Report of the Directors and Audited Financial Statements

KDB ASIA LIMITED
產銀亞洲金融有限公司

31 December 2018

KDB ASIA LIMITED

CONTENTS

KDB ASIA LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Principal activities

The principal activities of the Company have not changed during the year and consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

Results and dividends

The Company's profit for the year ended 31 December 2018 and the Company's financial position at that date are set out in the financial statements on pages 5 to 85.

The directors do not recommend the payment of any final dividend in respect of the year.

Share capital

There have been no movements in the Company's share capital during the year.

Reserves

Details of movements in the Company's reserves during the year are set out in note 18 to the financial statements and in the statement of changes in equity.

Directors

The directors of the Company during the year were:

Mr. CHOI Man Sik	
Mr. HUH Yong Hak	
Mr. KIM Joong Gon	
Mr. LEE Byung Ho	
Mr. KIM Geun Sik	(Appointed on 15 June 2018)
Mr. LEE Young Jae	(Appointed on 15 June 2018)
Mr. MIN In Hwan	(Appointed on 15 June 2018)
Mr. HONG Sun Young	(Resigned on 15 June 2018)
Mr. YEO Dong Bok	(Resigned on 15 June 2018)

Subsequent to the end of the reporting period, Mr. HUH Yong Hak resigned as director of the Company on 26 March 2019.

In accordance with article 103 of the Company's articles of association, all of the existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' interests

At no time during the year was the Company or any of its holding companies 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.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company's holding companies or fellow subsidiaries was a party during the year.

Permitted indemnity provision

During the year ended 31 December 2018, a qualifying third party indemnity provision provided by the Company for the benefit of all the directors of the Company was in force.

Compliance with Supervisory Policy Manual

The Company has complied with the disclosure requirements of the "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA"). The Company has also complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

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LEE Young Jae
Chief Executive

Hong Kong
25 April 2019

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

Opinion

We have audited the financial statements of KDB Asia Limited (the "Company") set out on pages 5 to 85, which comprise the statement of financial position as at 31 December 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company 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.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Independent auditor's report (continued)
To the members of KDB Asia Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

- 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors 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
Hong Kong
25 April 2019

KDB ASIA LIMITED

INCOME STATEMENT

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
Interest income	3(a)	45,685,076	37,122,087
Interest expense	3(b)	(26,954,000)	(16,071,144)
Net interest income		18,731,076	21,050,943
Fee and commission income	3(c)	7,367,553	6,093,670
Fee and commission expense	3(c)	(437,917)	(251,227)
Net fee and commission income		6,929,636	5,842,443
Net gains from financial assets held at fair value through profit or loss	3(d)	458,408	136,640
Net hedging loss	3(e)	(572,792)	(228,427)
Other operating gains/(losses), net	3(f)	2,037,371	(304,535)
Operating income		27,583,699	26,497,064
Operating expenses	3(g)	(9,777,822)	(10,047,961)
Reversal of credit loss allowances, net	5	1,045,359	-
Release of impairment allowances on loans and advances	5	-	4,081,861
Release of impairment allowances on available-for-sale investments	5	-	56,654
Net gains from sale of financial assets at fair value through other comprehensive income/available-for-sale investments	3(h)	142,519	2,926,266
PROFIT BEFORE TAX		18,993,755	23,513,884
Income tax expense	6	(3,118,402)	(3,385,249)
PROFIT FOR THE YEAR		15,875,353	20,128,635

KDB ASIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
PROFIT FOR THE YEAR		15,875,353	20,128,635
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income to be reclassified to income statement in subsequent periods:			
Financial assets at fair value through other comprehensive income:			
Net movement in the financial assets at fair value through other comprehensive income revaluation reserve, net of tax	7	(2,442,008)	-
Available-for-sale investments:			
Net movement in the available-for-sale investments fair value reserve, net of tax	7	-	(608,338)
Other comprehensive income not to be reclassified to income statement in subsequent periods:			
Re-measurement gains on defined benefit scheme	7	14,847	37,531
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,448,192	19,557,828

KDB ASIA LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 US$	2017 US$
ASSETS			
Cash and balances with banks and other financial institutions	19	31,556,393	15,813,418
Placements with banks and other financial institutions	19	27,986,420	50,000,000
Trade bills		385,492,947	309,106,276
Financial assets at fair value through profit or loss	8	45,153,515	-
Trading assets	8	-	46,707,476
Loans and advances	9	852,340,313	543,853,177
Financial assets at fair value through other comprehensive income	10	361,723,431	-
Available-for-sale investments	10	-	399,839,138
Property and equipment	11	939,177	1,042,525
Tax recoverable		-	887,776
Interest receivable and other assets	13	42,349,107	15,282,365
Deferred tax assets	12	248,254	27,436
TOTAL ASSETS		1,747,789,557	1,382,559,587
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions		695,000,000	626,308,704
Deposits from customers	14	2,077,990	2,057,687
Financial liabilities at fair value through profit or loss	15	255,584	-
Trading liabilities	15	-	366,110
Certificates of deposit issued		715,168,747	437,751,740
Tax payable		128,015	-
Interest payable and other liabilities	16	31,956,164	26,784,437
TOTAL LIABILITIES		1,444,586,500	1,093,268,678
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	17	140,000,000	140,000,000
Reserves	18	163,203,057	149,290,909
TOTAL EQUITY		303,203,057	289,290,909
TOTAL EQUITY AND LIABILITIES		1,747,789,557	1,382,559,587

LEE Young Jae	CHOI Man Sik
Director	Director

KDB ASIA LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Share capital US$	Financial assets at fair value through other comprehensive income revaluation reserve/ Available-for-sale investments revaluation reserve US$	Retained profits US$	Total US$
At 1 January 2017		140,000,000	5,131,456	124,601,625	269,733,081
Profit for the year	18	-	-	20,128,635	20,128,635
Other comprehensive income for the year:					
Net movement in the available-for-sale fair value reserve, net of tax	18	-	(608,338)	-	(608,338)
Re-measurement gains on defined benefit scheme	18	-	-	37,531	37,531
Total comprehensive income for the year		-	(608,338)	20,166,166	19,557,828
At 31 December 2017 and 1 January 2018		140,000,000	4,523,118	144,767,791	289,290,909
Impact of adopting HKFRS 9		-	(1,487,024)	1,950,980	463,956
Restated opening balance under HKFRS 9		140,000,000	3,036,094	146,718,771	289,754,865
Profit for the year	18	-	-	15,875,353	15,875,353
Other comprehensive income for the year:					
Net movement in the financial assets at fair value through other comprehensive income revaluation reserve, net of tax	18	-	(2,442,008)	-	(2,442,008)
Re-measurement gains on defined benefit scheme	18	-	-	14,847	14,847
Total comprehensive income for the year		-	(2,442,008)	15,890,200	13,448,192
At 31 December 2018		140,000,000	594,086	162,608,971	303,203,057

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		18,993,755	23,513,884
Adjustments for:			
Net hedging loss	3(e)	572,792	228,427
Reversal of credit loss allowances, net	5	(1,045,359)	-
Release of impairment allowances on loans and advances	5	-	(4,081,861)
Release of impairment allowances on available-for-sale investments	5	-	(56,654)
Net gains from sale of financial assets at fair value through other comprehensive income/available-for-sale investments	3(h)	(142,519)	(2,926,266)
Depreciation	3(g)	127,363	144,216
Amortised interest expense		817,104	1,450,549
Amortised net fair value gain on financial assets at fair value through other comprehensive income/available-for-sale investments upon hedge ineffectiveness		(14,986)	(66,615)
		19,308,150	18,205,680
INCREASE IN OPERATING ASSETS:			
Decrease in placements with banks and other financial institutions with original maturity more than three months		-	10,000,000
Increase in trade bills		(76,388,803)	(530,495)
Increase in financial assets at fair value through profit or loss/ trading assets		(12,317,656)	(18,989,515)
Increase in gross loans and advances		(307,020,794)	(42,164,843)
Increase in interest receivable and other assets		(27,156,531)	(2,852,050)
		(422,883,784)	(54,536,903)
INCREASE IN OPERATING LIABILITIES:			
Increase in deposits from banks and other financial institutions		68,691,296	82,679,303
Increase/(decrease) in deposits from customers		20,303	(428,013)
Decrease in financial liabilities at fair value through profit or loss/ trading liabilities		(106,850)	(1,070,992)
Increase in certificates of deposit issued		277,417,007	3,433,767
Increase/(decrease) in interest payable and other liabilities		5,186,574	(19,167,514)
		351,208,330	65,446,551
Hong Kong profits tax paid		(1,859,575)	(4,400,122)
Net cash flows (used in)/from operating activities		(54,226,879)	24,715,206

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
Net cash flows (used in)/from operating activities		(54,226,879)	24,715,206
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Purchases of items of property and equipment	11	(24,015)	(18,812)
Proceeds from disposal of financial assets at fair value through other comprehensive income/available-for-sale investments		97,667,477	274,831,691
Purchases of financial assets at fair value through other comprehensive income/available-for-sale investments		(50,124,465)	(288,965,845)
Dividend received		437,277	142,791
Net cash flows from/(used in) investing activities		47,956,274	(14,010,175)
Net (decrease)/increase in cash and cash equivalents		(6,270,605)	10,705,031
Cash and cash equivalents at 1 January		65,813,418	55,108,387
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	59,542,813	65,813,418
Operational cash flows from interest and dividends:			
Interest received		44,327,927	36,197,987
Interest paid		25,203,958	17,773,891
Dividend received		437,277	142,791

1. CORPORATE INFORMATION

KDB Asia Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong and is a restricted licence bank under the Hong Kong Banking Ordinance. Its registered office is Suite 2005-2010, 20th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

During the year, the principal activities of the Company consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

In the opinion of the directors, the holding company is Korea Development Bank, which is incorporated in Republic of Korea.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The preparation of the financial statements has also made reference to the Guideline on the Application of the Banking (Disclosure) Rules and Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA").

