

Audited Financial Statements

PUBLIC FINANCE LIMITED
大眾財務有限公司

31 December 2016

PUBLIC FINANCE LIMITED
大眾財務有限公司

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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 2016.

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, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, 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 2016 and the Group’s financial position as at that date are set out in the financial statements on pages 7 to 97.

Interim dividend of HK\$42.715 cents (2015: HK\$45.544 cents) per ordinary share was declared and paid during the year. The Directors recommend the payment of a final dividend of HK\$37.745 cents (2015: HK\$46.952 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

There was no movement in the Company’s issued share capital during the year.

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:

Tang Wing Chew, Co-Chairman
Lee Chin Guan
Lai Wan

REPORT OF THE DIRECTORS

Directors (Continued)

Executive Director:

Lee Huat Oon

In accordance with Articles 110 and 111 of the Articles of Association of the Company, Tan Sri Dato' Sri Dr. Teh Hong Piow, Dato' Chang Kat Kiam and Mr. Quah Poh Keat 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

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 indemnified out of the funds of the Company against all liability incurred by him as such Director, secretary or officer of the Company in or about the execution or holding of his office or otherwise in relation thereto. The Company has maintained Directors and officers liability insurance during the year.

PUBLIC FINANCE LIMITED
大眾財務有限公司

REPORT OF THE DIRECTORS

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 (“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.

Auditor

Ernst & Young retires and a resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD
Tang Wing Chew
Director

19 January 2017

Independent auditor's report
To the members of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Public Finance Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 97, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and auditor's report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors and other supplementary financial information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report
To the members of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent auditor's report
To the members of Public Finance Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements
(continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

19 January 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Interest income	4	841,938	877,006
Interest expense	4	(62,304)	(62,964)
NET INTEREST INCOME		<u>779,634</u>	<u>814,042</u>
Other operating income	5	112,760	124,003
OPERATING INCOME		<u>892,394</u>	<u>938,045</u>
Operating expenses	6	(393,476)	(402,003)
Changes in fair value of investment properties	14	297	829
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		<u>499,215</u>	<u>536,871</u>
Impairment allowances for loans and advances and receivables	7	(246,373)	(240,522)
PROFIT BEFORE TAX		<u>252,842</u>	<u>296,349</u>
Tax	9	(41,778)	(48,592)
PROFIT FOR THE YEAR		<u><u>211,064</u></u>	<u><u>247,757</u></u>
ATTRIBUTABLE TO:			
Owners of the Company		<u>211,064</u>	<u>247,757</u>

PUBLIC FINANCE LIMITED
大眾財務有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
PROFIT FOR THE YEAR	211,064	247,757
OTHER COMPREHENSIVE INCOME FOR THE YEAR	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>211,064</u>	<u>247,757</u>
ATTRIBUTABLE TO:		
Owners of the Company	<u>211,064</u>	<u>247,757</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
ASSETS			
Cash and short term placements	11	1,234,029	1,171,984
Loans and advances and receivables	12	5,317,412	5,210,533
Held-to-maturity investments	13	19,968	19,998
Investment properties	14	23,411	30,657
Property and equipment	15	16,985	16,118
Land held under finance leases	16	45,235	39,659
Deferred tax assets	20	14,515	13,043
Intangible assets	18	486	486
Other assets	17	28,186	35,693
TOTAL ASSETS		6,700,227	6,538,171
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost	19	4,975,010	4,797,270
Current tax payable		6,689	17,196
Deferred tax liabilities	20	4,014	3,473
Other liabilities	17	151,074	135,798
TOTAL LIABILITIES		5,136,787	4,953,737
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	671,038	671,038
Reserves	22	892,402	913,396
TOTAL EQUITY		1,563,440	1,584,434
TOTAL EQUITY AND LIABILITIES		6,700,227	6,538,171

Tang Wing Chew
Director

Lee Huat Oon
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
TOTAL EQUITY			
Balance at the beginning of the year		1,584,434	1,576,505
Profit for the year		211,064	247,757
Other comprehensive income		-	-
Total comprehensive income for the year		211,064	247,757
Dividends paid in respect of previous year	10(a)	(121,512)	(121,960)
Dividends paid in respect of current year	10(a)	(110,546)	(117,868)
Balance at the end of the year		1,563,440	1,584,434

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		252,842	296,349
Adjustments for:			
Depreciation of property and equipment and land held under finance leases	6	8,097	7,868
Increase in fair value of investment properties	14	(297)	(829)
Increase in impairment allowances for loans and advances and receivables		10,409	2,341
Net losses on disposal of property and equipment		10	22
Profits tax paid		<u>(53,216)</u>	<u>(43,048)</u>
Operating profit before changes in operating assets and liabilities		<u>217,845</u>	<u>262,703</u>
Increase in operating assets:			
Increase in loans and advances and receivables		(117,288)	(271,532)
(Increase) / decrease in held-to-maturity investments		(19,968)	9,999
Decrease in other assets		<u>7,507</u>	<u>14,437</u>
		<u>(129,749)</u>	<u>(247,096)</u>
Increase in operating liabilities:			
Increase in customer deposits at amortised cost		177,740	471,859
Increase in other liabilities		<u>15,276</u>	<u>18,879</u>
		<u>193,016</u>	<u>490,738</u>
Net cash inflow from operating activities		<u>281,112</u>	<u>506,345</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITY			
Purchases of property and equipment	15	<u>(7,007)</u>	<u>(7,067)</u>
Net cash outflow from investing activity		<u>(7,007)</u>	<u>(7,067)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on shares		<u>(232,058)</u>	<u>(239,828)</u>
Net cash outflow from financing activities		<u>(232,058)</u>	<u>(239,828)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		42,047	259,450
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>1,191,982</u>	<u>932,532</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>1,234,029</u></u>	<u><u>1,191,982</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and short term placements repayable on demand	28	415,883	360,157
Money at call and short notice with an original maturity within three months		818,146	811,827
Held-to-maturity investments with an original maturity within three months		<u>-</u>	<u>19,998</u>
		<u><u>1,234,029</u></u>	<u><u>1,191,982</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, 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 bank 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		Principal activities
		Direct %	Indirect %	
Public Financial Limited	10,100,000	100	-	Investment holding
Public Securities Limited	10,000,000	-	100	Securities brokerage
Public Securities (Nominees) Limited	10,000	100	-	Provision of nominee services

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 (“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 2016.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016		31 December 2015		Principal activities
	Total assets HK\$’000	Total equity HK\$’000	Total assets HK\$’000	Total equity HK\$’000	
Public Financial Limited	10,101	10,101	10,101	10,101	Investment holding
Public Securities Limited	178,378	151,306	168,435	148,796	Securities brokerage
Public Securities (Nominees) Limited	1,134	1,130	1,109	1,094	Provision of nominee services

The computation of liquidity maintenance ratio, common equity tier 1 (“CET1”) capital ratio, tier 1 capital ratio, total capital ratio, capital conservation buffer (“CCB”) ratio, countercyclical capital buffer (“CCyB”) ratio and leverage ratio for regulatory reporting purpose is on a solo basis of the Company only.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 purpose. No subsidiary will be consolidated for capital adequacy ratio computation as the subsidiaries do not satisfy the criteria as stipulated in the Banking (Capital) Rules (the "Capital Rules") issued by the HKMA.

