaired loans and advances and receivables | 101,541 | 104,534 |
| Individual impairment allowances | 72,802 | 70,713 |
| Current market value and fair value of collateral | - | 2,900 |

Over 90% (2014: over 90%) of the gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of overdue and impaired loans and advances and receivables, individual impairment allowances and gross loans and advances and receivables is presented herein.

## 12. 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:**

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Current market value and fair value of collateral held against the covered portion of overdue loans and advances | - | 2,900 |
| Covered portion of overdue loans and advances | - | 2,351 |
| Uncovered portion of overdue loans and advances | 72,244 | 69,110 |

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.

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

### (d) Repossessed assets

There was no repossessed asset of the Group as at 31 December 2015 (2014: Nil).

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 three months or less | 234,073 | 4.5 | 230,841 | 4.6 |
| Accrued interest and other receivables overdue for three months or less | 161 | | 157 | |

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 2015 | | |
|---|---|---|---|
| | Individual impairment allowances HK$'000 | Collective impairment allowances HK$'000 | Total HK$'000 |
| At 1 January 2015 | 70,713 | 8,923 | 79,636 |
| Amounts written off | (384,654) | - | (384,654) |
| Impairment losses and allowances charged to the consolidated income statement | 386,743 | 302 | 387,045 |
| Impairment losses and allowances released to the consolidated income statement | (146,473) | (50) | (146,523) |
| Net charge of impairment losses and allowances | 240,270 | 252 | 240,522 |
| Loans and advances and receivables recovered | 146,473 | - | 146,473 |
| At 31 December 2015 | 72,802 | 9,175 | 81,977 |
| Deducted from: | | | |
| Loans and advances and receivables | 72,802 | 9,175 | 81,977 |

## 12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

| | 2014 | | |
|---|---|---|---|
| | Individual impairment allowances HK$'000 | Collective impairment allowances HK$'000 | Total HK$'000 |
| At 1 January 2014 | 85,208 | 10,877 | 96,085 |
| Amounts written off | (405,327) | - | (405,327) |
| Impairment losses and allowances charged to the consolidated income statement | 390,832 | 73 | 390,905 |
| Impairment losses and allowances released to the consolidated income statement | (155,636) | (2,027) | (157,663) |
| Net charge/(release) of impairment losses and allowances | 235,196 | (1,954) | 233,242 |
| Loans and advances and receivables recovered | 155,636 | - | 155,636 |
| At 31 December 2014 | 70,713 | 8,923 | 79,636 |
| Deducted from: | | | |
| Loans and advances and receivables | 70,713 | 8,923 | 79,636 |

## 12. 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:

| | 2015 | 2014 | 2015 | 2014 |
|---|---|---|---|---|
| | 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 | 73,363 | 66,402 | 57,270 | 51,440 |
| In the second to fifth years, inclusive | 175,752 | 164,880 | 126,503 | 118,638 |
| Over five years | 620,678 | 575,959 | 516,722 | 478,727 |
| | 869,793 | 807,241 | 700,495 | 648,805 |
| Less: Unearned finance income | (169,298) | (158,436) | | |
| Present value of minimum lease payments receivable | 700,495 | 648,805 | | |

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

## 13. HELD-TO-MATURITY INVESTMENTS

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Unlisted: | | |
| Treasury bills (including Exchange Fund Bills) | 19,998 | 9,999 |
| Analysed by type of issuers: | | |
| - Central government | 19,998 | 9,999 |

There were no impairment allowances made against held-to-maturity investments as at 31 December 2015 and 2014. There were no movements in impairment allowances for the years ended 31 December 2015 and 2014.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2015 and 2014. There were no listed held-to-maturity investments as at 31 December 2015 and 2014.

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, as at 31 December 2015 and 2014.

## 14. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At valuation: | |
| At 1 January 2014 | 35,815 |
| Transfer to property and equipment | (655) |
| Transfer to land held under finance leases | (6,425) |
| Changes in fair value recognised in consolidated income statement | 1,093 |
| At 31 December 2014 and 1 January 2015 | 29,828 |
| Changes in fair value recognised in consolidated income statement | 829 |
| At 31 December 2015 | 30,657 |

## 14. INVESTMENT PROPERTIES (Continued)

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

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| At valuation: | | |
| On medium term leases | 30,657 | 29,828 |

All investment properties were classified under Level 3 in the fair value hierarchy. During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2014: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

At 31 December 2015, 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Range HK$ | Weighted average HK$ | Range HK$ | Weighted average HK$ |
| Price per square metre | 72,000 to 74,000 | 73,000 | 70,000 to 72,000 | 71,000 |

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

The investment properties held by the Group are let under operating leases from which the Group earns rental income. Details of future annual rental receivables under operating leases are included in note 24(a) to the financial statements.

## 15. PROPERTY AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements, furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2014 | 4,894 | 82,444 | 1,609 | 88,947 |
| Additions | - | 6,845 | - | 6,845 |
| Transfer from investment properties | 655 | - | - | 655 |
| Disposals/write-off | - | (1,561) | - | (1,561) |
| At 31 December 2014 and 1 January 2015 | 5,549 | 87,728 | 1,609 | 94,886 |
| Additions | - | 7,067 | - | 7,067 |
| Disposals/write-off | - | (8,614) | - | (8,614) |
| At 31 December 2015 | 5,549 | 86,181 | 1,609 | 93,339 |
| Accumulated depreciation: | | | | |
| At 1 January 2014 | 1,357 | 69,294 | 1,609 | 72,260 |
| Provided during the year | 101 | 8,172 | - | 8,273 |
| Disposals/write-off | - | (1,435) | - | (1,435) |
| At 31 December 2014 and 1 January 2015 | 1,458 | 76,031 | 1,609 | 79,098 |
| Provided during the year | 110 | 6,605 | - | 6,715 |
| Disposals/write-off | - | (8,592) | - | (8,592) |
| At 31 December 2015 | 1,568 | 74,044 | 1,609 | 77,221 |
| Net carrying amount: | | | | |
| At 31 December 2015 | 3,981 | 12,137 | - | 16,118 |
| At 31 December 2014 | 4,091 | 11,697 | - | 15,788 |

There were no impairment allowances made against the above items of property and equipment for the years ended 31 December 2015 and 2014.