The financial statements have been prepared under the historical cost convention, except for financial assets designated at fair value through profit or loss, and financial assets designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in United States dollars ("US$").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to HKFRS 2, amendments to HKFRS 4, amendments to HKFRS 40 and Annual Improvements 2014-2016 Cycle, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the new and revised HKFRSs that are relevant to the preparation of the Company's financial statements are described below:

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Company has applied prospectively, the Company has recognised the any transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	1 January 2018 US$
Placements with banks and other financial institutions	
Closing balance under HKAS 39 at 31 December 2017	50,000,000
- Recognition of credit loss expenses under HKFRS 9	(3,750)
Opening balance under HKFRS 9 at 1 January 2018	49,996,250
Trade bills	
Closing balance under HKAS 39 at 31 December 2017	309,106,276
- Recognition of credit loss expenses under HKFRS 9	(39,561)
Opening balance under HKFRS 9 at 1 January 2018	309,066,715
Trading assets/Financial assets at fair value through profit or loss	
Closing balance under HKAS 39 at 31 December 2017	46,707,476
- Reclassification under HKFRS 9	13,730,042
Opening balance under HKFRS 9 at 1 January 2018	60,437,518
Loans and advances	
Closing balance under HKAS 39 at 31 December 2017	543,853,177
- Reversal of credit loss allowances under HKFRS 9	614,066
Opening balance under HKFRS 9 at 1 January 2018	544,467,243

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Classification and measurement (continued)

	1 January 2018 US$
Available-for-sale investments/Financial assets at fair value through other comprehensive income	
Closing balance under HKAS 39 at 31 December 2017	399,839,138
- Reclassification under HKFRS 9	(13,730,042)
Opening balance under HKFRS 9 at 1 January 2018	386,109,096
Interest receivable and other assets	
Closing balance under HKAS 39 at 31 December 2017	15,282,365
- Recognition of credit loss expenses under HKFRS 9	(106,799)
Opening balance under HKFRS 9 at 1 January 2018	15,175,566
Available-for-sale investments revaluation reserve/Financial assets at fair value through other comprehensive income reserve	
Closing balance under HKAS 39 at 31 December 2017	4,523,118
- Transfer to retained profits	(1,825,505)
- Recognition of credit loss expenses under HKFRS 9	338,481
Opening balance under HKFRS 9 at 1 January 2018	3,036,094
Retained profits	
Closing balance under HKAS 39 at 31 December 2017	144,767,791
- Transfer from available-for-sale investments revaluation reserve	1,825,505
- Reversal of credit loss allowances under HKFRS 9, net	125,475
Opening balance under HKFRS 9 at 1 January 2018	146,718,771

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 9, 13 and 19 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 US$	Re-measurement US$	ECL allowances under HKFRS 9 at 1 January 2018 US$
Trade bills	-	39,562	39,562
Loans and advances	8,549,229	(614,066)	7,935,163
Balance with banks and other financial institutions	-	3,750	3,750
Financial assets at fair value through other comprehensive income	33,667	338,481	372,148
Financial assets included in interest receivables and other assets	-	3,518	3,518
Trade-related contingencies	-	57,174	57,174
Other commitments	-	46,106	46,106
	8,582,896	(125,475)	8,457,421

(c) Hedge accounting

The Company has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of HKFRS 9, the Company designated the change in fair value of the entire interest rate swap contracts in its fair value hedge relationships. Upon adoption of HKFRS 9, the Company continues to designate the entire interest rate swap contracts in the fair value hedge relationships. The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Company's financial statements.

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. 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 adoption of HKFRS 15 does not have any material impact on the Company's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HK(IFRIC)-Int 22, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Company's financial statements as the Company's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS11, HKAS 12 and HKAS 23*[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but is available for adoption.

Further information about those HKFRSs that are expected to be applicable to the Company is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (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, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Company plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Company plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Company plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Company has performed a detailed assessment on the impact of adoption of HKFRS 16. As disclosed in note 21(b) to the financial statements, at 31 December 2018, the Company had future minimum lease payments under non-cancellable operating leases in aggregate of approximately US$1,273,132. The Company has estimated that right-of-use assets of US$974,213 and lease liabilities of US$974,213 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Company expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Company's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Company expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Company's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Company measures its financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss, debt investments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell 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 Company. 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 would use the asset in its highest and best use.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company 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.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)
The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)
The Company measures debt investments at fair value through other comprehensive income if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments) (continued)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Recognition of income and expense" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to the income statement.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Recognition of income and expense" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial investments in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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 Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company 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 Company could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)
The Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Company applies the low credit risk simplification. At each reporting date, the Company evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the external credit ratings of the debt investments. In addition, the Company considers that there has been a significant increase in credit risk when credit rating of the respective debt investment falls below B-.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For contract assets that do not contain a significant financing component or when the Company applies the practical expedient of not adjusting the effect of a significant financing component, the Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.

For contract assets that contain a significant financing component and lease receivables, the Company chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Company 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 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 debtor or a group of debtors is 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 defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company 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 Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and 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.

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 credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, 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. If a write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)
Financial assets carried at amortised cost (continued)
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions 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.

Assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments
For available-for-sale investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)
Available-for-sale investments (continued)
In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, financial liabilities at fair value through profit or loss, certificates of deposit issued, interest payable and other liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the income statement, except for the gains or losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings and certificates of deposit issued

After initial recognition, interest-bearing loans and borrowings and certificates of deposit issued are subsequently measured at amortised cost, using the EIR method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

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 EIR. The EIR amortisation is included in interest expense in the income statement.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense respectively, over the life of each agreement using the EIR method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

The Company makes use of derivative instruments to manage exposures to interest rate risk and applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Company formally documents the hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement in net hedging income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net hedging income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and placements with banks and other financial institutions with original maturity of three months or less.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment 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 income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the 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:

–	Land and buildings	remaining term of the lease
–	Leasehold improvements	5 years
–	Furniture, fittings and office equipment	5 years
–	Motor vehicles	5 years

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 least at each financial year end.

An item of property and equipment including any significant part initially recognised 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 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

Employee benefits
Short term employee benefits and contributions to defined contribution retirement plans.
Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Defined benefit retirement plan obligations
The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation in the income statement:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income

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 finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividend proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the entities in the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated 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 the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Company initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of the advance consideration.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or 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, associates and joint ventures, 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 credits 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, the carryforward of unused tax credits 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 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, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expense (policies under HKFRS 15 and HKAS 39 applicable from 1 January 2018 and before 1 January 2018)
Revenue, which is also the Company's turnover, is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expenses
For all financial instruments measured at amortised cost, interest bearing financial assets classified as financial instruments designated at fair value through other comprehensive income and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR 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 EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income
The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(ii) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income
Dividend income is recognised when the Company's right to receive the payment is established.

(iv) Net trading income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties
A party is considered to be related to the Company 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 Company;

(ii) has significant influence over the Company; or

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

or

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

(i) the entity and the Company 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 Company 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 Company or an entity related to the Company;

(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 Company or to the parent of the Company.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

2.5 SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Provision for expected credit losses on loans and advances, financial assets at fair value through other comprehensive income and contract assets
The Company reviews its credit impaired loans and advances at the end of each reporting period to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Other than the credit impaired loans, the Company uses a provision matrix to calculate ECLs for loans and advances, financial assets at fair value through other comprehensive income and receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. Further details are contained in note 9, 13, and 19 to the financial statements.

Fair value of unlisted equity investments
The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 23 to the financial statements. The Company makes estimate using quotations by pricing agent based on the future discounted cash flow method. The Company classifies the fair value of these investments as Level 3.

Impairment of available-for-sale investments
Before 1 January 2018, the Company reviewed its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Company also recorded impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluated, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. At 31 December 2017, impairment losses of US$1,409,142 have been recognised for available-for-sale investments. The carrying amount of available-for-sale investments was US$399,839,578.

3. PROFIT BEFORE TAX

The Company's profit before tax is arrived after taking account of:

(a) Interest income

	2018 US$	2017 US$
Listed investments	11,757,178	11,293,744
Unlisted investments	662,623	1,107,987
Trade bills and loans and advances	31,483,478	23,814,508
Others	1,781,797	905,848
	45,685,076	37,122,087

Included in the above is interest income of US$859,275 (2017: US$1,594,382) accrued on impaired financial assets for the year ended 31 December 2018.

(b) Interest expense

	2018 US$	2017 US$
Deposits from customers, banks and other financial institutions and certificates of deposit issued	26,954,000	16,071,144

(c) Net fee and commission income

All fee and commission income and expense are related to financial assets and liabilities not designated at fair value through profit or loss.

(d) Net gains from financial assets held at fair value through profit or loss

	2018 US$	2017 US$
Net (losses)/gains from trading securities/investments in funds	(1,031,808)	781,305
Net interest income/(expense) on derivatives	1,490,216	(644,665)
	458,408	136,640

3. PROFIT BEFORE TAX (continued)

(e) Net hedging loss

	2018 US$	2017 US$
Fair value hedges		
- Net losses on hedged items attributable to the hedged risk	(1,508,857)	(2,112,706)
- Net gains on hedging instruments	936,065	1,884,279
	(572,792)	(228,427)

(f) Other operating gains/(losses), net

	2018 US$	2017 US$
Net gains/(losses) from dealing in foreign currencies	1,600,094	(447,326)
Dividend income from unlisted financial assets at fair value through profit or loss/available-for-sale investments	437,277	142,791
	2,037,371	(304,535)

(g) Operating expenses

	2018 US$	2017 US$
Staff costs	5,729,056	6,035,178
Premises and equipment expenses		
- Depreciation	127,363	144,216
- Rent	2,298,418	2,384,463
- Rates	107,634	108,211
	2,533,415	2,636,890
Auditor's remuneration	73,500	67,366
Others	1,441,851	1,308,527
	1,515,351	1,375,893
	9,777,822	10,047,961

Included in staff costs above are retirement scheme contribution of US$66,730 (2017: US$67,075) and operating lease charges in respect of staff quarters of US$906,007 (2017: US$1,007,286) for the year ended 31 December 2018.

Included in the above operating expenses are total operating lease charges of US$2,970,155 (2017: US$3,076,904) for rental of properties and US$234,270 (2017: US$314,845) for rental of equipment.

3. PROFIT BEFORE TAX (continued)

(h) Net gains from sale of financial assets at fair value through other comprehensive income/ available-for-sale investments

	2018 US$	2017 US$
Net revaluation gains transferred from reserves	262,531	5,090,104
Net losses arising in current year	(120,012)	(2,163,838)
	142,519	2,926,266

4. DIRECTORS' REMUNERATION

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

	2018 US$	2017 US$
Fees	43,077	1,969
Other emoluments:		
- Short-term employee benefits	598,423	714,046
	641,500	716,015

Directors of the Company are considered to be key management personnel.

5. CREDIT LOSS EXPENSES/IMPAIRMENT ALLOWANCES

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

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
Net charge for credit loss expenses /(reversal of credit loss allowances):				
- Cash and cash equivalents	9,830	-	-	9,830
- Trade bills	(37,429)	-	-	(37,429)
- Loans and advances	121,116	1,848	(975,240)	(852,276)
- Financial assets at fair value through other comprehensive income	(114,807)	-	(33,667)	(148,474)
- Interest receivable and other assets	(247)	-	(1)	(248)
- Other commitments	30,960	-	-	30,960
- Trade-related contingencies	(47,722)	-	-	(47,722)
	(38,299)	1,848	(1,008,908)	(1,045,359)

	2017		
	Collectively assessed US$	Individually assessed US$	Total US$
Net charge for/(release of) impairment allowances:			
- Loans and advances	(794,674)	(3,287,187)	(4,081,861)
- Available-for-sale investments	-	(56,654)	(56,654)
	(794,674)	(3,343,841)	(4,138,515)

Under HKFRS 9, ECL will be assessed using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance.