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

A portion of retained profits, based on a percentage of gross loans and advances, is set aside as a non-distributable regulatory reserve as part of 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 CCB ratio 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 CCyB ratio ranging from 0% to 2.5%, have been implemented since 1 January 2016. The CCyB ratio requirement for 2016 and 2017 is 0.625% and 1.25%, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2016. The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKFRS 10 and HKAS 28 (2011), amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below.

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.

31 December 2016

2.4 ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. The amendments have had no 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 a 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 applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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.

- | | |
|--------------------------|--|
| • Amendments to HKFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions²</i> |
| • Amendments to HKFRS 4 | <i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i> |
| • HKFRS 9 | <i>Financial Instruments²</i> |
| • HKFRS 15 | <i>Revenue from Contracts with Customers²</i> |
| • Amendments to HKFRS 15 | <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i> |
| • HKFRS 16 | <i>Leases³</i> |
| • Amendments to HKAS 7 | <i>Disclosure Initiative¹</i> |
| • Amendments to HKAS 12 | <i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i> |

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.4 ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

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.

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 structured 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 June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

31 December 2016

2.4 ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to re-measure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

2.4 ACCOUNTING POLICIES (Continued)

Issued but not yet effective HKFRSs (Continued)

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

NOTES TO FINANCIAL STATEMENTS

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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".

31 December 2016

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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.

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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.

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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 33 $\frac{1}{3}$ % |
| Others | Over the shorter of the remaining lease terms and 7 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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.

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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.

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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

Public Financial Holdings Limited (“PFHL”) operated a share option scheme for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the PFHL Group’s operations. Employees (including Directors) of the Group received remuneration in the form of share-based payments whereby employees rendered 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

2.6 SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

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

Impairment allowances on loans and advances and receivables

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

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

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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, revolving loans, property mortgage loans, hire purchase loans to individuals and small to medium size manufacturing companies, remittance service, and the provision of finance to purchasers of taxis;
- the stockbroking segment comprises securities dealing and receipt of commission income; and
- other businesses segment comprises mainly the letting of investment properties.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016 and 2015.

	Personal and commercial		Stockbroking		Other businesses		Total	
	lending businesses							
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue								
External:								
Net interest income/(expense)	779,699	814,075	(65)	(33)	-	-	779,634	814,042
Other operating income:								
Fees and commission income	97,421	100,707	14,046	21,882	-	-	111,467	122,589
Others	253	174	(10)	(76)	1,050	1,316	1,293	1,414
Operating income	877,373	914,956	13,971	21,773	1,050	1,316	892,394	938,045
Operating profit after impairment allowance	249,323	286,128	2,937	9,049	582	1,172	252,842	296,349
Profit before tax							252,842	296,349
Tax							(41,778)	(48,592)
Profit for the year							211,064	247,757
Other segment information								
Depreciation of property and equipment and land held under finance leases	(8,097)	(7,868)	-	-	-	-	(8,097)	(7,868)
Changes in fair value of investment properties	-	-	-	-	297	829	297	829
Impairment allowances for loans and advances and receivables	(246,373)	(240,522)	-	-	-	-	(246,373)	(240,522)
Net losses on disposal of property and equipment	(10)	(22)	-	-	-	-	(10)	(22)

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SEGMENT INFORMATION (Continued)

Operating segment information (Continued)

The following table discloses certain asset and liability information regarding operating segments as at 31 December 2016 and 2015.

	Personal and commercial lending businesses		Stockbroking		Other businesses		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets other than intangible assets	6,406,529	6,256,934	255,286	237,051	23,411	30,657	6,685,226	6,524,642
Intangible assets	-	-	486	486	-	-	486	486
Segment assets	6,406,529	6,256,934	255,772	237,537	23,411	30,657	6,685,712	6,525,128
Unallocated assets:								
Deferred tax assets and tax recoverable							14,515	13,043
Total assets							6,700,227	6,538,171
Segment liabilities	5,022,574	4,846,216	103,200	86,464	310	388	5,126,084	4,933,068
Unallocated liabilities:								
Deferred tax liabilities and tax payable							10,703	20,669
Total liabilities							5,136,787	4,953,737
Other segment information								
Additions to non-current assets - capital expenditure	7,007	7,067	-	-	-	-	7,007	7,067

Geographical information

Over 90% (2015: 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% (2015: less than 10%) of the Group's total operating income or revenue.

NOTES TO FINANCIAL STATEMENTS

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4. INTEREST INCOME AND EXPENSE

	2016 HK\$'000	2015 HK\$'000
Interest income from:		
Loans and advances and receivables	841,077	876,465
Short term placements and placements with banks	830	538
Held-to-maturity investments	31	3
	<u>841,938</u>	<u>877,006</u>
Interest expense on:		
Deposits from customers	62,163	62,814
Bank loans	141	150
	<u>62,304</u>	<u>62,964</u>

Interest income and interest expense for the year ended 31 December 2016, 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\$841,938,000 and HK\$62,304,000 (2015: HK\$877,006,000 and HK\$62,964,000) respectively. Interest income on the impaired loans and advances for the year ended 31 December 2016 amounted to HK\$2,194,000 (2015: HK\$2,584,000).

5. OTHER OPERATING INCOME

	2016 HK\$'000	2015 HK\$'000
Fees and commission income:		
Personal and commercial lending	97,421	100,707
Stockbroking	14,046	21,882
	<u>111,467</u>	<u>122,589</u>
Gross rental income	1,064	1,327
Less: Direct operating expenses	(14)	(11)
Net rental income	<u>1,050</u>	<u>1,316</u>
Net losses on disposal of property and equipment	(10)	(22)
Others	253	120
	<u>112,760</u>	<u>124,003</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016 and 2015.