All property and equipment are situated in Hong Kong.

## 16. LAND HELD UNDER FINANCE LEASES

| | HK$'000 |
|---|---|
| Cost: | |
| At 1 January 2014 | 47,353 |
| Transfer from investment properties | 6,425 |
| At 31 December 2014, 1 January 2015 and 31 December 2015 | 53,778 |
| Accumulated depreciation and impairment: | |
| At 1 January 2014 | 11,980 |
| Depreciation provided during the year | 986 |
| At 31 December 2014 and 1 January 2015 | 12,966 |
| Depreciation provided during the year | 1,153 |
| At 31 December 2015 | 14,119 |
| Net carrying amount: | |
| At 31 December 2015 | 39,659 |
| At 31 December 2014 | 40,812 |

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

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Leaseholds held in Hong Kong : | | |
| On medium term leases | 39,659 | 40,812 |

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.

## 17. OTHER ASSETS AND OTHER LIABILITIES

### Other assets

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Interest receivable from financial institutions | 9 | 5 |
| Other debtors, deposits and prepayments | 20,376 | 40,325 |
| Amount due from a fellow subsidiary | 876 | 1,097 |
| Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") | 14,432 | 8,703 |
| | 35,693 | 50,130 |

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

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

### Other liabilities

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Creditors, accruals and interest payable | 135,798 | 112,956 |
| Net amount of accounts payable to HKSCC | - | 3,963 |
| | 135,798 | 116,919 |

Public Securities Limited maintains accounts with HKSCC through which it conducts securities trading transactions and settlement on a net basis.

**17. OTHER ASSETS AND OTHER LIABILITIES (Continued)**

In presenting the amounts due from and to HKSCC, the 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:

| | Gross amount HK$'000 | Amount offset HK$'000 | Net amount HK$'000 |
|---|---|---|---|
| **Other assets** | | | |
| 2015 | | | |
| Amount of accounts receivable from HKSCC | 33,955 | (19,523) | 14,432 |
| 2014 | | | |
| Amount of accounts receivable from HKSCC | 18,028 | (9,325) | 8,703 |
| **Other liabilities** | | | |
| 2015 | | | |
| Amount of accounts payable to HKSCC | (19,523) | 19,523 | - |
| 2014 | | | |
| Amount of accounts payable to HKSCC | (17,027) | 13,064 | (3,963) |

## 18. INTANGIBLE ASSETS

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Cost: | | |
| At the beginning and at the end of the year | 486 | 486 |
| Accumulated impairment: | | |
| At the beginning and at the end of the year | - | - |
| Net carrying amount: | | |
| At the beginning 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 (2014: two units) of Stock Exchange Trading Right in Hong Kong Exchanges and Clearing Limited.

## 19. CUSTOMER DEPOSITS AT AMORTISED COST

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

## 20. DEFERRED TAX

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

**Deferred tax assets:**

| | Impairment allowances for loans and advances and receivables HK$'000 |
|---|---|
| At 1 January 2014 | 15,001 |
| Deferred tax charged to the consolidated income statement | (2,709) |
| At 31 December 2014 and 1 January 2015 | 12,292 |
| Deferred tax credited to the consolidated income statement | 751 |
| At 31 December 2015 | 13,043 |

**Deferred tax liabilities:**

| | Depreciation allowance in excess of related depreciation HK$'000 |
|---|---|
| At 1 January 2014 | 4,000 |
| Deferred tax credited to the consolidated income statement | (400) |
| At 31 December 2014 and 1 January 2015 | 3,600 |
| Deferred tax credited to the consolidated income statement | (127) |
| At 31 December 2015 | 3,473 |

## 21. SHARE CAPITAL

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Issued and fully paid: | | |
| 258,800,000 (2014: 258,800,000) ordinary shares | 671,038 | 671,038 |

A summary of movements in the Company's share capital during the year is shown as follows:

| | Share capital<br>HK$'000 |
|---|---|
| At 1 January 2014 | 258,800 |
| Transition to no-par value regime on 3 March 2014 (note) | 412,238 |
| At 31 December 2014 ,1 January 2015 and 31 December 2015 | 671,038 |

Note:

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance, any amount standing to the credit of the share premium account has become part of the Company's share capital on 3 March 2014.

## 22. RESERVES

| | | Other reserves | | |
|---|---|---|---|---|
| | Share premium HK$'000 | Regulatory reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| At 1 January 2014 | 412,238 | 81,872 | 805,418 | 1,299,528 |
| Transition to no-par value regime on 3 March 2014 (note 21) | (412,238) | - | - | (412,238) |
| Profit for the year | - | - | 233,659 | 233,659 |
| Transfer from retained profits | - | 14,760 | (14,760) | - |
| Dividends paid in respect of previous year | - | - | (107,032) | (107,032) |
| Dividends paid in respect of current year | - | - | (108,450) | (108,450) |
| At 31 December 2014 and 1 January 2015 | - | 96,632 | 808,835 | 905,467 |
| Profit for the year | - | - | 247,757 | 247,757 |
| Transfer from retained profits | - | 4,115 | (4,115) | - |
| Dividends paid in respect of previous year | - | - | (121,960) | (121,960) |
| Dividends paid in respect of current year | - | - | (117,868) | (117,868) |
| At 31 December 2015 | - | 100,747 | 812,649 | 913,396 |

Note:

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guidelines.

## 23. SHARE OPTION SCHEME

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

Under the share option 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. All share options expired on 10 June 2015. No options were granted nor cancelled during the period ended 9 June 2015.

Pursuant to the terms of the share option 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 share option scheme are as follows:

### (a) Summary of the share option 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 share option scheme | : | The share option scheme expired on 27 February 2012 |

## 23. SHARE OPTION SCHEME (Continued)

### (b) Movement of share options

| | 2015 | 2014 |
|---|---|---|
| | Number of share options | |
| Outstanding at 1 January | 21,199,000 | 22,575,000 |
| Lapsed during the year | (182,000) | (1,376,000) |
| Expired during the year | (21,017,000) | - |
| Outstanding at 31 December | - | 21,199,000 |

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 2015 and 2014.