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2018 US$	2017 US$
Provision for the year	2,875,367	2,800,866
Deferred tax (note 12)	243,035	584,383
Tax expense for the year	3,118,402	3,385,249

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2018 US$	2017 US$
Profit before tax	18,993,755	23,513,884
Tax at the statutory tax rate of 16.5%	3,133,970	3,879,791
Expenses not deductible for tax	515,318	404,950
Income not subject to tax	(532,427)	(898,273)
Others	1,541	(1,219)
Tax expense at the effective rate of 15.2% (2017: 14.4%)	3,118,402	3,385,249

7. OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$	Before-tax amount US$	Tax effect US$	Net-of-tax amount US$
Financial assets at fair value through other comprehensive income:						
Net movement in financial assets at fair value through other comprehensive income revaluation reserve	(2,905,861)	463,853	(2,442,008)	-	-	-
Available-for-sale investments:						
Net movement in available-for-sale investments revaluation reserve	-	-	-	(728,549)	120,211	(608,338)
Re-measurement gains on defined benefit scheme	14,847	-	14,847	37,531	-	37,531
Other comprehensive income	(2,891,014)	463,853	(2,427,161)	(691,018)	120,211	(570,807)

(b) Reclassification adjustments relating to components of other comprehensive income

	2018 US$	2017 US$
Financial assets at fair value through other comprehensive income, net of tax:		
Changes in fair value recognised during the year	(2,064,670)	-
Reclassification adjustments for gains and losses included in profit or loss		
- Gains on disposal	(262,531)	-
- Net movement in credit loss allowance of financial assets at fair value through other comprehensive income	(114,807)	-
Available-for-sale investments, net of tax:		
Changes in fair value recognised during the year	-	4,481,766
Reclassification adjustments for gains and losses included in profit or loss		
- Gains on disposal	-	(5,090,104)
Net movement in the financial assets at fair value through other comprehensive income revaluation reserve during the year recognised in other comprehensive income	(2,442,008)	-
Net movement in the available-for-sale investments revaluation reserve during the year recognised in other comprehensive income	-	(608,338)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/TRADING ASSETS

	2018 US$	2017 US$
Listed debt securities, at fair value	23,098,030	43,830,870
Unlisted investments in funds, at fair value	17,832,838	-
Positive fair values of derivatives (note 20(b))	4,222,647	2,876,606
	45,153,515	46,707,476
Trading securities issued by:		
- Corporate entities	3,017,910	10,884,620
- Banks and other financial institutions	20,080,120	32,946,250
	23,098,030	43,830,870
Trading securities analysed by place of listing:		
- Listed outside Hong Kong	23,098,030	13,878,320
- Listed in Hong Kong	-	29,952,550
	23,098,030	43,830,870

The above listed debt securities were classified as held for trading. The fair values of these listed securities are based on quoted market price.

All unlisted investments in funds had been reclassified from available-for-sale investments to financial assets at fair value through profit or loss under HKFRS 9. As at 31 December 2018 and 2017, all unlisted investments in funds are carrying at fair value.

9. LOANS AND ADVANCES

(a) Loans and advances less impairment

	2018 US$	2017 US$
Gross loans and advances to:		
- Banks	102,956,405	86,214,054
- Customers	754,080,058	466,188,352
	857,036,463	552,402,406
Less: Credit loss allowances on non-credit impaired loans and advances/collective impairment allowances on loans and advances to		
- Banks (note 9(c))	(11,071)	(173,000)
- Customers (note 9(c))	(557,079)	(889,492)
	(568,150)	(1,062,492)
Less: Credit loss allowances on credit impaired loans and advances/individual impairment allowances on loans and advances to		
- Customers (note 9(c))	(4,128,000)	(7,486,737)
	(4,128,000)	(7,486,737)
Net loans and advances to:		
- Banks	102,945,334	86,041,054
- Customers	749,394,979	457,812,123
	852,340,313	543,853,177

Note 22(a)(vi) contains information about the collaterals against loans and advances held by the Company.

(b) Analysis by industry sector

	2018 US$	2017 US$
Loans and advances for use in Hong Kong		
- Property development	9,583,222	-
- Property investment	19,153,928	-
- Financial concerns	63,698,792	25,659,140
- Stock brokers	24,358,974	9,983,339
- Wholesale and retail trade	77,345,742	84,953,420
- Manufacturing	126,600,315	21,150,579
- Transport and transport equipment	-	28,868,522
- Recreational activities	6,000,000	-
- Information technology	-	8,475,000
- Others	38,086,306	28,944,758
	364,827,279	208,034,758
Trade finance	8,362,060	13,989,033
Loans and advances for use outside Hong Kong	483,847,124	330,378,615
Gross loans and advances	857,036,463	552,402,406

9. LOANS AND ADVANCES (continued)

(b) Analysis by industry sector (continued)

The above analysis of loans and advances by industry sector is based on the categories used in the "Quarterly Analysis of Loans and Advances and Provisions" Return to the HKMA.

(c) Movement in credit loss allowances/impairment allowances on loans and advances

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018				8,549,229
Impact of adopting HKFRS 9				(614,066)
Restated opening balance under HKFRS 9	445,186	-	7,489,977	7,935,163
New loans/financing originated	433,803	-	-	433,803
Loans/financing derecognised or repaid during the year (other than write-offs)	(224,590)	-	(1,020,000)	(1,244,590)
Transfer between stages - transfer to lifetime ECL not credit impaired (Stage 2)	-	3,240	(3,240)	-
Movements due to changes in credit risk	(88,097)	(1,392)	48,000	(41,489)
Write-offs	-	-	(2,386,737)	(2,386,737)
At 31 December 2018	566,302	1,848	4,128,000	4,696,150
Attributable to:				
Loans and advances to banks (note 9(a))	11,071	-	-	11,071
Loans and advances to customers (note 9(a))	555,231	1,848	4,128,000	4,685,079
	566,302	1,848	4,128,000	4,696,150
Deducted from:				
Loans and advances to banks (note 9(a))	102,956,405	-	-	102,956,405
Loans and advances to customers (note 9(a))	732,140,608	5,939,450	16,000,000	754,080,058
	835,097,013	5,939,450	16,000,000	857,036,463

	2017		
	Collectively assessed US$	Individually assessed US$	Total US$
At 1 January 2017	1,857,166	10,773,924	12,631,090
Loans and advances released to income statement	(794,674)	(3,287,187)	(4,081,861)
At 31 December 2017	1,062,492	7,486,737	8,549,229
Deducted from:			
- Loans and advances to banks (note 9(a))	173,000	-	173,000
- Loans and advances to customers (note 9(a))	889,492	7,486,737	8,376,229
	1,062,492	7,486,737	8,549,229

9. LOANS AND ADVANCES (continued)

(d) Impaired loans and advances

	2018 US$	2017 US$
Gross impaired loans and advances	16,000,000	32,279,237
Credit loss allowances/impairment allowances		
- Credit impaired/individually assessed	(4,128,000)	(7,486,737)
	11,872,000	24,792,500
Gross impaired loans and advances as a percentage of total gross loans and advances	1.87%	5.84%

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis.

Credit impaired loans and advances are unsecured.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

(a) Financial assets at fair value through other comprehensive income/available-for-sale investments

	2018 US$	2017 US$
Debt securities		
- Listed in Hong Kong	167,301,245	186,503,950
- Listed outside Hong Kong	184,368,966	172,460,072
- Unlisted	10,011,200	27,106,050
	361,681,411	386,070,072
Unlisted equity securities	42,020	39,024
Unlisted investments in funds	-	13,730,042
	361,723,431	399,839,138
Issued by:		
Banks and other financial institutions	65,401,450	66,560,560
Corporate entities	296,321,981	333,278,578
	361,723,431	399,839,138

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

(a) Financial assets at fair value through other comprehensive income/available-for-sale investments (continued)

All unlisted investments in funds had been reclassified from available-for-sale investments to financial assets at fair value through profit or loss under HKFRS 9.

(b) Movement in credit loss allowances on financial assets at fair value through other comprehensive income charged to revaluation reserve

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018				33,667
Impact of adopting HKFRS 9				338,481
Restated opening balance under HKFRS 9	338,481	-	33,667	372,148
New assets originated	43,184	-	-	43,184
Assets derecognised or repaid during the year (other than write-offs)	(138,171)	-	(33,667)	(171,838)
Movements due to changes in credit risk	(19,820)	-	-	(19,820)
At 31 December 2018	223,674	-	-	223,674

11. PROPERTY AND EQUIPMENT

	Land and buildings US$	Leasehold improvements US$	Furniture, fittings and office equipment US$	Motor vehicles US$	Total US$
2018					
Cost:					
At 1 January 2018	1,022,708	1,080,084	760,784	117,680	2,981,256
Additions	-	11,515	12,500	-	24,015
Disposal	-	-	(1,731)	-	(1,731)
At 31 December 2018	1,022,708	1,091,599	771,553	117,680	3,003,540
Accumulated depreciation:					
At 1 January 2018	410,850	716,805	693,396	117,680	1,938,731
Charge for the year	16,534	86,308	24,521	-	127,363
Written off on disposal	-	-	(1,731)	-	(1,731)
At 31 December 2018	427,384	803,113	716,186	117,680	2,064,363
Net book value:					
At 31 December 2018	595,324	288,486	55,367	-	939,177
2017					
Cost:					
At 1 January 2017	1,022,708	1,066,112	757,950	117,680	2,964,450
Additions	-	13,972	4,840	-	18,812
Disposal	-	-	(2,006)	-	(2,006)
At 31 December 2017	1,022,708	1,080,084	760,784	117,680	2,981,256
Accumulated depreciation:					
At 1 January 2017	394,316	633,978	670,214	98,013	1,796,521
Charge for the year	16,534	82,827	25,188	19,667	144,216
Written off on disposal	-	-	(2,006)	-	(2,006)
At 31 December 2017	410,850	716,805	693,396	117,680	1,938,731
Net book value:					
At 31 December 2017	611,858	363,279	67,388	-	1,042,525

The Company's leasehold land and buildings are all situated in Hong Kong and are held under long term lease.

12. DEFERRED TAX ASSETS

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

	Credit loss allowances/ Impairment allowances on loans and advances US$	Revaluation of financial assets at fair value through other comprehensive income/ Revaluation of available-for-sale investments US$	Unrealised gain on investment of funds US$	Depreciation allowances in excess of the related depreciation US$	Total US$
At 1 January 2018	1,016,811	(893,788)	-	(95,587)	27,436
Impact of adopting HKFRS 9	-	356,742	(356,742)	-	-
Restated opening balance under HKFRS 9	1,016,811	(537,046)	(356,742)	(95,587)	27,436
Credited/(charged) to income statement (note 6)	(187,633)	-	(55,518)	116	(243,035)
Charged to revaluation reserve (note 7(a))	-	463,853	-	-	463,853
At 31 December 2018	829,178	(73,193)	(412,260)	(95,471)	248,254
At 1 January 2017	1,606,632	(1,013,999)	-	(101,025)	491,608
Credited/(charged) to income statement (note 6)	(589,821)	-	-	5,438	(584,383)
Charged to revaluation reserve (note 7(a))	-	120,211	-	-	120,211
At 31 December 2017	1,016,811	(893,788)	-	(95,587)	27,436

13. INTEREST RECEIVABLE AND OTHER ASSETS

(a) Interest receivable and other assets less impairment

	2018 US$	2017 US$
Interest receivable	9,185,664	8,051,330
Margin deposit	5,262,218	4,821,454
Other assets	27,991,013	2,409,581
Less: Credit loss allowances	(89,788)	-
	42,349,107	15,282,365

Margin deposit represented cash held with brokers and Qualifying Central Counterparty as collateral to secure the open future contracts and interest rate contracts undertaken by the Company respectively.

13. INTEREST RECEIVABLE AND OTHER ASSETS (continued)

(b) Movement in credit loss allowances on interest receivables and other assets

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018				-
Impact of adopting HKFRS 9				106,798
Restated opening balance under HKFRS 9	106,797	-	1	106,798
New assets originated	87,818	-	-	87,818
Assets derecognised or repaid during the year (other than write-offs)	(104,479)	-	-	(104,479)
Transfer between stages - transfer to lifetime ECL not credit impaired (Stage 2)	-	1	(1)	-
Movements due to changes in credit risk	(349)	-	-	(349)
At 31 December 2018	89,787	1	-	89,788

14. DEPOSITS FROM CUSTOMERS

All of the deposits from customers are time deposit.