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	2016 HK\$'000	2015 HK\$'000
Staff costs:			
Salaries and other staff costs		231,671	237,215
Pension contributions		11,329	10,919
Less: Forfeited contributions		(44)	(38)
Net contribution to retirement benefit schemes		11,285	10,881
		242,956	248,096
Other operating expenses:			
Operating lease rentals on leasehold buildings		45,879	45,844
Depreciation of property and equipment and land held under finance leases	15, 16	8,097	7,868
Auditor's remuneration		1,526	1,523
Administrative and general expenses		31,001	31,404
Others		64,017	67,268
Operating expenses before changes in fair value of investment properties		393,476	402,003

As at 31 December 2016 and 2015, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years. The credits for the years ended 31 December 2016 and 2015 arose in respect of staff who left the schemes during the years.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. IMPAIRMENT ALLOWANCES

	2016 HK\$'000	2015 HK\$'000
Net charge for impairment losses and allowances:		
- loans and advances	<u>246,373</u>	<u>240,522</u>
Net charge for/(write-back of) impairment losses and allowances:		
- individually assessed	247,638	240,270
- collectively assessed	<u>(1,265)</u>	<u>252</u>
	<u>246,373</u>	<u>240,522</u>
Of which:		
- new impairment losses and allowances (including any amount directly written off during the year)	382,734	387,045
- releases and recoveries	<u>(136,361)</u>	<u>(146,523)</u>
Net charge to the consolidated income statement	<u>246,373</u>	<u>240,522</u>

There were no impairment allowances for financial assets other than loans and advances and receivables for the years ended 31 December 2016 and 2015.

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:

	2016 HK\$'000	2015 HK\$'000
Fees	328	353
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	2,353	2,233
Retirement benefits contribution	<u>194</u>	<u>185</u>
	<u>2,875</u>	<u>2,771</u>

No share option benefits were paid in 2016 (2015: 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

9. TAX

	Note	2016 HK\$'000	2015 HK\$'000
Current tax charge		42,709	49,470
Deferred tax credit, net	20	<u>(931)</u>	<u>(878)</u>
		<u>41,778</u>	<u>48,592</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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, and a reconciliation of the applicable rates (i.e. statutory tax rates) to the effective tax rates, are as follows:

	2016		2015	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>252,842</u>		<u>296,349</u>	
Tax at the applicable tax rate	41,719	16.5	48,898	16.5
Estimated tax effect of net expenses/(income) that are/is not deductible/(taxable)	<u>59</u>	<u>-</u>	<u>(306)</u>	<u>(0.1)</u>
Tax charge at the Group's effective rate	<u>41,778</u>	<u>16.5</u>	<u>48,592</u>	<u>16.4</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. DIVIDENDS

(a) Dividends approved and paid during the year

	2016 HK cents per ordinary share	2015 HK cents per ordinary share	2016 HK\$'000	2015 HK\$'000
Interim dividend	42.715	45.544	110,546	117,868
Final dividend in respect of previous year	<u>46.952</u>	<u>47.125</u>	<u>121,512</u>	<u>121,960</u>
	<u>89.667</u>	<u>92.669</u>	<u>232,058</u>	<u>239,828</u>

Final dividend of 2015 was paid in 2016 with the consent of shareholders at the 2016 AGM.

(b) Dividends attributable to the year

	2016 HK cents per ordinary share	2015 HK cents per ordinary share	2016 HK\$'000	2015 HK\$'000
Interim dividend	42.715	45.544	110,546	117,868
Proposed final dividend	<u>37.745</u>	<u>46.952</u>	<u>97,684</u>	<u>121,512</u>
	<u>80.460</u>	<u>92.496</u>	<u>208,230</u>	<u>239,380</u>

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 2016 is subject to the approval of shareholders at the 2017 AGM.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

11. CASH AND SHORT TERM PLACEMENTS

	2016 HK\$'000	2015 HK\$'000
Cash and placements with banks and financial institutions	415,883	360,157
Money at call and short notice	<u>818,146</u>	<u>811,827</u>
	<u><u>1,234,029</u></u>	<u><u>1,171,984</u></u>

Over 90% (2015: 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

	2016 HK\$'000	2015 HK\$'000
Loans and advances to customers	5,363,361	5,246,203
Accrued interest	<u>46,437</u>	<u>46,307</u>
Gross loans and advances and receivables	5,409,798	5,292,510
Less: Impairment allowances for loans and advances and receivables		
- individually assessed	(84,476)	(72,802)
- collectively assessed	(7,910)	(9,175)
	<u>(92,386)</u>	<u>(81,977)</u>
Loans and advances and receivables	<u><u>5,317,412</u></u>	<u><u>5,210,533</u></u>

Over 90% (2015: over 90%) of the loans and advances and receivables were unrated exposures. Over 90% (2015: over 90%) of the collateral for the secured loans and advances and receivables were customer deposits, properties, taxi licences and vehicles.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

Loans and advances and receivables are summarised as follows:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired loans and advances and receivables	4,998,039	4,956,735
Past due but not impaired loans and advances and receivables	288,017	234,234
Individually impaired loans and advances	123,742	101,541
Individually impaired receivables	<u>-</u>	<u>-</u>
Gross loans and advances and receivables	<u>5,409,798</u>	<u>5,292,510</u>

About 31% (2015: 30%) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2016		2015	
	Gross	Percentage	Gross	Percentage
	amount	of total	amount	of total
	HK\$'000	loans and	HK\$'000	loans and
		advances		advances
		%		%
Loans and advances overdue for:				
Six months or less but over three months	65,489	1.22	71,066	1.36
One year or less but over six months	1,801	0.04	1,178	0.02
Over one year	-	-	-	-
Loans and advances overdue for more than three months	67,290	1.26	72,244	1.38
Rescheduled loans and advances overdue for three months or less	54,886	1.02	28,064	0.54
Impaired loans and advances overdue for three months or less	1,566	0.03	1,233	0.02
Total overdue and impaired loans and advances	<u>123,742</u>	<u>2.31</u>	<u>101,541</u>	<u>1.94</u>