(iii) All share options expired on 10 June 2015.

## 24. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties in note 14 under operating lease arrangements, and the terms of the leases range from 1 to 5 years.

At 31 December 2015 and 2014, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Within one year | 753 | 1,030 |
| In the second to fifth years, inclusive | - | 676 |
| | 753 | 1,706 |

### (b) As lessee

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

At 31 December 2015 and 2014, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Within one year | 28,698 | 30,382 |
| In the second to fifth years, inclusive | 19,018 | 18,442 |
| | 47,716 | 48,824 |

## 25. CONTINGENT LIABILITIES AND COMMITMENTS

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Contractual amount HK$'000 | Credit risk-weighted amount HK$'000 | Contractual amount HK$'000 | Credit risk-weighted amount HK$'000 |
| Capital commitments contracted for, but not provided in the consolidated statement of financial position: | | | | |
| - With an original maturity of not more than one year | 1,662 | - | 581 | - |
| Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to: | | | | |
| - Customers | - | - | 60 | - |
| | 1,662 | - | 641 | - |

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

At 31 December 2015 and 2014, the Group had no material outstanding contingent liabilities and commitments save as disclosed above.

During the year, no derivative activities were transacted by the Group (2014: Nil).

## 26. RELATED PARTY TRANSACTIONS

During the year, 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 are as follows:

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Related party transactions included in the consolidated income statement:** | | | |
| Management fees from a fellow subsidiary | (a) | 920 | 911 |
| Management fees to the intermediate holding company | (b) | 1,080 | 1,080 |
| Rent paid to the intermediate holding company | (c) | 11,635 | 11,204 |
| Interest received from the immediate holding company | (d) | 262 | 366 |
| Interest received from key management personnel | (e) | - | 2 |
| Interest paid to a fellow subsidiary | (f) | 7 | 13 |
| Commission income from key management personnel | (g) | 23 | 2 |
| Commission and service fee to fellow subsidiaries | (h) | 13 | 26 |
| Building management fee to the intermediate holding company | (c) | 109 | 83 |
| Commitment fee paid to the ultimate holding company | (i) | 997 | 995 |
| Bank service charges to the immediate holding company | (j) | 1,471 | 1,442 |
| Key management personnel compensation: | | | |
| - Short-term employee benefits | (k) | 3,694 | 3,567 |
| - Post employment benefits | (k) | 274 | 258 |

## 26. RELATED PARTY TRANSACTIONS (Continued)

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Related party transactions included in the consolidated statement of financial position:** | | | |
| Cash and short term funds with the ultimate holding company | (l) | 119 | 222 |
| Cash and short term funds with the immediate holding company | (d) | 953,223 | 751,800 |
| Interest receivable from the immediate holding company | (d) | 2 | 3 |
| Loans to key management personnel | (e) | - | 84 |
| Rental deposits to the intermediate holding company | (c) | 143 | 143 |
| Amounts due from a fellow subsidiary included in other assets | (m) | 876 | 1,097 |
| Co-financing interest and other payable to a fellow subsidiary included in other assets | (m) | 2 | 11 |

## 26. RELATED PARTY TRANSACTIONS (Continued)

Notes:

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

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

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

(d) The Group 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.

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

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

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

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

(i) During the year, commitment fee was paid to the ultimate holding company in order to obtain standby facilities from the ultimate holding company to the Company.

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

(k) The Group's short-term employee benefits and post-employment benefit plan for the benefits of employees are detailed in note 6 to the financial statements.

(l) 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.

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

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

There were no financial instruments carried at fair value at 31 December 2015 and 2014.

For the years ended 31 December 2015 and 2014, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2015 and 2014, 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 2015 and 2014.

## 28. MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below shows an analysis of financial assets and financial liabilities analysed by principal according to the periods that they are expected to be recovered or settled. The Group's contractual undiscounted repayment obligations are shown in the sub-section "Liquidity risk management" in note 29 to the financial statements.

| 2015 | 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 | 360,157 | 811,827 | - | - | - | - | - | 1,171,984 |
| Loans and advances and receivables (gross) | 22,839 | 247,562 | 403,645 | 1,414,334 | 1,877,152 | 1,225,437 | 101,541 | 5,292,510 |
| Held-to-maturity investments | - | - | 19,998 | - | - | - | - | 19,998 |
| Other assets | - | 15,930 | - | - | - | - | 19,763 | 35,693 |
| Total financial assets | 382,996 | 1,075,319 | 423,643 | 1,414,334 | 1,877,152 | 1,225,437 | 121,304 | 6,520,185 |
| **Financial liabilities:** | | | | | | | | |
| Customer deposits at amortised cost | 16,492 | 1,125,227 | 2,526,314 | 1,124,237 | 5,000 | - | - | 4,797,270 |
| Other liabilities | 93 | 37,096 | 4,997 | 1,921 | - | - | 91,691 | 135,798 |
| Total financial liabilities | 16,585 | 1,162,323 | 2,531,311 | 1,126,158 | 5,000 | - | 91,691 | 4,933,068 |
| Net liquidity gap | 366,411 | (87,004) | (2,107,668) | 288,176 | 1,872,152 | 1,225,437 | 29,613 | 1,587,117 |

| 2014 | 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 | 258,592 | 673,940 | - | - | - | - | - | 932,532 |
| Loans and advances and receivables (gross) | 23,329 | 236,162 | 382,143 | 1,350,041 | 1,825,828 | 1,095,310 | 108,165 | 5,020,978 |
| Held-to-maturity investments | - | - | 9,999 | - | - | - | - | 9,999 |
| Other assets | - | 31,340 | - | - | - | - | 18,790 | 50,130 |
| Total financial assets | 281,921 | 941,442 | 392,142 | 1,350,041 | 1,825,828 | 1,095,310 | 126,955 | 6,013,639 |
| **Financial liabilities:** | | | | | | | | |
| Customer deposits at amortised cost | 5,229 | 1,178,135 | 2,182,003 | 960,044 | - | - | - | 4,325,411 |
| Other liabilities | 45 | 50,877 | 6,041 | 1,935 | - | - | 58,021 | 116,919 |
| Total financial liabilities | 5,274 | 1,229,012 | 2,188,044 | 961,979 | - | - | 58,021 | 4,442,330 |
| Net liquidity gap | 276,647 | (287,570) | (1,795,902) | 388,062 | 1,825,828 | 1,095,310 | 68,934 | 1,571,309 |

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities expose the Group to a variety of risks, mainly interest rate risk, market risk, credit risk, liquidity risk and operational risk. The Board reviews and approves policies for managing each of these risks and they are summarised below.