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS/TRADING LIABILITIES

	2018 US$	2017 US$
Negative fair values of derivatives (note20(b))	255,584	366,110

16. INTEREST PAYABLE AND OTHER LIABILITIES

	2018 US$	2017 US$
Interest payable	5,457,445	3,707,403
Other liabilities	26,498,719	23,077,034
	31,956,164	26,784,437

17. SHARE CAPITAL

	2018 US$	2017 US$
Issued and fully paid:		
140,000,000 (2017: 140,000,000) ordinary shares	140,000,000	140,000,000

18. RESERVES

	Retained profits US$	Financial assets at fair value through other comprehensive income revaluation reserve/ Available-for-sale investments revaluation reserve US$	Total US$
At 1 January 2018	144,767,791	4,523,118	149,290,909
Impact of adopting HKFRS 9	1,950,980	(1,487,024)	463,956
Restated opening balance under HKFRS 9	146,718,771	3,036,094	149,754,865
Financial assets at fair value through other comprehensive income			
- Change in fair value, net of deferred tax	-	(2,064,670)	(2,064,670)
- Transfer to income statement on disposal	-	(262,531)	(262,531)
- Transfer of credit loss expenses to income statement	-	(114,807)	(114,807)
Profit for the year	15,875,353	-	15,875,353
Re-measurement gains on defined benefit scheme	14,847	-	14,847
At 31 December 2018	162,608,971	594,086	163,203,057
At 1 January 2017	124,601,625	5,131,456	129,733,081
Available-for-sale investments:			
- Change in fair value, net of deferred tax	-	4,481,766	4,481,766
- Transfer to income statement on disposal	-	(5,090,104)	(5,090,104)
Profit for the year	20,128,635	-	20,128,635
Re-measurement gains on defined benefit scheme	37,531	-	37,531
At 31 December 2017	144,767,791	4,523,118	149,290,909

Nature and purpose of reserves

(i) Revaluation reserve on financial assets at fair value through other comprehensive income revaluation reserve/available-for-sale investments

The revaluation reserve on financial assets at fair value through other comprehensive income revaluation reserve/available-for-sale investments comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income revaluation reserve/available-for-sale investments held at the end of the reporting period net of any deferred tax.

18. RESERVES (continued)

Nature and purpose of reserves (continued)

(ii) Regulatory reserve

As at 31 December 2018, the Company has earmarked US$6,845,660 (2017: US$4,249,965) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

(iii) The directors do not recommend the payment of interim and final dividend in 2017 and 2018.

19. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents less impairment

	2018 US$	2017 US$
Cash and balances with banks and other financial institutions	31,556,393	15,813,418
Placements with banks and other financial institutions	28,000,000	50,000,000
Less: Credit loss allowances	(13,580)	-
Cash and bank balances and placements	59,542,813	65,813,418
Less: Placements with banks and other financial institutions with original maturity more than three months	-	-
Cash and cash equivalents	59,542,813	65,813,418

(b) Movement in credit loss allowances on cash and cash equivalents

	2018			
	12-month ECL (Stage 1) US$	Lifetime ECL not credit impaired (Stage 2) US$	Lifetime ECL credit impaired (Stage 3) US$	Total US$
At 1 January 2018				-
Impact of adopting HKFRS 9				3,750
Restated opening balance under HKFRS 9	3,750	-	-	3,750
New assets originated	13,580	-	-	13,580
Assets derecognised or repaid during the year (other than write-offs)	(3,750)	-	-	(3,750)
At 31 December 2018	13,580	-	-	13,580

20. DERIVATIVES AND HEDGE ACCOUNTING

The use of derivatives as risk management products sold to customers is an integral part of the Company's business activities. These instruments are also used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Company are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. For accounting purposes, derivatives are classified as trading financial instruments.

(a) Notional amount of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period and they do not represent amounts at risk.

	2018 US$	2017 US$
Exchange rate contracts		
Forwards	87,986,964	98,450,506
Interest rate contracts		
Swaps		
- Qualifying for hedge accounting	324,900,000	304,900,000
- Others	10,000,000	41,000,000
	334,900,000	345,900,000
Debt security contracts		
Futures	24,000,000	16,400,000
	446,886,964	460,750,506

20. DERIVATIVES AND HEDGE ACCOUNTING (continued)

(a) Notional amount of derivatives (continued)

The transactions are used to hedge the Company's own exposure to market risks as part of its asset and liability management.

(b) Fair values and credit risk weighted amounts of derivatives

	2018			2017		
	Fair value		Credit risk weighted amount	Fair value		Credit risk weighted amount
	Assets US$	Liabilities US$	US$	Assets US$	Liabilities US$	US$
Exchange rate contracts						
Forwards	442,906	255,584	264,555	7,158	362,434	198,333
Interest rate contracts						
Swaps	3,779,741	-	1,553,013	2,869,448	3,676	1,682,161
Debt security contracts						
Futures	-	-	480,000	-	-	349,752
	4,222,647	255,584	2,297,568	2,876,606	366,110	2,230,246

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% for exchange rate, interest rate and debt security contracts.

The Company did not enter into any bilateral netting arrangement during the year and accordingly these amounts are shown on a gross basis.

(c) Fair values of derivatives designated as hedging instruments

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Company:

	2018		
	Change in fair value used for recognising hedge ineffectiveness US$	Assets US$	Liabilities US$
Interest rate contracts	-	3,776,750	-

	2017	
	Assets US$	Liabilities US$
Interest rate contracts	2,663,944	3,676

20. DERIVATIVES AND HEDGE ACCOUNTING (continued)

(c) Fair values of derivatives designated as hedging instruments (continued)

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets due to the movements in market interest rates. At 31 December 2018, the net fair value of interest rate swaps was US$3,776,750 comprising assets only. At 31 December 2017, the net value of interest rate swaps was US$2,660,268 comprising assets of US$2,663,944 and liabilities of US$3,676.

(d) Remaining life of derivatives

The following table provides an analysis of the notional amounts of derivatives of the Company by remaining maturity grouping based on the remaining period to settlement at the end of the reporting period.

	Interest rate contracts US$	Exchange rate contracts US$	Debt security contracts US$	Total US$
2018				
1 year or less	81,000,000	87,986,964	24,000,000	192,986,964
Over 1 year to 5 years	248,900,000	-	-	248,900,000
Over 5 years	5,000,000	-	-	5,000,000
	334,900,000	87,986,964	24,000,000	446,886,964
2017				
1 year or less	36,000,000	98,450,506	16,400,000	150,850,506
Over 1 year to 5 years	286,900,000	-	-	286,900,000
Over 5 years	23,000,000	-	-	23,000,000
	345,900,000	98,450,506	16,400,000	460,750,506

(e) Remaining life of derivatives designated as hedging instruments

The following table provides an analysis of the notional amounts of derivatives held for hedging purpose of the Company by remaining maturity grouping based on the remaining period to settlement at the end of the reporting period.

	Interest rate contracts US$
2018	
1 year or less	76,000,000
Over 1 year to 5 years	243,900,000
Over 5 years	5,000,000
	324,900,000

20. DERIVATIVES AND HEDGE ACCOUNTING (continued)

(f) Hedge accounting

The amount relating to hedged items are as follows:

	2018		
	Carrying amounts US$	Accumulated amount of fair value hedge adjustment included in the carrying amounts US$	Change in value used for recognising hedge ineffectiveness US$
Financial assets at fair value through other comprehensive income			
- Debt instruments	321,792,851	-	-

Hedge ineffectiveness recognised is as follows:

	2018 US$
Net trading gain	-

21. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

	2018 US$	2017 US$
Trade-related contingencies	1,811,357	5,894,419
Other commitments		
- with an original maturity of under one year	87,732,690	69,334,844
- with an original maturity of more than one year	45,056,506	11,249,313
	134,600,553	86,478,576
Credit risk weighted amounts	40,437,062	20,670,509

Contingent liabilities and commitments are credit-related instruments which include commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the customer default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used range from 0% to 100% for contingent liabilities and commitments.

Credit loss allowances as at 31 December 2018 was US$89,789 and is contained in note 13(b) to the financial statements.

21. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 US$	2017 US$
Within 1 year	1,185,701	2,397,814
After 1 year but within 5 years	87,431	916,556
	1,273,132	3,314,370

The Company leases a number of properties under operating leases. The leases usually run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Capital commitments

Commitments to unlisted investments in funds outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2018 US$	2017 US$
Contracted for	24,647,732	22,103,543
Credit risk weighted amounts	12,323,866	11,051,772

22. FINANCIAL RISK MANAGEMENT

This section presents information about the Company's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk;
- market risk: exposure to market variables such as interest rates, exchange rates and equity markets;
- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments; and
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

A risk manager is appointed to oversee risk management, set the strategy and policy for each type of principal risk and set the means for ensuring that the strategy and policy are implemented.

22. FINANCIAL RISK MANAGEMENT (continued)

The Company has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of management and information systems. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

(a) Credit risk management

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities and country risks. The Company identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

(i) Corporate credit risk

Although the Company caters to some middle market borrowers, the corporate lending is generally concentrated among highly rated customers. In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Company has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate customers, the Company refers to the risk grading system of its parent Company that is applied to each counterparty and evaluated on a regular basis. The Company also has limits for exposures to individual borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Company also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Company undertakes ongoing credit analysis and monitoring at several levels. The policies are designated to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk and potential problem loans on a regular basis.

(ii) Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company's portfolio of financial instruments is diversified along industry and product sectors.

22. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(iii) Maximum exposure

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2018 US$	2017 US$
Financial guarantees and other credit related contingent liabilities	1,811,357	5,894,419
Loan commitments and other credit related commitments	132,789,196	80,584,157

(iv) Credit quality of loans and advances

Loans and advances are only made to recognised and creditworthy third parties. At 31 December 2018 and 2017, no loans and advances to banks are impaired. The credit quality of loans and advances can be analysed as follows:

	2018 US$	2017 US$
Gross loans and advances		
- neither past due nor impaired	841,036,463	520,123,169
- impaired	16,000,000	32,279,237
	857,036,463	552,402,406
Of which:		
Gross loans and advances that are neither past due nor impaired		
- Grade 1: Pass	835,100,963	520,123,169
- Grade 2: Special mention	5,935,500	-
Gross loans and advances that are impaired		
- Grade 3: Substandard	16,000,000	29,892,500
- Grade 5: Loss	-	2,386,737
	857,036,463	552,402,406

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

22. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(v) Credit quality of financial assets other than loans and advances

The following table presents an analysis of investment in debt securities (both trading and available-for-sale), by rating agency designation at the end of the reporting period, based on Standard and Poor's ratings or their equivalent to the respective issues of the securities.

	2018 US$	2017 US$
AA- to AA+	31,704,870	23,097,970
A- to A+	285,133,451	316,424,064
Lower than A-	57,929,920	63,272,858
	374,768,241	402,794,892
Unrated	10,011,200	27,106,050
	384,779,441	429,900,942

(vi) Collaterals

The financial assets of the Company are generally unsecured in both 2018 and 2017.