There were no overdue and impaired accrued interest and other receivables as at 31 December 2016 and 2015.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	2016 HK\$'000	2015 HK\$'000
(i) Analysis of overdue loans and advances and receivables		
Loans and advances and receivables overdue for more than three months	<u>67,290</u>	<u>72,244</u>
Individual impairment allowances	<u>50,911</u>	<u>54,731</u>
Current market value and fair value of collateral	<u>-</u>	<u>-</u>
(ii) Analysis of impaired loans and advances and receivables		
Impaired loans and advances and receivables	<u>123,742</u>	<u>101,541</u>
Individual impairment allowances	<u>84,476</u>	<u>72,802</u>
Current market value and fair value of collateral	<u>-</u>	<u>-</u>

Over 90% (2015: over 90%) of the Group's gross loans and advances and receivables were derived from operations carried out in Hong Kong. Accordingly, no geographical segment information of gross loans and advances and receivables is presented herein.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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:**

	2016 HK\$'000	2015 HK\$'000
Current market value and fair value of collateral held against the covered portion of overdue loans and advances	<u>-</u>	<u>-</u>
Covered portion of overdue loans and advances	<u>-</u>	<u>-</u>
Uncovered portion of overdue loans and advances	<u>67,290</u>	<u>72,244</u>

The assets taken as collateral should satisfy the following criteria:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

(d) Repossessed assets

There was no repossessed asset of the Group as at 31 December 2016 (2015: Nil).

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

	2016		2015	
	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	<u>287,728</u>	<u>5.4</u>	<u>234,073</u>	<u>4.5</u>
Accrued interest and other receivables overdue for three months or less	<u>289</u>		<u>161</u>	

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Individual impairment allowances HK\$'000	2016 Collective impairment allowances HK\$'000	Total HK\$'000
As at 1 January 2016	72,802	9,175	81,977
Amounts written off	(370,963)	-	(370,963)
Impairment losses and allowances charged to the consolidated income statement	382,637	97	382,734
Impairment losses and allowances released to the consolidated income statement	(134,999)	(1,362)	(136,361)
Net charge/(release) of impairment losses and allowances	247,638	(1,265)	246,373
Loans and advances and receivables recovered	134,999	-	134,999
As at 31 December 2016	84,476	7,910	92,386
Deducted from: Loans and advances and receivables	84,476	7,910	92,386

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. LOANS AND ADVANCES AND RECEIVABLES (Continued)

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

	Individual impairment allowances HK\$'000	2015 Collective impairment allowances HK\$'000	Total HK\$'000
As 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
As at 31 December 2015	<u>72,802</u>	<u>9,175</u>	<u>81,977</u>
Deducted from: Loans and advances and receivables	<u>72,802</u>	<u>9,175</u>	<u>81,977</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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:

	2016	2015	2016	2015
	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	78,725	73,363	62,019	57,270
In the second to fifth years, inclusive	179,823	175,752	127,267	126,503
Over five years	<u>672,632</u>	<u>620,678</u>	<u>560,918</u>	<u>516,722</u>
	931,180	869,793	<u>750,204</u>	<u>700,495</u>
Less: Unearned finance income	<u>(180,976)</u>	<u>(169,298)</u>		
Present value of minimum lease payments receivable	<u>750,204</u>	<u>700,495</u>		

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.

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13. HELD-TO-MATURITY INVESTMENTS

	2016 HK\$'000	2015 HK\$'000
Unlisted:		
Treasury bills (including Exchange Fund Bills)	<u>19,968</u>	<u>19,998</u>
Analysed by type of issuers:		
- Central government	<u>19,968</u>	<u>19,998</u>

There were no impairment allowances made against held-to-maturity investments as at 31 December 2016 and 2015. There were no movements in impairment allowances for the years ended 31 December 2016 and 2015.

There were neither impaired nor overdue held-to-maturity investments as at 31 December 2016 and 2015. There were no listed held-to-maturity investments as at 31 December 2016 and 2015.

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 2016 and 2015.

14. INVESTMENT PROPERTIES

	HK\$'000
At valuation:	
As at 1 January 2015	29,828
Changes in fair value recognised in the consolidated income statement	<u>829</u>
As at 31 December 2015 and 1 January 2016	30,657
Transfer to property and equipment	(698)
Transfer to land held under finance leases	(6,845)
Changes in fair value recognised in the consolidated income statement	<u>297</u>
As at 31 December 2016	<u>23,411</u>

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14. INVESTMENT PROPERTIES (Continued)

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

	2016 HK\$'000	2015 HK\$'000
At valuation:		
On medium term leases	<u>23,411</u>	<u>30,657</u>

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 (2015: Nil). The Group has assessed that the highest and best use of its properties did not differ from their existing use.

As at 31 December 2016, 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 price of comparable properties on a price per square metre basis. Below is a summary of the significant inputs to the valuation of investment properties:

	2016		2015	
	Range HK\$	Weighted average HK\$	Range HK\$	Weighted average HK\$
Price per square metre	<u>74,000 to 75,000</u>	<u>74,000</u>	<u>72,000 to 74,000</u>	<u>73,000</u>

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.

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15. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
As at 1 January 2015	5,549	87,728	1,609	94,886
Additions	-	7,067	-	7,067
Disposals/write-off	-	(8,614)	-	(8,614)
As at 31 December 2015 and 1 January 2016	5,549	86,181	1,609	93,339
Additions	-	7,007	-	7,007
Transfer from investment properties	698	-	-	698
Disposals/write-off	-	(3,090)	-	(3,090)
As at 31 December 2016	6,247	90,098	1,609	97,954
Accumulated depreciation:				
As at 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)
As at 31 December 2015 and 1 January 2016	1,568	74,044	1,609	77,221
Provided during the year	119	6,709	-	6,828
Disposals/write-off	-	(3,080)	-	(3,080)
As at 31 December 2016	1,687	77,673	1,609	80,969
Net carrying amount:				
As at 31 December 2016	4,560	12,425	-	16,985
As at 31 December 2015	3,981	12,137	-	16,118

There were no impairment allowances made against the above items of property and equipment as at 31 December 2016 and 2015. There were no movements in impairment allowances for the years ended 31 December 2016 and 2015.

All property and equipment are situated in Hong Kong.

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16. LAND HELD UNDER FINANCE LEASES

	HK\$'000
Cost:	
As at 1 January 2015, 31 December 2015 and 1 January 2016	53,778
Transfer from investment properties	<u>6,845</u>
As at 31 December 2016	<u>60,623</u>
Accumulated depreciation and impairment:	
As at 1 January 2015	12,966
Depreciation provided during the year	<u>1,153</u>
As at 31 December 2015 and 1 January 2016	14,119
Depreciation provided during the year	<u>1,269</u>
As at 31 December 2016	<u>15,388</u>
Net carrying amount:	
As at 31 December 2016	<u>45,235</u>
As at 31 December 2015	<u>39,659</u>

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

	2016 HK\$'000	2015 HK\$'000
Leaseholds held in Hong Kong :		
On medium term leases	<u>45,235</u>	<u>39,659</u>

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.