### Risk Management Structure

The Group's risk management is underpinned by the Group's risk appetite and is subject to the Board's oversight, through the Risk Management Committee ("RMC"), a Board Committee which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees including the Assets and Liabilities Management Committee ("ALCO"), Operational Risk Management Committee ("ORMC"), Anti-Money Laundering Committee and Compliance Working Group of the Company.

The Group has established systems, policies and procedures for the control and monitoring of interest rate risk, market risk, credit risk, liquidity risk and operational risk, which are approved and endorsed by the Board and reviewed regularly by the Group's management, 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.

### Interest Rate Risk Management

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 against limits approved by the Board.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest Rate Risk Management (Continued)

*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$482 million (2014: HK$483 million) up to 12 months in 2015, profit before tax in 2015 would decrease/increase by HK$11 million or 0.78% of equity (2014: HK$9 million or 0.62% of equity). Profit before tax would decrease/increase by HK$10 million or 0.70% of equity (2014: HK$12 million or 0.80% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK$1,125 million (2014: HK$1,104 million) up to five years, the economic value would increase by HK$62 million (2014: HK$62 million).

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 keep unchanged. Based on this scenario assumption, profit before tax would decrease by HK$29 million or 1.99% of equity (2014: HK$25 million or 1.75% of equity) for the year ended 31 December 2015. Profit before tax would decrease by HK$31 million or 2.11% of equity (2014: HK$27 million or 1.90% 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$74 million or 5.15% of equity (2014: HK$67 million or 4.64% of equity) for the year ended 31 December 2015. Profit before tax would decrease by HK$78 million or 5.39% of equity (2014: HK$71 million or 4.91% of equity) for the next 12 months after the reporting date.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest Rate Risk Management (Continued)

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 2015 and 2014 are detailed as follows:

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 811,827 | - | - | - | - | - | 360,157 | 1,171,984 |
| Loans and advances and receivables | 1,982,512 | 893,284 | 478,926 | 194,425 | 45,510 | 3,334 | 146,176 | 3,744,167 |
| Held-to-maturity investments | 19,998 | - | - | - | - | - | - | 19,998 |
| | 2,814,337 | 893,284 | 478,926 | 194,425 | 45,510 | 3,334 | 506,333 | 4,936,149 |
| **Floating rate financial assets** | | | | | | | | |
| Loans and advances and receivables | 1,546,671 | - | - | - | - | - | 1,672 | 1,548,343 |
| **Less:** | | | | | | | | |
| **Liabilities:** | | | | | | | | |
| **Fixed rate financial liabilities** | | | | | | | | |
| Customer deposits at amortised cost | 4,792,270 | 5,000 | - | - | - | - | - | 4,797,270 |
| **Total interest sensitivity gap** | (431,262) | 888,284 | 478,926 | 194,425 | 45,510 | 3,334 | 508,005 | 1,687,222 |

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest Rate Risk Management (Continued)

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 673,940 | - | - | - | - | - | 258,592 | 932,532 |
| Loans and advances and receivables | 1,892,604 | 879,984 | 473,221 | 188,590 | 45,766 | 3,596 | 146,594 | 3,630,355 |
| Held-to-maturity investments | 9,999 | - | - | - | - | - | - | 9,999 |
| | 2,576,543 | 879,984 | 473,221 | 188,590 | 45,766 | 3,596 | 405,186 | 4,572,886 |
| **Floating rate financial assets** | | | | | | | | |
| Loans and advances and receivables | 1,389,038 | - | - | - | - | - | 1,585 | 1,390,623 |
| **Less:** | | | | | | | | |
| **Liabilities:** | | | | | | | | |
| **Fixed rate financial liabilities** | | | | | | | | |
| Customer deposits at amortised cost | 4,325,411 | - | - | - | - | - | - | 4,325,411 |
| **Total interest sensitivity gap** | (359,830) | 879,984 | 473,221 | 188,590 | 45,766 | 3,596 | 406,771 | 1,638,098 |

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest Rate Risk Management (Continued)

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

| | 2015 Rate % | 2014 Rate % |
|---|---|---|
| **Assets** | | |
| Cash and short term placements | 0.068 | 0.107 |
| Loans and advances and receivables | 16.046 | 16.890 |
| Held-to-maturity investments | 0.040 | 0.070 |
| **Liabilities** | | |
| Customer deposits at amortised cost | 1.310 | 1.550 |

### Market Risk Management

#### (a) 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 HKD for the years ended 31 December 2015 and 2014. Directors considered that currency risk was insignificant to the Group. Accordingly, no quantitative market risk disclosures for currency risk have been made.

#### (b) Price risk

Price risk is the risk to the Group's earnings and capital due to changes in the prices of securities, including 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.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit Risk Management

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

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

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

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

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

Credit Committee monitors the quality of financial assets which are neither past due nor impaired by financial performance indicators (such as the loan-to-value ratio, debts servicing ratio, financial soundness of borrowers and personal guarantees) through meeting discussions, 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.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit Risk Management (Continued)

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.

RMC 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 12 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.

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

| | 2015<br>HK$’000 | 2014<br>HK$’000 |
|---|---|---|
| Loan commitments | - | 60 |

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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 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 developing operational procedures and controls to ensure the compliance with the aforesaid policies and to minimise operational disruptions in case of a liquidity crisis.

Risk Management Department was formally established in 2015. It is responsible for day-to-day monitoring of liquidity maintenance 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. It also carries out analysis based on risk-based MIS reports, summarise the data from those reports and presents the key information to ALCO on a regular (at least monthly) basis. In case of significant issues, such as serious limit excesses or breaches or early warning signals of potential severe impact are identified from the aforesaid MIS reports or market information obtained from other business units, a designated ALCO member will convene a meeting (involving senior management members) to discuss risk related matters and propose actions to ALCO whenever necessary. A high level summary of liquidity risk performance will be presented by ALCO to RMC and the Board.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

The examples of liquidity risk related metrics include an internal trigger point of liquidity maintenance ratio which is higher than the statutory liquidity maintenance ratio; cash flow mismatches under normal and different stressed scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-and-off-balance sheet items).