(vii) Offsetting financial assets and financial liabilities

The following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial assets US$	Gross amounts of recognised financial liabilities offset in the financial statements US$	Net amounts of financial assets reported in the financial statements US$	Related amounts not set off in the statement of financial position: Financial instruments US$	Related amounts not set off in the statement of financial position: Cash collateral received US$	Net US$
31 December 2018						
Derivative financial instruments	4,222,647	-	4,222,647	(255,584)	-	3,967,063
31 December 2017						
Derivative financial instruments	2,876,606	-	2,876,606	(10,834)	-	2,865,772

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

22. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk management (continued)

(viii) Offsetting financial assets and financial liabilities (continued)

	Gross amounts of recognised financial liabilities US$	Gross amounts of recognised financial assets offset in the financial statements US$	Net amounts of financial liabilities reported in the financial statements US$	Related amounts not set off in the statement of financial position: Financial instruments US$	Cash collateral pledged US$	Net US$
31 December 2018						
Derivative financial instruments	255,584	-	255,584	(255,584)	-	-
31 December 2017						
Derivative financial instruments	366,110	-	366,110	(10,834)	-	355,276

The Company further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial asset and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party. The Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the statement of financial position.

(b) Market risk management

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from statement of financial position or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Company's exposure to the volatility inherent in financial instruments.

22. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(i) Currency risk

The Company's foreign currency positions arise from foreign exchange dealing and commercial banking operations. All foreign currency positions are managed by the global markets department within limits approved by the board.

The following table indicates the concentration of currency risk at the end of the reporting period.

	2018						
United States dollars equivalents	Korean Won	Hong Kong dollars	Euros	Japanese Yen	Renminbi	Australian dollars	Total
Spot assets	44,071	182,300,494	3,927,838	27,324	8,203,332	17,361,878	211,864,937
Spot liabilities	-	(111,896,704)	(15,995)	(4,541)	(7,917,359)	-	(119,834,599)
Forward purchases	-	-	-	-	-	-	-
Forward sales	-	(67,418,709)	(3,776,937)	-	-	(16,603,989)	(87,799,635)
Net long position	44,071	2,985,081	134,906	22,783	285,973	757,889	4,230,703

	2017						
United States dollars equivalents	Korean Won	Hong Kong dollars	Euros	Japanese Yen	Renminbi	Austalian dollars	Total
Spot assets	41,162	58,338,351	15,471,744	1,810,341	2,152,218	-	77,813,816
Spot liabilities	-	(13,071,103)	(25,383)	(1,068,586)	(789,689)	-	(14,954,761)
Forward purchases	-	16,705,544	-	-	-	-	16,705,544
Forward sales	-	(65,665,208)	(15,337,780)	-	(1,069,925)	-	(82,072,913)
Net long/(short) position	41,162	(3,692,416)	108,581	741,755	292,604	-	(2,508,314)

At 31 December 2018, the Company was mainly exposed to currency risk arisen from Australian dollars ("AUD") and Renminbi ("RMB") (2017: Japanese Yen ("JPY") and RMB).

Currency risk arisen from balance from loans and advances in AUD. At 31 December 2018, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in an increase of US$75,789 in the Company's profit before tax.

Currency risk arisen from balance with banks in RMB. At 31 December 2018, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in an increase of US$28,597 (2017: US$29,260) in the Company's profit before tax.

Currency risk arisen from balance with banks and trade bills in JPY. At 31 December 2017, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in a US$74,176 increase in the Company's profit before tax.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

22. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk

The Company's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Company uses interest rate swaps and other derivatives to manage interest rate risk.

The following tables indicate the EIR for the relevant periods and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing non-derivative assets and liabilities at the end of the reporting period. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options. An analysis of the contractual maturity of notional amounts of interest rate swaps is shown in note 20 to the financial statements.

	2018						
	EIR	Total US$	3 months or less (include overdue) US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Undefined or non-interest bearing US$
Assets							
Cash and short-term funds	5.81%	59,542,813	27,986,420	-	-	-	31,556,393
Trade bills	1.68%	385,492,947	244,495,407	140,997,540	-	-	-
Financial assets at fair value through profit or loss	3.89%	45,153,515	9,988,900	-	13,109,130	-	22,055,485
Loans and advances	2.93%	852,340,313	794,704,798	43,311,790	9,945,987	4,377,738	-
Financial assets at fair value through other comprehensive income	3.19%	361,723,431	37,923,000	75,958,240	227,928,071	19,872,100	42,020
Interest receivable and other assets		42,349,107	-	-	-	-	42,349,107
		1,746,602,126	1,115,098,525	260,267,570	250,983,188	24,249,838	96,003,005
Liabilities							
Deposits and balances of banks and other financial institutions	1.96%	695,000,000	655,000,000	40,000,000	-	-	-
Deposits from customers	0.99%	2,077,990	1,041,737	1,036,253	-	-	-
Financial liabilities at fair value through profit or loss		255,584	-	-	-	-	255,584
Certificates of deposit issued	1.86%	715,168,747	622,942,557	92,226,190	-	-	-
Interest payable and other liabilities		31,956,164	-	-	-	-	31,956,164
		1,444,458,485	1,278,984,294	133,262,443	-	-	32,211,748
Assets-liabilities gap			**(163,885,769)**	**127,005,127**	**250,983,188**	**24,249,838**	

22. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

	EIR	Total US$	3 months or less (include overdue) US$	Over 3 months to 1 year US$	Over 1 year to 5 years US$	Over 5 years US$	Undefined or non-interest bearing US$
	2017						
Assets							
Cash and short-term funds	1.60%	65,813,418	50,000,000	-	-	-	15,813,418
Trade bills	1.73%	309,106,276	98,894,655	210,211,621	-	-	-
Trading assets	1.87%	46,707,476	28,002,520	-	14,849,200	979,150	2,876,606
Loans and advances	3.39%	543,853,177	525,021,224	14,136,445	-	4,695,508	-
Available-for-sale investments	3.00%	399,839,138	34,112,770	29,054,230	274,247,772	48,655,300	13,769,066
Interest receivable and other assets		15,282,365	-	-	-	-	15,282,365
		1,380,601,850	736,031,169	253,402,296	289,096,972	54,329,958	47,741,455
Liabilities							
Deposits and balances of banks and other financial institutions	1.42%	626,308,704	606,000,000	20,308,704	-	-	-
Deposits from customers	0.81%	2,057,687	1,031,345	1,026,342	-	-	-
Trading liabilities		366,110	-	-	-	-	366,110
Certificates of deposit issued	1.63%	437,751,740	424,962,334	12,789,406	-	-	-
Interest payable and other liabilities		26,784,437	-	-	-	-	26,784,437
		1,093,268,678	1,031,993,679	34,124,452	-	-	27,150,547
Assets-liabilities gap			**(295,962,510)**	**219,277,844**	**289,096,972**	**54,329,958**	

The analysis below sets out the impact on future net interest income of a 50 basis points parallel fall or rise in all-in yield curves at the beginning of the year from 1 January 2018 and 12.5 basis points parallel fall or rise in all-in yield curves at the beginning of each quarter during the 12 month period from 1 January 2018.

Assuming no management actions and all other variables held constant, such a series of incremental parallel rises/falls in all-in yield curves would increase/decrease planned net interest income for the year ended 31 December 2018 by US$1,752,685 (2017: US$229,816) for 50 basis points movement at the beginning of the year and increase/decrease by US$1,095,428 (2017: US$143,635) for 12.5 basis points movement at the beginning of each quarter respectively. These figures incorporate the impact of any option features in the underlying exposures and takes into account the change in pricing of retail products relative to change in market interest rates.

22. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk management (continued)

(iii) Equity price risk

The Company is exposed to equity price risk from investments in equity securities and funds, which are classified as financial assets at fair value at other comprehensive income and fair value through profit or loss respectively (2017: available-for-sale investments) held for long-term strategic purposes.

At 31 December 2018, it is estimated that a general change of one percent in the fair value of the Company's financial assets through fair value at other comprehensive income and fair value through profit or loss, with all other variables held constant, would have resulted in a US$420 and US$178,328 (2017: US$137,691) change respectively on the financial assets at fair value through other comprehensive income revaluation reserve and revaluation on funds at income statement (2017: available-for-sale investment revaluation reserve).

(c) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Company's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the global markets department under the direction of the Risk Management Committee. The global markets department is responsible for ensuring that the Company has adequate liquidity for all operations; ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment risk in case of a maturity gap; and monitoring local and international markets for the adequacy of funding and liquidity.

The Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. Adequate facilities can be obtained from its holding company to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

22. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of the reporting period to the contractual maturity date. Financial assets at fair value through profit or loss/trading assets and financial liabilities at fair value through profit or loss/trading liabilities are regarded as undated as they are managed on a fair value basis.

	2018							
	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$	Total US$
Assets								
Cash and short-term funds	31,556,393	27,986,420	-	-	-	-	-	59,542,813
Trade bills	-	82,756,883	161,738,524	140,997,540	-	-	-	385,492,947
Financial assets at fair value through profit or loss	-	-	-	-	-	-	45,153,515	45,153,515
Loans and advances	-	70,798,350	27,220,096	155,463,348	579,423,004	19,435,515	-	852,340,313
Financial assets at fair value through other comprehensive income	-	10,011,200	8,989,110	75,958,240	244,878,561	21,844,300	42,020	361,723,431
Interest receivable and other assets	-	3,648,445	3,818,933	1,696,113	18,903	-	33,166,713	42,349,107
	31,556,393	195,201,298	201,766,663	374,115,241	824,320,468	41,279,815	78,362,248	1,746,602,126
Liabilities								
Deposits and balances of banks and other financial institutions	-	265,000,000	60,000,000	140,000,000	230,000,000	-	-	695,000,000
Deposits from customers	-	1,041,737	-	1,036,253	-	-	-	2,077,990
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	255,584	255,584
Certificates of deposit issued	-	104,664,928	258,308,008	152,222,782	199,973,029	-	-	715,168,747
Interest payable and other liabilities	-	2,287,719	2,114,425	1,055,302	-	-	26,498,718	31,956,164
	-	372,994,384	320,422,433	294,314,337	429,973,029	-	26,754,302	1,444,458,485
Net assets/(liabilities) gap	**31,556,393**	**(177,793,086)**	**(118,655,770)**	**79,800,904**	**394,347,439**	**41,279,815**		

22. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity (continued)

	2017							
	Repayable on demand US$	Within 1 month US$	Over 1 month but within 3 months US$	Over 3 months but within 1 year US$	Over 1 year but within 5 years US$	Over 5 years US$	Undated US$	Total US$
Assets								
Cash and short-term funds	15,813,418	50,000,000	-	-	-	-	-	65,813,418
Trade bills	-	31,903,356	66,991,299	210,211,621	-	-	-	309,106,276
Trading assets	-	-	-	-	-	-	46,707,476	46,707,476
Loans and advances	-	38,342,794	12,221,626	163,649,737	286,871,747	42,767,273	-	543,853,177
Available-for-sale investments	-	-	20,005,454	37,495,191	284,352,772	57,946,697	39,024	399,839,138
Interest receivable and other assets	-	2,484,934	2,895,916	2,670,479	-	-	7,231,036	15,282,365
	15,813,418	122,731,084	102,114,295	414,027,028	571,224,519	100,713,970	53,977,536	1,380,601,850
Liabilities								
Deposits and balances of banks and other financial institutions	-	276,000,000	130,000,000	220,308,704	-	-	-	626,308,704
Deposits from customers	-	1,031,345	-	1,026,342	-	-	-	2,057,687
Trading liabilities	-	-	-	-	-	-	366,110	366,110
Certificates of deposit issued	-	49,964,250	-	387,787,490	-	-	-	437,751,740
Interest payable and other liabilities	-	1,053,315	1,565,366	1,088,721	-	-	23,077,035	26,784,437
	-	328,048,910	131,565,366	610,211,257	-	-	23,443,145	1,093,268,678
Net assets/(liabilities) gap	**15,813,418**	**(205,317,826)**	**(29,451,071)**	**(196,184,229)**	**571,224,519**	**100,713,970**		

The following tables give the undiscounted cash-flow projection of the Company's financial liabilities including interest payable and undrawn commitments at the end of the reporting period based on the dates of their contractual payment obligations. Interest payable in respect of term financial liabilities are reported based on contractual interest payment date. Financial liabilities repayable on demand including interest accrued up to the end of the reporting period are reported under the column "repayable on demand".