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17. OTHER ASSETS AND OTHER LIABILITIES

Other assets

	2016 HK\$'000	2015 HK\$'000
Interest receivable from financial institutions	22	9
Other debtors, deposits and prepayments	27,393	20,376
Amount due from a fellow subsidiary	771	876
Net amount of accounts receivable from Hong Kong Securities Clearing Company Limited ("HKSCC")	<u>-</u>	<u>14,432</u>
	<u>28,186</u>	<u>35,693</u>

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

	2016 HK\$'000	2015 HK\$'000
Creditors, accruals and interest payable	127,280	135,798
Net amount of accounts payable to HKSCC	<u>23,794</u>	<u>-</u>
	<u>151,074</u>	<u>135,798</u>

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

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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			
2016			
Amount of accounts receivable from HKSCC	<u>1,828</u>	<u>(1,828)</u>	<u>-</u>
2015			
Amount of accounts receivable from HKSCC	<u>33,955</u>	<u>(19,523)</u>	<u>14,432</u>
Other liabilities			
2016			
Amount of accounts payable to HKSCC	<u>(25,622)</u>	<u>1,828</u>	<u>(23,794)</u>
2015			
Amount of accounts payable to HKSCC	<u>(19,523)</u>	<u>19,523</u>	<u>-</u>

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18. INTANGIBLE ASSETS

	2016 HK\$'000	2015 HK\$'000
Cost:		
At the beginning and at the end of the year	<u>486</u>	<u>486</u>
Accumulated impairment:		
At the beginning and at the end of the year	<u>-</u>	<u>-</u>
Net carrying amount:		
At the beginning and at the end of the year	<u>486</u>	<u>486</u>

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 (2015: 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.

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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
As at 1 January 2015	12,292
Deferred tax credited to the consolidated income statement	<u>751</u>
As at 31 December 2015 and 1 January 2016	13,043
Deferred tax credited to the consolidated income statement	<u>1,472</u>
As at 31 December 2016	<u>14,515</u>

Deferred tax liabilities:

	Depreciation allowance in excess of related depreciation HK\$'000
As at 1 January 2015	3,600
Deferred tax credited to the consolidated income statement	<u>(127)</u>
As at 31 December 2015 and 1 January 2016	3,473
Deferred tax charged to the consolidated income statement	<u>541</u>
As at 31 December 2016	<u>4,014</u>

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21. SHARE CAPITAL

	2016 HK\$'000	2015 HK\$'000
Issued and fully paid: 258,800,000 (2015: 258,800,000) ordinary shares	<u>671,038</u>	<u>671,038</u>

22. RESERVES

	Other reserves		Total HK\$'000
	Regulatory reserve HK\$'000	Retained profits HK\$'000	
As at 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)
As at 31 December 2015 and 1 January 2016	100,747	812,649	913,396
Profit for the year	-	211,064	211,064
Transfer from retained profits	4,137	(4,137)	-
Dividends paid in respect of previous year	-	(121,512)	(121,512)
Dividends paid in respect of current year	-	(110,546)	(110,546)
As at 31 December 2016	<u>104,884</u>	<u>787,518</u>	<u>892,402</u>

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.

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23. SHARE OPTION SCHEME

The Company's intermediate holding company, PFHL, operated a 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 gave the holder the right to subscribe for one ordinary share. PFHL was not legally bound or obliged to repurchase or settle the options in cash. All the 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

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23. SHARE OPTION SCHEME (Continued)

(b) Movement of share options

All the share options expired and lapsed on 10 June 2015 and the Group had no outstanding share options at the year ended 31 December 2016.

	2015 Number of share options
Outstanding at 1 January	21,199,000
Lapsed during the year	(182,000)
Expired during the year	<u>(21,017,000)</u>
Outstanding at 31 December	<u>-</u>

Notes:

- (i) The share options were 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 might in its absolute discretion determine from 10 June 2005 to 9 June 2015.
- (ii) There was no open exercise period during the year 2015.

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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.

As at 31 December 2016 and 2015, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	1,077	753
In the second to fifth years, inclusive	<u>751</u>	<u>-</u>
	<u>1,828</u>	<u>753</u>

(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.

As at 31 December 2016 and 2015, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	32,493	28,698
In the second to fifth years, inclusive	<u>17,383</u>	<u>19,018</u>
	<u>49,876</u>	<u>47,716</u>

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25. CONTINGENT LIABILITIES AND COMMITMENTS

	2016		2015	
	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	4,124	-	1,662	-
Undrawn loan facilities with an original maturity of not more than one year or which are unconditionally cancellable, granted to:				
- Customers	<u>2,497</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,621</u>	<u>-</u>	<u>1,662</u>	<u>-</u>

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.

As at 31 December 2016 and 2015, 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 (2015: Nil).

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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	2016 HK\$'000	2015 HK\$'000
Related party transactions included in the consolidated income statement:			
Management fees from a fellow subsidiary	(a)	895	920
Management fees to the intermediate holding company	(b)	1,080	1,080
Rent paid to the intermediate holding company	(c)	12,046	11,635
Interest received from the immediate holding company	(d)	454	262
Interest paid to a fellow subsidiary	(e)	-	7
Commission income from key management personnel	(f)	-	23
Commission and service fee to fellow subsidiaries	(g)	10	13
Building management fee to the intermediate holding company	(c)	92	109
Commitment fee paid to the ultimate holding company	(h)	1,000	997
Bank service charges to the immediate holding company	(i)	1,514	1,471
Key management personnel compensation:			
- Short-term employee benefits	(j)	3,813	3,694
- Post employment benefits	(j)	287	274

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26. RELATED PARTY TRANSACTIONS (Continued)

	Notes	2016 HK\$'000	2015 HK\$'000
Related party transactions included in the consolidated statement of financial position:			
Cash and short term funds with the ultimate holding company	(k)	116	119
Cash and short term funds with the immediate holding company	(d)	1,003,604	953,223
Interest receivable from the immediate holding company	(d)	11	2
Rental deposits to the intermediate holding company	(c)	143	143
Amounts due from a fellow subsidiary included in other assets	(l)	771	876
Co-financing interest and other payable to a fellow subsidiary included in other assets	(l)	<u>-</u>	<u>2</u>

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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) A bank loan was borrowed from a fellow subsidiary. Interest was paid to the fellow subsidiary in respect of the loan for last year.
- (f) Commission income was received from the key management personnel of the Group for securities dealing through a subsidiary.
- (g) The expenses represented commission and service fee paid for the referrals of stockbroking business and taxi financing loans from fellow subsidiaries during the year.
- (h) 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.
- (i) Bank service charges were paid to the immediate holding company for banking services provided to the Group during the year.
- (j) 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.
- (k) 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.
- (l) These balances in respect of co-financing taxi loans include other receivable and payable to a fellow subsidiary.