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

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

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.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity Risk Management (Continued)

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

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

| 2015 | 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 | 16,584 | 1,129,768 | 2,536,765 | 1,132,242 | 5,063 | - | - | 4,820,422 |
| Other liabilities | - | 33,138 | - | - | - | - | 91,691 | 124,829 |
| Gross loan commitments | - | - | - | - | - | - | - | - |
| | 16,584 | 1,162,906 | 2,536,765 | 1,132,242 | 5,063 | - | 91,691 | 4,945,251 |

| 2014 | 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 | 5,274 | 1,185,015 | 2,193,392 | 967,697 | - | - | - | 4,351,378 |
| Other liabilities | - | 44,816 | - | - | - | - | 58,021 | 102,837 |
| Gross loan commitments | 60 | - | - | - | - | - | - | 60 |
| | 5,334 | 1,229,831 | 2,193,392 | 967,697 | - | - | 58,021 | 4,454,275 |

## 29. 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 system errors or from external events.

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

### Capital Management

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

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to various business activities of the Group 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.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

#### Capital Adequacy Ratios

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

| | 2015 | 2014 |
|---|---|---|
| CET1 Capital Ratio | 23.1% | 24.0% |
| Tier 1 Capital Ratio | 23.1% | 24.0% |
| Total Capital Ratio | 24.1% | 25.0% |

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

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

#### Capital Disclosures

The components of the Company's capital base include the following items:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| CET1 capital instruments | 671,038 | 671,038 |
| Retained earnings | 551,256 | 554,541 |
| Disclosed reserves | 100,747 | 96,632 |
| CET1 capital before deduction | 1,323,041 | 1,322,211 |
| Deduct: | | |
| Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties) | (7,181) | (6,352) |
| Regulatory reserve for general banking risk | (100,747) | (96,632) |
| Deferred tax assets in excess of deferred tax liabilities | (9,620) | (8,658) |
| CET1 capital after deduction | 1,205,493 | 1,210,569 |
| Additional Tier 1 capital | - | - |
| Tier 1 capital after deductions | 1,205,493 | 1,210,569 |
| Reserve attributable to fair value gains | 3,231 | 2,858 |
| Regulatory reserve for general banking risk | 39,532 | 37,363 |
| Collective provisions | 9,175 | 8,923 |
| | 48,707 | 46,286 |
| Tier 2 capital | 51,938 | 49,144 |
| Capital base | 1,257,431 | 1,259,713 |

Capital ratios at 31 December 2015 and 2014 were compiled on a solo basis in accordance with the Capital Rules and section 97C of the Hong Kong Banking Ordinance for the implementation of the Basel III capital accord.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

**Capital conservation buffer ("CCB")**
The Company will be subject to the 2.5% CCB ratio which is to be phased-in from 2016. The Company reserved a capital buffer for the future implementation of CCB ratio for which the applicable CCB ratio will become fully effective on 1 January 2019.

**Countercyclical capital buffer ("CCyB")**
The CCyB ratio is an additional layer of CET1 capital which takes effect as an extension of the Basel III Capital Conversation Buffer.

The Company reserved a capital buffer for the future implementation of CCyB ratio, inclusive of CCyB ratio of 0.625%, to Hong Kong exposures that would be applied from 1 January 2016.

**Leverage ratio**
The leverage ratio is introduced into the Basel III framework as a non-risk-based backstop limit to supplement risk-based capital requirements. It aims to constraining the build-up of excess leverage in the banking sector, and introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 capital divided by total On-balance sheet and Off-balance sheet exposures with reference to the Completion Instructions of the Quarterly Template on Leverage Ratio.

| | 2015<br>HK$'000 |
|---|---|
| Tier 1 Capital | 1,205,493 |
| Leverage Ratio Exposure | 6,213,370 |
| Leverage Ratio | 19.4% |

The disclosure on leverage ratio is effective since 31 March 2015 and the relevant disclosures can be viewed in the "Regulatory Disclosures" section on the Company's website: www.publicfinance.com.hk on or before 30 April 2016.

Comparative figures are not required as this is the first year of disclosure.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

#### Risk Exposures

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Exposures* | | | Risk-weighted amounts | | |
| Class of exposures | Rated# | Unrated | Total | Rated | Unrated | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| On-balance sheet: | | | | | | |
| Sovereign | 19,998 | - | 19,998 | - | - | - |
| Bank | 934,778 | - | 934,778 | 186,956 | - | 186,956 |
| Corporate | - | 37,809 | 37,809 | - | 37,809 | 37,809 |
| Cash items | - | 26,545 | 26,545 | - | - | - |
| Regulatory retail | - | 4,248,067 | 4,248,067 | - | 3,186,050 | 3,186,050 |
| Residential mortgage loan | - | 897,695 | 897,695 | - | 314,193 | 314,193 |
| Other non-past due | - | 113,244 | 113,244 | - | 128,409 | 128,409 |
| Past due | - | 28,739 | 28,739 | - | 43,109 | 43,109 |
| Off-balance sheet: | | | | | | |
| Other off-balance sheet items | - | 110,000 | 110,000 | - | - | - |
| | 954,776 | 5,462,099 | 6,416,875 | 186,956 | 3,709,570 | 3,896,526 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Exposures* | | | Risk-weighted amounts | | |
| Class of exposures | Rated# | Unrated | Total | Rated | Unrated | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| On-balance sheet: | | | | | | |
| Sovereign | 10,000 | - | 10,000 | - | - | - |
| Bank | 735,632 | - | 735,632 | 147,126 | - | 147,126 |
| Corporate | - | 19,133 | 19,133 | - | 19,133 | 19,133 |
| Cash items | - | 19,190 | 19,190 | - | - | - |
| Regulatory retail | - | 4,110,193 | 4,110,193 | - | 3,082,645 | 3,082,645 |
| Residential mortgage loan | - | 786,317 | 786,317 | - | 275,211 | 275,211 |
| Other non-past due | - | 114,071 | 114,071 | - | 129,236 | 129,236 |
| Past due | - | 33,821 | 33,821 | - | 49,527 | 49,527 |
| Off-balance sheet: | | | | | | |
| Other off-balance sheet items | - | 110,060 | 110,060 | - | - | - |
| | 745,632 | 5,192,785 | 5,938,417 | 147,126 | 3,555,752 | 3,702,878 |

The Company had no credit exposures that were risk-weighted at 1250% at 31 December 2015 (2014: Nil).