	2018					
	Repayable on demand US$	Three months or less but not on demand US$	Three months to one year US$	One year to five years US$	Over five years US$	Total US$
Deposits and balance of banks and other financial institutions	-	329,707,261	146,948,727	234,892,078	-	711,548,066
Deposits from customers	-	1,044,502	1,041,434	-	-	2,085,936
Certificates of deposit issued	-	365,700,828	158,256,252	205,683,103	-	729,640,183
Derivative financial instruments	-	69,278,893	22,016,327	7,559,185	48,724	98,903,129
	-	765,731,484	328,262,740	448,134,366	48,724	1,542,177,314
Commitments:						
Trade-related contingencies	1,811,357	-	-	-	-	1,811,357
Other commitments	157,436,928	-	-	-	-	157,436,928
	159,248,285	-	-	-	-	159,248,285

22. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk management (continued)

Analysis of assets and liabilities by remaining maturity (continued)

	2017					
	Repayable on demand US$	Three months or less but not on demand US$	Three months to one year US$	One year to five years US$	Over five years US$	Total US$
Deposits and balance of banks and other financial institutions	-	408,216,620	222,631,531	-	-	630,848,151
Deposits from customers	-	1,033,956	1,031,012	-	-	2,064,968
Certificates of deposit issued	-	51,769,936	391,608,675	-	-	443,378,611
Derivative financial instruments	-	86,858,703	17,485,257	14,291,684	397,659	119,033,303
	-	547,879,215	632,756,475	14,291,684	397,659	1,195,325,033
Commitments:						
Trade-related contingencies	5,894,419	-	-	-	-	5,894,419
Other commitments	102,687,700	-	-	-	-	102,687,700
	108,582,119	-	-	-	-	108,582,119

(d) Operational risk management

Operational risks arise from the Company's daily operation and fiduciary activities. The Company has put in place an internal control process which requires the establishment of policies and procedures for all key business activities. In particular for new products and services development, policies and procedures must be approved before launch. All business units are responsible for identifying, assessing and controlling the risks inherent in their business activities.

The Company's internal audit and compliance department together with the risk manager play an essential role in monitoring the Company's operational risk. The primary focus of internal audit and compliance department is:

– to independently evaluate the adequacy of key internal controls;
– to ensure adherence to the operating guidelines, including regulatory and legal requirements;
– to pro-actively recommend improvements; and
– to report to the Risk Management Committee on a regular basis.

(e) Capital management

The Company's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

The HKMA sets the capital requirements which the Company should monitor on an on-going basis.

In addition to meeting the regulatory requirements, the Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

22. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management (continued)

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by management and is reviewed regularly by the board of directors.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The capital adequacy ratios are computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company has complied with the capital requirements at each reporting date during the years ended 31 December 2018 and 2017 and is above the minimum required ratio set by the HKMA at 31 December 2018 and 2017.

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, in particular for loans, deposits and unlisted derivatives, direct market prices are not available and the fair values of such instruments were therefore calculated on the basis of well-established valuation techniques using current market parameters. In particulars, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

Valuation techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Estimation of fair values (continued)

The following methods and significant assumptions have been applied in determining the fair values of financial instruments where a quoted price is not readily available.

(i) the fair value of variable rate loans and receivables and certificates of deposit issued are assumed to be approximated by their carrying amounts and does not reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the provisions/impairment allowances from both the carrying amount and fair value;

(ii) the fair value of unquoted debt securities is estimated by using an appropriate credit spread for the issuer of the period to discount future cash flows;

(iii) the fair value of fixed rate loans and certificates of deposit issued carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and provisions/allowances from both the carrying amount and fair value;

(iv) the fair value of unquoted equity investments are estimated by pricing agent based on the future discounted cash flow method;

(v) the fair value of unlisted open-ended investment funds is estimated using the net asset value as reported by the managers of such funds; and

(vi) the fair value of interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions and the current credit worthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the end of the reporting period. Inputs are based on market related data at the end of the reporting period.

(b) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information.

Fair values of equity and debt securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Company uses discounted future cash flow models for determining the fair value of interest rate swaps that use only observable market data and require little management judgement and estimation.

23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised.

2018	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Financial assets at fair value through profit or loss				
- Debt securities	23,098,030	-	-	23,098,030
- Investment in funds	-	-	17,832,838	17,832,838
- Positive fair value of derivatives	-	4,222,647	-	4,222,647
	23,098,030	4,222,647	17,832,838	45,153,515
Financial assets at fair value through other comprehensive income measured at fair value				
- Debt securities	341,685,311	19,996,100	-	361,681,411
- Equity securities	-	-	42,020	42,020
	341,685,311	19,996,100	42,020	361,723,431
	364,783,341	24,218,747	17,874,858	406,876,946
Liabilities				
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives	-	255,584	-	255,584

2017	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Trading assets				
- Debt securities	40,896,820	2,934,050	-	43,830,870
- Positive fair value of derivatives	-	2,876,606	-	2,876,606
	40,896,820	5,810,656	-	46,707,476
Available-for-sale investments measured at fair value				
- Debt securities	331,209,124	54,860,948	-	386,070,072
- Equity securities	-	-	39,024	39,024
- Investments in funds	-	-	13,730,042	13,730,042
	331,209,124	54,860,948	13,769,066	399,839,138
	372,105,944	60,671,604	13,769,066	446,546,614
Liabilities				
Trading liabilities				
- Negative fair value of derivatives	-	366,110	-	366,110

23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

During the year there were no transfers of financial instruments amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

(i) Valuation of financial instruments with significant unobservable inputs

The Company's global markets department and principal investment department is responsible for determining the policies and procedures for the fair value measurement of Level 3 financial instruments. At each reporting date, the global market department and principal investment department analyse the movements in the values of Level 3 financial instruments and verify the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer. The valuation process and results are presented to the risk management committee of the Company on a monthly basis.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2018 US$	2017 US$
At 1 January	13,769,066	14,735,683
Purchases	5,092,865	3,236,191
Net unrealised losses recognised in income statement during the year	(767,551)	-
Net unrealised gains recognised in other comprehensive income during the year	5,081	1,154,885
Disposal	(224,603)	(5,357,693)
At 31 December	17,874,858	13,769,066
Total gains for the year reclassified from other comprehensive income upon disposal	-	4,780,800

23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments carried at fair value (continued)

(ii) Effect of changes in significant unobservable inputs to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. For unquoted equity investments, the impact due to changes in fair value is insignificant to the Company. For unlisted open-ended investment funds, the significant unobservable input is the net asset value as reported by the managers of such funds. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10% of the net asset values as reported by the managers of such funds.

	Effect on income statement	
	Favourable	Unfavourable
	US$	US$
2018		
Assets		
Financial assets at fair value through profit or loss		
- Unlisted investments in funds	1,783,284	(1,783,284)

	Effect on other comprehensive income	
	Favourable	Unfavourable
	US$	US$
2017		
Assets		
Available-for-sale investments		
- Unlisted investments in funds	1,373,004	(1,373,004)

24. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

Transactions with group companies

During the year, the Company entered into transactions with group companies in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction. The Company has internal policies to control connected lending.

Transactions and outstanding balances with related parties during and at the end of the reporting period are set out below:

Income statement

	Holding company	
	2018	2017
	US$	US$
Interest income	5,618,773	5,141,727
Interest expense	(8,225,942)	(5,154,381)

Statement of financial position

	Holding company	
	2018	2017
	US$	US$
Cash and short-term funds	1,913	1,995
Trade bills	360,687,148	257,787,540
Interest receivable and other assets	2,305,544	2,211,797
Deposits and balances of banks and other financial institutions	(490,000,000)	(261,000,000)
Interest payable and other liabilities	(10,158,082)	(1,392,540)

No credit loss allowance/impairment allowance was made in respect of the above financial assets due from related parties as at 31 December 2018 and 2017.

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES

(a) Capital adequacy ratios

	2018	2017
- Common Equity Tier 1 ("CET1") capital ratio	22.88%	28.36%
- Tier 1 capital ratio	22.88%	28.36%
- Total capital ratio	23.45%	28.89%

Capital adequacy ratios were compiled with in accordance with the Banking (Capital) Rules issued by the HKMA. The capital disclosures at 31 December 2018 are compiled in accordance with the Banking (Capital) (Amendment) Rules 2012 effective from 1 January 2013 for the implementation of the Basel III capital framework.

In accordance with the Banking (Capital) Rules, the Company has adopted the "basic approach" for the calculation of the risk-weighted assets for credit risk, the standardised (market risk) approach to calculate its market risk, and the "basic indicator approach" for the calculation of operational risk. The Company has adopted the "standardised method" for the calculation of CVA capital charge.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/ih/wcms.do?actionId=ADIHIHGMWC001&contentPage=/ih/ih/gm/IHIH18I00059_01RP.html&menuId=IHIHGM0112&localeCode=en&gmBrnId=AL

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(b) Regulatory capital disclosures

	2018 US$	2017 US$
CET1 capital instruments	140,000,000	140,000,000
Retained earnings	162,608,971	144,767,791
Disclosed reserves	594,086	4,523,118
CET1 CAPITAL BEFORE DEDUCTIONS	303,203,057	289,290,909
Deduct:		
Deferred tax assets in excess of deferred tax liabilities	(321,447)	(921,224)
Regulatory reserve for general banking risks	(6,845,660)	(4,249,965)
CET1 CAPITAL	296,035,950	284,119,720
ADDITIONAL TIER 1 CAPITAL AFTER DEDUCTIONS	-	-
TIER 1 CAPITAL	296,035,950	284,119,720
Regulatory reserve for general banking risks	6,845,660	4,249,965
Collective impairment allowance	673,650	1,062,492
TIER 2 CAPITAL	7,519,310	5,312,457
TOTAL CAPITAL BASE	303,555,260	289,432,177

(c) Liquidity maintenance ratio

	2018	2017
Average liquidity maintenance ratio for the year	124.74%	154.09%

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 liquidity position submitted to the HKMA.