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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 as at 31 December 2016 and 2015.

For the years ended 31 December 2016 and 2015, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy.

For the years ended 31 December 2016 and 2015, 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 2016 and 2015.

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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 period 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.

	2016							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
Cash and short term placements	415,883	818,146	-	-	-	-	-	1,234,029
Loans and advances and receivables (gross)	30,170	247,657	404,016	1,418,101	1,885,177	1,300,935	123,742	5,409,798
Held-to-maturity investments	-	-	19,968	-	-	-	-	19,968
Other assets	-	7,508	-	-	-	-	20,678	28,186
Total financial assets	446,053	1,073,311	423,984	1,418,101	1,885,177	1,300,935	144,420	6,691,981
Financial liabilities:								
Customer deposits at amortised cost	21,499	971,232	2,395,653	1,586,626	-	-	-	4,975,010
Other liabilities	100	28,691	5,323	2,518	-	-	114,442	151,074
Total financial liabilities	21,599	999,923	2,400,976	1,589,144	-	-	114,442	5,126,084
Net liquidity gap	424,454	73,388	(1,976,992)	(171,043)	1,885,177	1,300,935	29,978	1,565,897

	2015							Total HK\$'000
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000	Over 1 year but not more than 5 years HK\$'000	Over 5 years HK\$'000	Repayable within an indefinite period HK\$'000	
Financial assets:								
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

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29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities comprise deposit taking and financing. These 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.

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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\$580 million (2015: HK\$482 million) up to 12 months in 2016, profit before tax in 2016 would decrease/increase by HK\$10 million or 0.71% of equity (2015: HK\$11 million or 0.78% of equity). Profit before tax would decrease/increase by HK\$9 million or 0.65% of equity (2015: HK\$10 million or 0.70% of equity) for the next 12 months after the reporting date.

Based on the positive net interest gap of HK\$1,023 million (2015: HK\$1,125 million) up to five years, the economic value would increase by HK\$59 million (2015: 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\$32 million or 2.22% of equity (2015: HK\$29 million or 1.99% of equity) for the year ended 31 December 2016. Profit before tax would decrease by HK\$32 million or 2.29% of equity (2015: HK\$31 million or 2.11% 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\$78 million or 5.52% of equity (2015: HK\$74 million or 5.15% of equity) for the year ended 31 December 2016. Profit before tax would decrease by HK\$79 million or 5.53% of equity (2015: HK\$78 million or 5.39% of equity) for the next 12 months after the reporting date.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016 and 2015 are detailed as follows:

	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	2016 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	818,146	-	-	-	-	-	415,883	1,234,029
Loans and advances and receivables	1,989,400	897,894	469,514	191,469	43,734	2,698	168,325	3,763,034
Held-to-maturity investments	19,968	-	-	-	-	-	-	19,968
	<u>2,827,514</u>	<u>897,894</u>	<u>469,514</u>	<u>191,469</u>	<u>43,734</u>	<u>2,698</u>	<u>584,208</u>	<u>5,017,031</u>
Floating rate financial assets								
Loans and advances and receivables	1,644,910	-	-	-	-	-	1,854	1,646,764
Less:								
Liabilities:								
Fixed rate financial liabilities								
Customer deposits at amortised cost	4,975,010	-	-	-	-	-	-	4,975,010
Total interest sensitivity gap	<u>(502,586)</u>	<u>897,894</u>	<u>469,514</u>	<u>191,469</u>	<u>43,734</u>	<u>2,698</u>	<u>586,062</u>	<u>1,688,785</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest Rate Risk Management (Continued)

	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	2015 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
	<u>2,814,337</u>	<u>893,284</u>	<u>478,926</u>	<u>194,425</u>	<u>45,510</u>	<u>3,334</u>	<u>506,333</u>	<u>4,936,149</u>
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	<u>(431,262)</u>	<u>888,284</u>	<u>478,926</u>	<u>194,425</u>	<u>45,510</u>	<u>3,334</u>	<u>508,005</u>	<u>1,687,222</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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:

	2016 Rate %	2015 Rate %
Assets		
Cash and short term placements	0.243	0.068
Loans and advances and receivables	15.234	16.046
Held-to-maturity investments	0.660	0.040
Liabilities		
Customer deposits at amortised cost	<u>1.360</u>	<u>1.310</u>

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 2016 and 2015. 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.

31 December 2016

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 and management 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 and management reports. Impaired financial assets include those subject to personal bankruptcy petitions, corporate winding-up and rescheduled arrangements.

RMC is 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:

	2016 HK\$'000	2015 HK\$'000
Loan commitments	<u>2,497</u>	<u>-</u>

31 December 2016

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 is responsible for day-to-day monitoring of liquidity maintenance ratio, loans to deposits ratio, concentration risk 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 management 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 management 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 stress scenarios; concentration related limits of deposits and other funding sources, and maturity profile of major assets and liabilities (including on-balance sheet 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 emergency 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 the 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 intra-group 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 stress scenarios such as institution-specific stress scenario, general market stress 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 stress 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 cancelled by the Group. Core deposits ratio would decrease as there would be fewer renewals of fixed deposits on the contractual maturity dates. In general market stress 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:

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2016		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
			Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months HK\$'000				
Customer deposits at amortised cost	21,600	975,833	2,406,123	1,598,343	-	-	-	5,001,899
Other liabilities	-	24,574	-	-	-	-	114,442	139,016
Gross loan commitments	2,497	-	-	-	-	-	-	2,497
	<u>24,097</u>	<u>1,000,407</u>	<u>2,406,123</u>	<u>1,598,343</u>	<u>-</u>	<u>-</u>	<u>114,442</u>	<u>5,143,412</u>
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	2015		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
			Over 1 month but not more than 3 months HK\$'000	Over 3 months but not more than 12 months 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	-	-	-	-	-	-	-	-
	<u>16,584</u>	<u>1,162,906</u>	<u>2,536,765</u>	<u>1,132,242</u>	<u>5,063</u>	<u>-</u>	<u>91,691</u>	<u>4,945,251</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk Management (Continued)

Liquidity maintenance ratio

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.