The Company did not enter into OTC derivative transactions during 2015 and 2014.

* 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.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

#### Risk Exposures (Continued)

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Risk-weighted exposures HK$'000 | Capital requirements/ charge HK$'000 | Risk-weighted exposures HK$'000 | Capital requirements/ charge HK$'000 |
| Credit risk | 3,896,526 | 311,722 | 3,702,878 | 296,230 |
| Market risk | - | - | - | - |
| Operational risk | 1,377,550 | 110,204 | 1,397,950 | 111,836 |
| Deductions | (65,165) | - | (62,763) | - |
| | 5,208,911 | 421,926 | 5,038,065 | 408,066 |

For the years ended 31 December 2015 and 2014, the Company has adopted the standardised approach for calculation of credit risk-weighted exposures, market risk-weighted exposures and operational risk-weighted exposures. The Company is granted an exemption by the HKMA for calculation of market risk exposures which are immaterial to the Company.

As at 31 December 2015 and 2014, the Company had no securitisation and counterparty credit risk related exposures.

#### Principal subsidiaries and basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with HKFRSs, as described in note 2.2 to the financial statements.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

The subsidiaries not included in the computation of the capital adequacy ratios of the Company are Public Financial Limited, Public Securities Limited and Public Securities (Nominees) Limited.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital Management (Continued)

#### Capital Instruments

To comply with the Banking (Disclosure) Rules, the Company will present all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Company's published consolidated financial statements under "Regulatory Disclosure" section on the Company's website: www.publicfinance.com.hk on or before 30 April 2016.

The disclosure will include the following information:

- a description of the main features and full terms and conditions of the Company's capital instruments;
- a detailed breakdown of 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.

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

| | Note | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **CET1 capital instruments issued** | | | |
| Ordinary shares: | | | |
| 258,800,000 issued and fully paid ordinary shares | 21 | 671,038 | 671,038 |

## 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting year is as follows:

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term placements | | 953,917 | 754,016 |
| Loans and advances and receivables | | 5,210,533 | 4,941,342 |
| Held-to-maturity investments | | 19,998 | 9,999 |
| Investment properties | | 30,657 | 29,828 |
| Property and equipment | | 15,016 | 15,256 |
| Land held under finance leases | | 39,659 | 40,812 |
| Investments in subsidiaries | 30(a) | 10,110 | 10,110 |
| Deferred tax assets | | 13,043 | 12,258 |
| Other assets | | 17,811 | 18,071 |
| **TOTAL ASSETS** | | 6,310,744 | 5,831,692 |
| **EQUITY AND LIABILITIES** | | | |
| **LIABILITIES** | | | |
| Customer deposits at amortised cost | | 4,797,270 | 4,325,411 |
| Current tax payable | | 16,164 | 10,831 |
| Deferred tax liabilities | | 3,423 | 3,600 |
| Other liabilities | | 49,333 | 47,679 |
| **TOTAL LIABILITIES** | | 4,866,190 | 4,387,521 |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | | 671,038 | 671,038 |
| Reserves | 30(b) | 773,516 | 773,133 |
| **TOTAL EQUITY** | | 1,444,554 | 1,444,171 |
| **TOTAL EQUITY AND LIABILITIES** | | 6,310,744 | 5,831,692 |

Tang Wing Chew
Director

Lee Huat Oon
Director

## 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### (a) Investments in subsidiaries

Information about the investments in subsidiaries of the Company at the end of the reporting year is as follows:

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | 10,110 | 10,110 |

Particulars of the Company's subsidiaries are shown in note 1 to the financial statements.

### (b) Reserves

Information about movement of the reserves of the Company during the reporting year is as follows:

| | | Other reserves | | |
|---|---|---|---|---|
| | Share premium HK$'000 | Regulatory reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
| At 1 January 2014 | 412,238 | 81,872 | 675,239 | 1,169,349 |
| Transition to no-par value regime on 3 March 2014 (note 21) | (412,238) | - | - | (412,238) |
| Profit for the year | - | - | 231,504 | 231,504 |
| Transfer from retained profits | - | 14,760 | (14,760) | - |
| Dividends paid in respect of previous year | - | - | (107,032) | (107,032) |
| Dividends paid in respect of current year | - | - | (108,450) | (108,450) |
| At 31 December 2014 and 1 January 2015 | - | 96,632 | 676,501 | 773,133 |
| Profit for the year | - | - | 240,211 | 240,211 |
| Transfer from retained profits | - | 4,115 | (4,115) | - |
| Dividends paid in respect of previous year | - | - | (121,960) | (121,960) |
| Dividends paid in respect of current year | - | - | (117,868) | (117,868) |
| At 31 December 2015 | - | 100,747 | 672,769 | 773,516 |

Note:

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. It is held as a buffer of capital to absorb potential financial losses in excess of the accounting standards' requirements pursuant to the HKMA's guidelines.