To comply with the Banking (Disclosure) Rules, liquidity information disclosure will be published under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/ih/wcms.do?actionId=ADIHIHGMWC001&contentPage=/ih/ih/gm/IHIH18I00059_01RP.html&menuId=IHIHGM0112&localeCode=en&gmBrnId=AL

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(d) Leverage ratio

	2018 US$	2017 US$
On-balance sheet exposures	1,741,586,202	1,367,738,124
Less: Regulatory adjustments	(321,447)	(921,224)
Total on-balance sheet exposures	1,741,264,755	1,366,816,900
Replacement cost associated with all derivatives transactions	5,065,933	3,358,336
Add-on amounts for potential future exposure associated with all derivative transactions	6,188,217	5,620,340
Total derivative exposures	11,254,150	8,978,676
Exposures with a 20% credit conversion factor	17,908,809	15,045,853
Exposures with a 50% credit conversion factor	34,852,119	16,676,428
Total off-balance sheet exposures	52,760,928	31,722,281
Securities financing transaction exposures	-	10,436,875
Total exposures before adjustments for specific and collective provisions	1,805,279,833	1,417,954,732
Less: Adjustments for specific and collective provisions	(86,519)	-
Total exposures after adjustments for specific and collective provisions	1,805,193,314	1,417,954,732
Tier 1 capital	296,035,950	284,119,720
Leverage ratio	16.47%	20.04%

Leverage ratio ("LR") is calculated in accordance with the completion instruction issued by the HKMA.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/ih/wcms.do?actionId=ADIHIHGMWC001&contentPage=/ih/ih/gm/IHIH18I00059_01RP.html&menuId=IHIHGM0112&localeCode=en&gmBrnId=AL

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(e) Countercyclical Capital Buffer (CCyB) Ratio

Countercyclical capital buffer ratio ("CCyB") were complied with in accordance with the Banking (Capital) Rules. The Company's specific CCyB rate is calculated as the weighted average of the applicable jurisdictional CCyB rates, in respect of the jurisdictions (including Hong Kong) where the Company has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB rate is the ratio of the Company's aggregate risk-weighted amounts for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction (where the location of the exposures is determined as far as possible on an ultimate risk basis) to the sum of the Company's aggregate risk-weighted amounts across all jurisdictions in which the Company has private sector credit exposure. For a credit exposure guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures, are shown as follows:

At 31 December 2018

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio US$	CCyB ratio	CCyB amount US$
Hong Kong SAR	1.875%	386,309,709		
China	-	301,340,978		
Angola	-	2,083,692		
Australia	-	25,792,753		
Canada	-	3,057,783		
Cayman Islands	-	24,251,145		
India	-	17,725,580		
Ireland	-	9,973,262		
Kuwait	-	9,261,047		
Luxembourg	-	4,379,378		
Malaysia	-	568,218		
Philippines	-	14,255,551		
Singapore	-	23,561,653		
South Korea	-	164,453,630		
United Arab Emirates	-	9,425,695		
United Kingdom	1.000%	1,049,730		
United States	-	9,053,485		
Total		**1,006,543,289**	**0.721%**	**7,257,177**

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(e) Countercyclical Capital Buffer Ratio (continued)

At 31 December 2017

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio US$	CCyB ratio	CCyB amount US$
Hong Kong SAR	1.250%	258,276,671		
China	-	126,752,361		
Angola	-	2,917,905		
Australia	-	13,421,141		
Canada	-	2,500,000		
Cayman Islands	-	19,027,295		
India	-	18,445,410		
Indonesia	-	10,017,940		
Ireland	-	11,364,905		
Kuwait	-	12,613,357		
Luxembourg	-	3,311,030		
Malaysia	-	712,788		
Philippines	-	15,003,211		
Singapore	-	14,801,777		
South Korea	-	196,183,651		
United Arab Emirates	-	4,766,130		
United Kingdom	0.500%	1,394,721		
United States	-	13,167,180		
Total		**724,677,473**	**0.446%**	**3,232,062**

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's countercyclical capital buffer ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/ih/wcms.do?actionId=ADIHIHGMWC001&contentPage=/ih/ih/gm/IHIH18I00059_01RP.html&menuId=IHIHGM0112&localeCode=en&gmBrnId=AL

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(f) NON-BANK MAINLAND CHINA EXPOSURES

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instruction for the HKMA return of non-bank Mainland exposures.

		2018		
	Items in HKMA return	On-balance sheet exposure US$	Off-balance sheet exposure US$	Total exposure US$
Central government, central government-owned entities and their subsidiaries and joint ventures	1	230,033,649	10,096,619	240,130,268
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	57,980,555	2,500,000	60,480,555
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	191,795,381	37,445,856	229,241,237
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	34,490,657	10,051,282	44,541,939
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	31,705,534	-	31,705,534
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	6,071,495	778,010	6,849,505
Total	8	552,077,271	60,871,767	612,949,038
Total assets after provisions	9	1,753,538,037		
On-balance sheet exposures as percentage of total assets	10	31.48%		

		2017		
	Items in HKMA return	On-balance sheet exposure US$	Off-balance sheet exposure US$	Total exposure US$
Central government, central government-owned entities and their subsidiaries and joint ventures	1	157,560,000	2,096,619	159,656,619
Local governments, local government-owned entities and their subsidiaries and joint ventures	2	35,989,112	-	35,989,112
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	60,231,122	10,488,240	70,719,362
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	10,014,128	3,846,154	13,860,282
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	31,851,465	-	31,851,465
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	20,089,415	823,798	20,913,213
Total	8	315,735,242	17,254,811	332,990,053
Total assets after provisions	9	1,383,963,844		
On-balance sheet exposures as percentage of total assets	10	22.81%		

No specific/individual provision/impairment allowance was made in respect of the above exposures.

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(g) Segmental information

(i) By class of business

All the principal operations of the Company are primarily located in Hong Kong.

The Company's activities comprise two classes of business. Commercial banking activities include the acceptance of deposits, the advance of loans, the investment holding, the supply of foreign exchange and trade financing to commercial, industrial and institutional customers and international banking. Securities business activities include underwriting/trading of securities.

Operating income before operating expenses and provisions:

	2018 US$	2017 US$
Commercial banking	20,432,040	17,709,084
Securities business	7,151,659	8,787,980
	27,583,699	26,497,064

Operating assets:

	2018 US$	2017 US$
Commercial banking	1,306,603,891	927,265,164
Securities business	441,185,666	455,294,423
	1,747,789,557	1,382,559,587

(ii) Fee and commission income - by product line:

	2018 US$	2017 US$
Agency fees	635,000	772,000
Underwriting fees	2,569,347	3,165,161
Fee income on letters of credit	380,547	264,330
Trade finance	98,723	135,546
Financial advisory	-	980,364
Others	3,683,936	776,269
	7,367,553	6,093,670

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(h) Overdue and rescheduled assets

(i) Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end.

	2018 US$	2017 US$
Gross loans and advances to customers which have been overdue with respect to principal for period of		
- Over 1 year	-	2,386,737

(ii) Rescheduled loans and advances

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Company.

	2018 US$	2017 US$
Rescheduled loans and advances to customers	5,935,500	9,892,500
Gross scheduled loans and advances as a percentage of total gross loans and advances	0.69%	1.79%

(iii) Other overdue assets

	2018 US$	2017 US$
Debt securities which have been overdue with respect to principal for period of		
- Over 1 year	-	1,409,142

(iv) There are no repossessed assets held in both 2018 and 2017.

(i) Pillar 3 disclosures

To comply with the Banking (Disclosure) Rules, all information in relation to the Company's Pillar 3 disclosures will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

https://www.kdb.co.kr/ih/wcms.do?actionId=ADIHIHGMWC001&contentPage=/ih/ih/gm/IHIH18I00059_01RP.html&menuId=IHIHGM0112&localeCode=en&gmBrnId=AL

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(j) Key elements of disclosure policy

The Disclosure Policy of the Company sets out the approach used by the Company to (i) determine the content, appropriateness and frequency of the information it discloses to the general public relating to its state of affairs including its profit and loss and its financial resources (including capital/liquidity resources) and (ii) descriptions of its own risk profile as required by the Banking (Disclosure) Rules.

Summary of Information Disclosure Policy

Information Disclosure Policy is formulated in accordance with relevant legislations or statutory requirements/regulations.

Objective

The purpose of this Information Disclosure Policy is to ensure that information which are not in scope of commercial secrets and are allowed to be disclosed, be conveyed to shareholder and the public in due time in a complete, understandable, simple and affordable manner under equal conditions.

Definition of information

"Information" refers to information that should be disclosed as soon as reasonably practicable in accordance with the statutory requirements under relevant supervisory departments, regulatory authorities, or should be disclosed to the general public through any specified media.

Form of information disclosure

Information disclosure is mainly in the forms of announcements; reports (including regular reports and provisional reports); press releases; internet where information is disclosed. Information must be disclosed in compliance with relevant laws/statutory requirements or internal policies of KDB Asia Limited (the "Company") irrespective of its forms of disclosure.

Management framework of information disclosure

The Board must ensure the Company to assume its responsibilities for fulfilling disclosure obligations, and shall authorise the Audit Committee to monitor implementation of the information disclosure affairs, conduct regular review on the information disclosure mechanism of the Company and carry out information assessment, yet the final decision on the outcome of information assessment shall rest with the Board.

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(j) Key elements of disclosure policy (continued)

Basic principles of information disclosure

The disclosure of information of the Company should be made in accordance with the following basic principles:

Timeliness: information disclosure should be promptly disseminated to the public and completed within the time frame as stipulated in the applicable laws, regulations, ordinances, rules and other codes setting out in this Policy.

Truthfulness: contents of the information to be disclosed should be objective and on factual basis to reflect the real situation, no false statement shall be contained.

Accuracy: contents of the information to be disclosed should be impartial and precise, no exaggerated or misleading statement shall be contained.

Completeness: contents of the information to be disclosed should be complete and contains no material omissions. All relevant documents presenting with required format shall be made available.

Compliance: the disclosure requirements provided under the relevant laws, regulations, ordinances, rules and other relevant provision.

Reporting procedures

1. *Monitoring Framework*

   The Company has established controlling measures for the oversight of business, corporate development and events of the Company to enable any information that can be promptly identified and escalated by all departments/teams. The Audit Committee of the Company meets from time to time to ensure senior management having an effective control on the Company's daily operations and business development in accordance with relevant requirements.

2. *Preliminary identification*

   All departments or teams should follow the internal control framework as established by the Company and pay special attention to the material information and critical incidents that will have significant impact on the Company's business operations. They should also preliminarily identify whether the information of various issues fall within the definition of material information or critical incidents as set out in this Policy, and to keep proper internal records, and conduct self-assessments and report to the Board. Once the information is preliminarily identified as material information or critical incidents to be reported, they should submit relevant reports and notify the Board on a timely basis. Head of relevant departments or teams should restrict access to the information to a limited number of employees on a need-to-know basis during the escalation process and maintain a list of insider employees for management's inspection from time to time, and to ensure those employees whom are fully conversant with their obligations to preserve confidentiality. All reporting materials and correspondences should be properly filed for record, retrieval and examination.

25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)

(j) Key elements of disclosure policy (continued)

Reporting procedures (continued)

3. Analysis and evaluation

The Audit Committee should review information as submitted by relevant departments or teams. The Audit Committee shall assess any possible impact on the Company with regard to such material information and critical incidents in order to determine whether it is inside information, and report their assessment result in writing to the Board. The Board may request additional information/materials and/or the Company to convene a Board meeting for further discussion, in order to make a final assessment and decision on disclosure. Minutes of relevant meetings of the Audit Committee shall include discussions and analysis on the assessment of inside information, and shall be properly filed upon favourable review and approval by attendees of the meeting.