	2016	2015
Average liquidity maintenance ratio	<u>72.9%</u>	<u>72.4%</u>

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.

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.

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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.

	2016	2015
CET1 Capital Ratio	<u>22.9%</u>	<u>23.1%</u>
Tier 1 Capital Ratio	<u>22.9%</u>	<u>23.1%</u>
Total Capital Ratio	<u>23.9%</u>	<u>24.1%</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital disclosures

The components of capital base include the following items:

	2016 HK\$'000	2015 HK\$'000
CET1 capital instruments	671,038	671,038
Retained earnings	547,420	551,256
Disclosed reserves	<u>104,884</u>	<u>100,747</u>
CET1 capital before deduction	1,323,342	1,323,041
Deduct:		
Cumulative fair value gains arising from the revaluation of land and buildings (covering both own-use and investment properties)	(7,478)	(7,181)
Regulatory reserve for general banking risk	(104,884)	(100,747)
Deferred tax assets in excess of deferred tax liabilities	<u>(10,506)</u>	<u>(9,620)</u>
CET1 capital after deduction	<u>1,200,474</u>	<u>1,205,493</u>
Additional Tier 1 capital	<u>-</u>	<u>-</u>
Tier 1 capital after deductions	<u>1,200,474</u>	<u>1,205,493</u>
Reserve attributable to fair value gains	3,365	3,231
Regulatory reserve for general banking risk	<u>41,766</u>	<u>39,532</u>
Collective provisions	<u>7,910</u>	<u>9,175</u>
	<u>49,676</u>	<u>48,707</u>
Tier 2 capital	<u>53,041</u>	<u>51,938</u>
Capital base	<u><u>1,253,515</u></u>	<u><u>1,257,431</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Capital conservation buffer (CCB)

The Company is subject to the 2.5% CCB ratio which has been phased-in from 2016. The applicable CCB ratio effective from 1 January 2016 and 1 January 2017 is 0.625% and 1.25%, respectively. The Company has reserved a capital buffer for the 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 conservation buffer.

The Company has reserved a capital buffer for the implementation of CCyB ratio, which includes CCyB ratio of 0.625%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2016.

The following table illustrates the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

As at 31 December 2016

Jurisdiction (J)	Applicable JCCyB ratio in effect %	Total RWA used in computation of CCyB ratio HK\$'000	CCyB ratio %	CCyB amount HK\$'000
Hong Kong	0.625	<u>3,779,942</u>	0.625	<u>23,625</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

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 Instruction of the Quarterly Template on Leverage Ratio.

	2016 HK\$'000	2015 HK\$'000
Tier 1 Capital	<u>1,200,474</u>	<u>1,205,493</u>
Exposure Measure for Leverage Ratio	<u>6,350,857</u>	<u>6,213,370</u>
Leverage Ratio	<u>18.9%</u>	<u>19.4%</u>

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 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital Management (Continued)

Risk exposures (Continued)

	2016		2015	
	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000	Risk-weighted exposures HK\$'000	Capital requirements/ charge HK\$'000
Credit risk	3,974,061	317,925	3,896,526	311,722
Market risk	-	-	-	-
Operational risk	1,342,850	107,428	1,377,550	110,204
Deductions	(67,231)		(65,165)	
	<u>5,249,680</u>		<u>5,208,911</u>	

For the years ended 31 December 2016 and 2015, 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 2016 and 2015, 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 a 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.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 financial statements under "Regulatory Disclosures" section on the Company's website: www.publicfinance.com.hk on or before 30 April 2017.

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	2016 HK\$'000	2015 HK\$'000
CET1 capital instruments issued by the Company			
Ordinary shares:			
258,800,000 issued and fully paid ordinary shares	21	<u>671,038</u>	<u>671,038</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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	2016 HK\$'000	2015 HK\$'000
ASSETS			
Cash and short term placements		988,391	953,917
Loans and advances and receivables		5,317,412	5,210,533
Held-to-maturity investments		19,968	19,998
Investment properties		23,411	30,657
Property and equipment		16,105	15,016
Land held under finance leases		45,235	39,659
Investments in subsidiaries	30(a)	10,110	10,110
Deferred tax assets		14,515	13,043
Other assets		19,418	17,811
TOTAL ASSETS		6,454,565	6,310,744
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits at amortised cost		4,975,010	4,797,270
Current tax payable		6,646	16,164
Deferred tax liabilities		4,009	3,423
Other liabilities		47,873	49,333
TOTAL LIABILITIES		5,033,538	4,866,190
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		671,038	671,038
Reserves	30(b)	749,989	773,516
TOTAL EQUITY		1,421,027	1,444,554
TOTAL EQUITY AND LIABILITIES		6,454,565	6,310,744

Tang Wing Chew
Director

Lee Huat Oon
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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:

	2016 HK\$'000	2015 HK\$'000
Unlisted shares, at cost	<u>10,110</u>	<u>10,110</u>

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		Total HK\$'000
	Regulatory reserve HK\$'000	Retained profits HK\$'000	
As at 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)
As at 31 December 2015 and 1 January 2016	100,747	672,769	773,516
Profit for the year	-	208,531	208,531
Transfer from retained profits	4,137	(4,137)	-
Dividends paid in respect of previous year	-	(121,512)	(121,512)
Dividends paid in respect of current year	-	(110,546)	(110,546)
As at 31 December 2016	<u>104,884</u>	<u>645,105</u>	<u>749,989</u>

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 19 January 2017.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 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 2016								
	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	6,737	17	-	760	760	-	-	-	-
Building and construction, property development and investment									
Property development	448	1	-	1	-	-	-	-	-
Property investment	12,636	6	-	2	-	12,636	100.0	-	-
Civil engineering works	8,933	18	-	-	-	100	1.1	-	-
Electricity and gas	-	-	-	-	-	-	-	-	-
Recreational activities	110	-	-	-	-	-	-	-	-
Information technology	-	-	-	-	-	-	-	-	-
Wholesale and retail trade	29,392	57	46	110	64	1,749	6.0	62	62
Transport and transport equipment	696,273	71	-	5	-	695,913	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	889,727	90	-	4	-	889,727	100.0	-	-
Loans for credit card advances	-	-	-	-	-	-	-	-	-
Loans for other business purposes	-	-	-	-	-	-	-	-	-
Loans for other private purposes	3,689,612	7,538	83,340	379,177	368,183	44,886	1.2	122,835	66,383
Trade finance	-	-	-	-	-	-	-	-	-
Other loans and advances	-	-	-	-	-	-	-	-	-
Loans and advances for use outside Hong Kong	29,493	112	1,090	2,675	1,956	200	0.7	845	845
Total loans and advances (excluding other receivables)	5,363,361	7,910	84,476	382,734	370,963	1,645,211	30.7	123,742	67,290