## 31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 14 January 2016.

## (A) 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:

Company

| | 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 9,961 | 39 | - | 26 | - | 466 | 4.7 | - | - |
| Building and construction, property development and investment | | | | | | | | | |
| Property development | - | - | - | - | - | - | - | - | - |
| Property investment | 11,472 | 4 | - | 2 | - | 11,472 | 100.0 | - | - |
| Civil engineering works | 9,011 | 20 | - | 7 | - | - | - | - | - |
| Electricity and gas | - | - | - | - | - | - | - | - | - |
| Recreational activities | 10 | - | - | - | - | - | - | - | - |
| Information technology | - | - | - | - | - | - | - | - | - |
| Wholesale and retail trade | 22,723 | 57 | - | 537 | 519 | 2,462 | 10.8 | - | - |
| Transport and transport equipment | 645,346 | 66 | - | 60 | - | 644,699 | 99.9 | - | - |
| 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 guarantees 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 | 849,551 | 86 | - | 79 | - | 849,551 | 100.0 | - | - |
| Loans for credit card advances | - | - | - | - | - | - | - | - | - |
| Loans for other business purposes | - | - | - | - | - | - | - | - | - |
| Loans for other private purposes | 3,682,678 | 8,876 | 72,346 | 385,579 | 383,838 | 44,847 | 1.2 | 100,925 | 71,628 |
| Trade finance | - | - | - | - | - | - | - | - | - |
| Other loans and advances | - | - | - | - | - | - | - | - | - |
| Loans and advances for use outside Hong Kong | 15,451 | 27 | 456 | 755 | 297 | 550 | 3.6 | 616 | 616 |
| Total loans and advances (excluding other receivables) | 5,246,203 | 9,175 | 72,802 | 387,045 | 384,654 | 1,554,047 | 29.6 | 101,541 | 72,244 |

## (A) ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS (Continued)

### Company

| | 31 December 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross loans and advances HK$'000 | Collective impairment allowances HK$'000 | Individual impairment allowances HK$'000 | New impairment allowances charged to income statement HK$'000 | Amount of impaired loans and advances written off HK$'000 | Collateral HK$'000 | Percentage of gross advances covered by collateral % | Impaired loans and advances HK$'000 | Loans and advances overdue for more than three months HK$'000 |
| Loans and advances for use in Hong Kong | | | | | | | | | |
| Manufacturing | 8,296 | 13 | - | 43 | 78 | 100 | 1.2 | - | - |
| Building and construction, property development and investment | | | | | | | | | |
| Property development | - | - | - | - | - | - | - | - | - |
| Property investment | 2,085 | 2 | - | 2 | - | 2,085 | 100.0 | - | - |
| Civil engineering works | 9,206 | 13 | - | 230 | 223 | - | - | - | - |
| Electricity and gas | - | - | - | - | - | - | - | - | - |
| Recreational activities | 23 | - | - | - | - | - | - | - | - |
| Information technology | - | - | - | - | - | - | - | - | - |
| Wholesale and retail trade | 18,788 | 33 | 6 | 71 | 54 | 2,941 | 15.7 | 9 | 9 |
| Transport and transport equipment | 599,590 | 6 | - | 6 | - | 599,567 | 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 guarantees 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 | 745,151 | 7 | - | 7 | - | 745,151 | 100.0 | 2,352 | 2,410 |
| Loans for credit card advances | - | - | - | - | - | - | - | - | - |
| Loans for other business purposes | - | - | - | - | - | - | - | - | - |
| Loans for other private purposes | 3,576,644 | 8,824 | 70,707 | 390,349 | 404,795 | 39,953 | 1.1 | 102,115 | 69,042 |
| Trade finance | - | - | - | - | - | - | - | - | - |
| Other loans and advances | - | - | - | - | - | - | - | - | - |
| Loans and advances for use outside Hong Kong | 15,142 | 25 | - | 197 | 177 | - | - | - | - |
| Total loans and advances (excluding other receivables) | 4,974,925 | 8,923 | 70,713 | 390,905 | 405,327 | 1,389,797 | 27.9 | 104,476 | 71,461 |

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.

## (B) LIQUIDITY

### LIQUIDITY MAINTENANCE RATIO

With effect from 1 January 2015, the Company was required to comply with the liquidity maintenance ratio requirement pursuant to section 97H of the Hong Kong Banking Ordinance and the Banking (Liquidity) Rules. The former liquidity ratio requirement was superseded after the implementation of liquidity maintenance ratio in 2015.

Due to the changes in computation basis, the average liquidity maintenance ratio for 2015 is not directly comparable to the average liquidity ratio of 2014.

| | 2015 |
|---|---|
| Average liquidity maintenance ratio | 72.4% |

The Company calculates the average liquidity maintenance ratio of each calendar month by reference to positions of specified days approved by the HKMA pursuant to Rule 48(2) of the Banking (Liquidity) Rules.

The average liquidity maintenance ratio is computed on a solo basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to the liquidity position submitted to the HKMA.

### LIQUIDITY RATIO

| | 2014 |
|---|---|
| Average liquidity ratio | 105.6% |

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 to the HKMA.

## (C) MAINLAND ACTIVITIES

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

| Type of counterparties | On-balance sheet exposure HK$'000 | Off-balance sheet exposure HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2015 | | | |
| People's Republic of China ("PRC") nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 15,451 | - | 15,451 |
| Total | 15,451 | - | 15,451 |
| Total assets after provision | 6,310,744 | | |
| On-balance sheet exposures as percentage of total assets | 0.24% | | |

| Type of counterparties | On-balance sheet exposure HK$'000 | Off-balance sheet exposure HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 December 2014 | | | |
| PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China | 15,142 | - | 15,142 |
| Total | 15,142 | - | 15,142 |
| Total assets after provision | 5,831,692 | | |
| On-balance sheet exposures as percentage of total assets | 0.26% | | |

Note:

The analysis of non-bank Mainland China exposures is disclosed with reference to the Banking (Disclosure) Rules and Completion Instructions for the HKMA Return of Mainland Activities.

## (D) 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. As at 31 December 2015, there were four members in the Remuneration Committee and three of them were Independent Non-Executive Directors. The Remuneration Committee was chaired by Mr. Lai Wan, an Independent Non-Executive Director of the Company. The other members were Mr. Quah Poh Keat, Mr. Lee Chin Guan and Mr. Tang Wing Chew.

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 (the “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 Group.

A meeting was held in 2015. The attendance of each member in 2015 is set out below:

| Name of members | Number of meetings attended in 2015 | Attendance rate |
|---|---|---|
| Tan Sri Datuk Seri Utama Thong Yaw Hong, Former Chairman of the Committee (Demised on 28 May 2015) | 0/1 | 0% |
| Mr. Lai Wan, Chairman of the Committee (Appointed as Chairman of the Committee on 29 May 2015) | 1/1 | 100% |
| Mr. Quah Poh Keat | 1/1 | 100% |
| Mr. Lee Chin Guan | 1/1 | 100% |
| Mr. Tang Wing Chew | 1/1 | 100% |

During the year, Directors’ fees, movement of senior officials, 2015 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 associates is involved in deciding his own remuneration.

## (D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

### Remuneration of Directors

The scales of Directors' fees of the Company for the years 2015 and 2014 are set out as below:

| Board of Directors | 2015 Range HK$ | 2014 Range HK$ |
|---|---|---|
| Chairman/Co-Chairman | 50,000 to 102,500 | 60,000 to 102,500 |
| Other Directors | 25,000 to 50,000 | 25,000 to 50,000 |

No remuneration was paid to members of the Remuneration Committee for the years 2015 and 2014 except the aforesaid Directors' fees.

### 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.

Remuneration review is submitted to the Board of the Company by the Remuneration Committee for approval each year.

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.

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

## (D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

### Design and structure of the remuneration processes (Continued)

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.

## (D) 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 risk, credit risk, liquidity risk and operational risk, 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.

## (D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

### The Remuneration Policy of the Group (Continued)

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.

The remuneration of the employees within the risk control function, including those performing risk management, 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.

## (D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

### Annual review of remuneration system and policy

An annual review of the remuneration system and the Remuneration Policy of the Group was conducted by the Remuneration Committee at the end of 2015. The review concludes that the remuneration system and the Remuneration Policy are 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 2015 and 2014, split into fixed and variable remuneration, is set out below:

**Remuneration of senior management*:**

| | 2015 (5 beneficiaries) | | 2014 (5 beneficiaries) | |
|---|---|---|---|---|
| | Non-deferred HK$ | Deferred HK$ | Non-deferred HK$ | Deferred HK$ |
| **Fixed remuneration** | | | | |
| Cash | 6,146,449 | - | 5,809,188 | - |
| **Variable remuneration** | | | | |
| Cash | 1,614,649 | - | 1,548,757 | - |

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

## (D) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

### Remuneration of senior management and key personnel (Continued)

#### Remuneration for key personnel[#]:

| | 2015 (13 beneficiaries) | | 2014 (11 beneficiaries) | |
|---|---|---|---|---|
| | Non-deferred HK$ | Deferred HK$ | Non-deferred HK$ | Deferred HK$ |
| **Fixed remuneration** | | | | |
| Cash | 7,031,753 | - | 6,408,691 | - |
| **Variable remuneration** | | | | |
| Cash | 1,624,716 | - | 1,304,949 | - |

[#] Key personnel comprises individual employees whose duties or activities in the course of employment involve the assumption of material risks or the taking on material exposures on behalf of the Group and the key personnel within risk control functions

(ii) No variable remuneration in shares or share-linked instruments was granted during the financial years 2015 and 2014.

(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 2015 and 2014.

(iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2015 and 2014.

## (E) 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. <u>Board Executive Committee</u>
   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), Mr. Quah Poh Keat, Dato' Chang Kat Kiam and Mr. Lee Huat Oon.

2. <u>Risk Management Committee</u>
   RMC 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, and assesses the 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 RMC meetings are tabled to the Board for noting and further action, where appropriate. The Head of Risk Management and Head of Compliance shall normally attend the meetings. The members of RMC shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members. The present members comprise Mr. Lai Wan (Chairman of RMC), Mr. Lee Chin Guan, Mr. Tang Wing Chew, Mr. Quah Poh Keat and Dato' Chang Kat Kiam.

3. <u>Audit Committee</u>
   Audit Committee 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 Mr. Tang Wing Chew (Chairman of Audit Committee), Mr. Lee Chin Guan, Mr. Lai Wan and Mr. Quah Poh Keat.

**(E) CORPORATE GOVERNANCE (Continued)**

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 and shall consist of not less than three members. The present members comprise Mr. Lai Wan (Chairman of Remuneration Committee), Mr. Lee Chin Guan, Mr. Tang Wing Chew and Mr. Quah Poh Keat.

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 the 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 the 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
   ALCO reviews and assesses the risk profile and statement of financial position structure of the Company, sets out the objectives for the assets and liabilities management function and implements relevant risk management strategy. The Committee monitors and manages the aforesaid matters within a framework of approved policies and limits, and reports to the RMC. The members of ALCO comprise the General Manager, Deputy General Manager, Assistant General Managers, Head of Credit, Financial Controller/Head of Accounts Department and Head of Risk Management.

**(E) CORPORATE GOVERNANCE (Continued)**

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 the 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 the 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 the 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
   ORMC 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 ORMC comprise the General Manager, Deputy General Manager, Assistant General Managers, Information Technology Controller, Financial Controller/Head of Accounts Department, Head of Business Operations and Administration and Head of Risk Management.

12. Anti-Money Laundering Committee (“AML”)
   AML 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 the Committee comprise the AML Compliance Officer/Alternate AML Compliance Officer, Head of Fixed Deposit Department, Head of Business Operations and Administration, one Zone Manager, Assistant General Managers and Head of Risk Management.

## (E) CORPORATE GOVERNANCE (Continued)

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, Head of Compliance, one nominated Branch Manager, Head of Internal Audit, Financial Controller/Head of Accounts Department, Head of Business Operations and Administration and Head of Risk Management.

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 the Committee comprise the General Manager, Assistant General Managers, Zone Managers and nominated Branch Managers.

15. Internal Capital Adequacy Assessment Process ("ICAAP") Working Group
ICAAP Working Group is established to review risk assessment results, the need to engage external consultants/vendors, resolutions on operational issues/unresolved issues and all other solutions relation to the ICAAP, to ensure effective implementation of approved policies/procedures/frameworks on ICAAP, to establish policies and procedures relating to the ICAAP and communicate these effectively throughout the Company and establish method for monitoring their compliance, and to provide guidance and endorse recommendations from risk owners on techniques, methodologies and approaches used for risk assessment. The members of ICAAP Working Group comprise General Manager, Assistant General Managers, Financial Controller/Head of Accounts Department, Head of Business Operations and Administration and Head of Risk Management.