PUBLIC FINANCE LIMITED
大眾財務有限公司

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

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

Company

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

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

(B) 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
As at 31 December 2016			
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	10,060	-	10,060
Total	<u>10,060</u>	<u>-</u>	<u>10,060</u>
Total assets after provision	<u>6,454,565</u>		
On-balance sheet exposures as percentage of total assets	<u>0.16%</u>		
Type of counterparties	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
As at 31 December 2015			
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	<u>15,451</u>	<u>-</u>	<u>15,451</u>
Total assets after provision	<u>6,310,744</u>		
On-balance sheet exposures as percentage of total assets	<u>0.24%</u>		

Note:

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

(C) 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 2016, 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 and implementation of the Remuneration Policy applicable to all employees of the Group.

A meeting was held in 2016. The attendance of each member in 2016 is set out below:

Name of members	Number of meetings attended in 2016	Attendance rate
Mr. Lai Wan, <i>Chairman of the Committee</i>	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, 2016 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of Directors

The scales of Directors' fees of the Company for the years 2016 and 2015 are set out as below:

Board of Directors	2016 Range HK\$	2015 Range HK\$
Chairman/Co-Chairman	<u>50,000 to 102,500</u>	<u>50,000 to 102,500</u>
Other Directors	<u>25,000 to 50,000</u>	<u>25,000 to 50,000</u>

No remuneration was paid to members of the Remuneration Committee for the years 2016 and 2015 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, Risk Management 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.

31 December 2016

(C) 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.

31 December 2016

(C) 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.

31 December 2016

(C) 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.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

(C) 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 2016. 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 2016 and 2015, split into fixed and variable remuneration, is set out below:

Remuneration of senior management*:

	2016 (5 beneficiaries)		2015 (5 beneficiaries)	
	Non-deferred HK\$	Deferred HK\$	Non-deferred HK\$	Deferred HK\$
Fixed remuneration				
Cash	<u>6,363,026</u>	<u>-</u>	<u>6,146,449</u>	<u>-</u>
Variable remuneration				
Cash	<u>1,707,677</u>	<u>-</u>	<u>1,614,649</u>	<u>-</u>

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

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2016

(C) DISCLOSURE OF THE REMUNERATION SYSTEM (Continued)

Remuneration of senior management and key personnel (Continued)

Remuneration for key personnel[#]:

	2016 (11 beneficiaries)		2015 (13 beneficiaries)	
	Non-deferred HK\$	Deferred HK\$	Non-deferred HK\$	Deferred HK\$
Fixed remuneration				
Cash	<u>6,363,594</u>	<u>-</u>	<u>7,031,753</u>	<u>-</u>
Variable remuneration				
Cash	<u>1,469,828</u>	<u>-</u>	<u>1,624,716</u>	<u>-</u>

[#] 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 2016 and 2015.
- (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 2016 and 2015.
- (iv) No senior management or key personnel had been awarded new sign-on or severance payments or paid guaranteed bonuses during the financial years 2016 and 2015.

31 December 2016

(D) CORPORATE GOVERNANCE

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

1. Board Executive Committee

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

2. Risk Management Committee

RMC is responsible for overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management, compliance 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 adequate resources and independence of Compliance Department. The minutes of RMC meetings are tabled to the Board for noting and further action, where appropriate. The Manager of Risk Management Department and Compliance Manager shall normally attend the meetings. The members of RMC shall be appointed by the Board from amongst the Non-Executive Directors of the Company, 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 RMC), Mr. Lee Chin Guan, Mr. Tang Wing Chew, Mr. Quah Poh Keat and Dato’ Chang Kat Kiam.

3. Audit Committee

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 from amongst the Non-Executive Directors of the Company, the majority of them shall be Independent Non-Executive Directors 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.

31 December 2016

(D) 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 shall be appointed by the Board from amongst the Non-Executive Directors of the Company, 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Head of Direct Sales, Manager of Accounts Department, 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Head of Business Operations and Administration.

7. Assets and Liabilities Management Committee

ALCO reviews and assesses the risk profile (including risk tolerance limits and potential material impacts) 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Manager of Accounts Department and Manager of Risk Management Department.

8. Human Resources Committee

Human Resources Committee assists the Board in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration packages of all staff. The members of the Committee comprise the General Manager/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Human Resources Manager.

31 December 2016

(D) CORPORATE GOVERNANCE (Continued)

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/Chief Executive, Information Technology Controller and Manager 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business) and Manager 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Information Technology Controller, Manager of Accounts Department, Head of Business Operations and Administration and Manager of Risk Management Department.

12. Anti-Money Laundering (“AML”) Committee

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. AML Committee also review the compliance training needs on the AML requirements of Compliance staff and other staff and evaluate the training effectiveness. The AML Committee initiate ongoing system enhancements to facilitate effective and efficient implementation and management. The members of the Committee comprise the Compliance Manager/AML Compliance Officer/Alternate AML Compliance Officer, Manager of Fixed Deposit Department, Head of Business Operations and Administration, Zone Manager, Assistant General Manager, Assistant General Manager (Business) and Manager of Risk Management Department.

31 December 2016

(D) 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. It also ensure that the appropriate lines of reporting have been established and appropriate infrastructure, resources, processes and system are in place for compliance assessment and to support initiatives that are directed at improving and contributing to the effectiveness of the compliance function. It reviews annual compliance plan, compliance training needs of Compliance staff and other staff and evaluate the training effectiveness. The members of Compliance Working Group comprise the Assistant General Manager, Assistant General Manager (Business), Zone Manager, Compliance Manager, Audit Manager, Manager of Accounts Department, Head of Business Operations and Administration and Manager of Risk Management Department.

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/Chief Executive, Assistant General Manager, Assistant General Manager (Business), 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/Chief Executive, Assistant General Manager, Assistant General Manager (Business), Manager of Accounts Department, Head of Business Operations and Administration and Manager of Risk Management Department.