Procedures for information disclosure

Inside information announcement should be first disseminated by the Board officially then published on the Company's website.

Arrangements for preserving information confidentiality

All employees of the Company should strictly comply with relevant provisions on confidentiality and are obligated to keep information confidential before disclosure is made. The Company shall enter into confidentiality agreement or conclude contract with confidentiality clause(s) upon engagement with any external parties in accordance with relevant requirements of the Company. The Company shall also establish stringent confidentiality arrangements to prohibit inadvertent disclosure of information, particularly during negotiation of material transactions.

Disciplinary actions and accountability

If any employees of the Company have deliberately or negligently breached the information disclosure provisions that leads to material damage or losses to the Company, the Company shall reserve the right to hold accountable to the person(s) whom are directly liable for the breaching of information disclosure provisions, and depends on the circumstances, impose disciplinary measures or take legal actions when necessary.

If any regulators take regulatory actions, issue notice of criticism or make public reprimand against the Company with regard to the Company's violation of information disclosure regulations, the Board should immediately take appropriate rectification measures and report the same to relevant regulators (as deemed necessary).

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2019.

1. LOANS AND ADVANCES - BY GEOGRAPHICAL AREAS

	2018			
	Gross loans and advances US$	Impaired loans (individually determined) US$	Specific provisions US$	General provisions US$
Hong Kong	293,268,585	-	-	(242,291)
Korea	219,787,095	16,000,000	(4,128,000)	(133,662)
China	172,118,801	-	-	(116,201)
Others	171,861,982	-	-	(75,996)
	857,036,463	16,000,000	(4,128,000)	(568,150)

	2017			
	Gross loans and advances US$	Impaired loans (individually determined) US$	Specific provisions US$	General provisions US$
Hong Kong	131,904,449	-	-	(264,421)
Korea	207,423,955	32,279,237	(7,486,737)	(370,933)
China	52,294,629	-	-	(104,833)
Others	160,779,373	-	-	(322,305)
	552,402,406	32,279,237	(7,486,737)	(1,062,492)

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

2. FURTHER ANALYSIS ON LOANS AND ADVANCES ANALYSED BY INDUSTRY SECTOR

Loans and advances analysed by the coverage of collateral, overdue amount and the provisions/impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2018				
	Gross loans and advances US$	Percentage of collateral securing loans and advances	Specific provisions US$	General provisions US$	(Reversal of credit loss allowances)/ credit loss expenses charged to income statement during the year US$
Industrial, commercial and financial					
- Property development	9,583,222	-	-	10,952	10,952
- Property investment	19,153,928	-	-	10,365	10,365
- Financial concerns	63,698,792	-	-	16,824	(34,613)
- Stock brokers	24,358,974	-	-	5,822	(14,191)
- Wholesale and retail trade	77,345,742	-	-	97,135	(73,166)
- Manufacturing	126,600,315	-	-	78,720	36,321
- Transport and transport equipment	-	-	-	-	(53,087)
- Recreational activities	6,000,000	-	-	2,514	2,514
- Information Technology	-	-	-	-	(16,989)
- Others	38,086,306	-	-	40,254	(17,771)
Loans and advances for use in Hong Kong	364,827,279	-	-	262,586	(149,665)
Trade finance	8,362,060	-	-	4,230	(23,813)
Loans and advances for use outside Hong Kong	483,847,124	-	4,128,000	301,334	(1,292,864)
	857,036,463	-	4,128,000	568,150	(1,466,342)
Impact of adopting HKFRS 9 (note 9(c))					614,066
Reversal of credit loss allowances from income statement during the year (note 5)					(852,276)

	2017				
	Gross loans and advances US$	Percentage of collateral securing loans and advances	Specific provisions US$	General provisions US$	Impairment charged/ (released) to income statement during the year US$
Industrial, commercial and financial					
- Financial concerns	25,659,140	-	-	51,437	(178,575)
- Stock brokers	9,983,339	-	-	20,013	(32,478)
- Wholesale and retail trade	84,953,420	-	-	170,301	(97,964)
- Manufacturing	21,150,579	-	-	42,399	(2,921)
- Transport and transport equipment	28,868,522	-	2,386,737	53,087	(526,677)
- Information Technology	8,475,000	-	-	16,989	16,989
- Others	28,944,758	-	-	58,025	(69,270)
Loans and advances for use in Hong Kong	208,034,758	-	2,386,737	412,251	(890,896)
Trade finance	13,989,033	-	-	28,043	(11,510)
Loans and advances for use outside Hong Kong	330,378,615	-	5,100,000	622,198	(3,179,455)
	552,402,406	-	7,486,737	1,062,492	(4,081,861)

3. CURRENCY RISK

The following table indicates the concentration of currency risk at the end of the reporting period defined by the Banking (Disclosure) Rules.

Expressed in millions of Hong Kong dollars	2018					
	United States Dollars	Japanese Yen	Euros	Renminbi	Australian Dollars	Total
Spot assets	12,196	-	31	64	135	12,426
Spot liabilities	(12,915)	-	-	(62)	-	(12,977)
Forward purchase	3,298	-	-	-	-	3,298
Forward sales	(2,612)	-	(29)	-	(129)	(2,770)
Net long/(short) position	(33)	-	2	2	6	(23)

Expressed in millions of Hong Kong dollars	2017					
	United States Dollars	Japanese Yen	Euros	Renminbi	Australian Dollars	Total
Spot assets	10,254	14	121	16	-	10,405
Spot liabilities	(10,741)	(8)	-	(6)	-	(10,755)
Forward purchase	3,336	-	-	-	-	3,336
Forward sales	(2,829)	-	(120)	(8)	-	(2,957)
Net long position	20	6	1	2	-	29

4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION)

International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk and by types of counterparties. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, are shown as follows:

			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-bank private sector	Total
At 31 December 2018	US$	US$	US$	US$	US$
Developed countries	**70,104,039**	**-**	**37,190,355**	**12,397,592**	**119,691,986**
- of which Australia	4,204,498	-	13,089,054	12,397,592	29,691,144
- of which Belgium	23,464	-	-	-	23,464
- of which Canada	-	-	995,307	-	995,307
- of which France	6,030,692	-	-	-	6,030,692
- of which Germany	973,277	-	-	-	973,277
- of which Ireland	-	-	9,973,262	-	9,973,262
- of which Japan	27,324	-	-	-	27,324
- of which Luxembourg	13,933	-	3,201,016	-	3,214,949
- of which Spain	20,133,683	-	-	-	20,133,683
- of which United Kingdom	17,776,397	-	878,231	-	18,654,628
- of which United States	20,920,771	-	9,053,485	-	29,974,256
Offshore centres	**46,942,653**	**-**	**189,206,435**	**118,408,747**	**354,557,835**
- of which Cayman Islands	-	-	13,636,515	-	13,636,515
- of which Hong Kong	1,193,263	-	160,686,785	109,730,229	271,610,277
- of which Panama	20,764,897	-	-	-	20,764,897
- of which Singapore	24,984,493	-	14,883,135	8,678,518	48,546,146
Developing Africa and Middle East	**52,604,909**	**8,019,556**	**11,344,739**	**9,425,695**	**81,394,899**
- of which Angola	-	-	2,083,692	-	2,083,692
- of which Kuwait	-	-	9,261,047	-	9,261,047
- of which Qatar	35,020,285	-	-	-	35,020,285
- of which South Africa	2,512,232	-	-	-	2,512,232
- of which United Arab Emirates	15,072,392	8,019,556	-	9,425,695	32,517,643
Developing Asia and Pacific	**610,514,824**	**5,038,979**	**77,019,661**	**354,681,043**	**1,047,254,507**
- of which China	59,488,951	-	63,095,317	174,387,668	296,971,936
- of which India	6,805,723	5,038,979	-	17,725,580	29,570,282
- of which South Korea	501,169,117	-	13,924,344	147,744,026	662,837,487
- of which Malaysia	-	-	-	568,218	568,218
- of which Philippines	15,041,077	-	-	14,255,551	29,296,628
- of which Taiwan	28,009,956	-	-	-	28,009,956

KDB ASIA LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

31 December 2018

4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION) (continued)

			Non-bank private sector		
	Banks	Official Sector	Non-bank financial institutions	Non-bank private sector	Total
At 31 December 2017	US$	US$	US$	US$	US$
Developed countries	**75,805,293**	**-**	**36,380,212**	**4,131,425**	**116,316,930**
- of which Australia	34,332	-	13,421,141	-	13,455,473
- of which Belgium	10,009,232	-	-	-	10,009,232
- of which France	5,274,869	-	-	-	5,274,869
- of which Germany	953,662	-	-	-	953,662
- of which Ireland	-	-	11,364,905	-	11,364,905
- of which Japan	21,557,009	-	-	-	21,557,009
- of which Luxembourg	11,521	-	1,546,836	-	1,558,357
- of which Spain	20,090,649	-	-	-	20,090,649
- of which United Kingdom	16,727,044	-	1,011,575	-	17,738,619
- of which United States	1,146,975	-	9,035,755	4,131,425	14,314,155
Offshore centres	**35,750**	**-**	**96,831,659**	**131,177,182**	**228,044,591**
- of which Cayman Islands	-		12,239,718	-	12,239,718
- of which Hong Kong	35,750	-	79,543,774	121,423,572	201,003,096
- of which Singapore	-	-	5,048,167	9,753,610	14,801,777
Developing Africa and Middle East	**43,476,810**	**8,806,598**	**15,531,262**	**4,766,130**	**72,580,800**
- of which Angola	-	-	2,917,905	-	2,917,905
- of which Kuwait	-	-	12,613,357	-	12,613,357
- of which Qatar	15,005,542	-	-	-	15,005,542
- of which South Africa	5,016,732	-	-	-	5,016,732
- of which United Arab Emirates	23,454,536	8,806,598	-	4,766,130	37,027,264
Developing Asia and Pacific	**546,459,260**	**5,029,106**	**73,392,690**	**297,889,217**	**922,770,273**
- of which China	79,320,057	-	53,414,523	74,204,483	206,939,063
- of which India	45,499,029	5,029,106	-	18,445,410	68,973,545
- of which Indonesia	-	-	10,017,940	-	10,017,940
- of which South Korea	361,374,661	-	9,960,227	189,523,325	560,858,213
- of which Malaysia	-	-	-	712,788	712,788
- of which Philippines	15,026,940	-	-	15,003,211	30,030,151
- of which Taiwan	30,114,589	-	-	-	30,114,589
- of which Thailand	9,077,726	-	-	-	9,077,726
- of which Vietnam	6,046,258	-	-	-	6,046,258

5. CAPITAL DISCLOSURE

(i) Capital requirements

The capital requirements on each class of exposures calculated under the basic approach at the end of the reporting period can be analysed as follow:

	2018 US$	2017 US$
Classes of exposure:		
- Sovereign	1,044,683	1,106,856
- Bank	14,477,200	12,762,969
- Other exposure	78,095,148	57,143,307
Total capital requirements for on-balance sheet exposures	93,617,031	71,013,132
Trade-related contingencies	28,982	94,311
Other commitments	4,191,893	2,443,472
Exchange rate contracts	21,164	15,867
Interest rate contracts	119,721	131,516
Debt security contracts	38,400	27,980
Default risk exposures - SFTs	-	1,301
Total capital requirements for off-balance sheet exposures	4,400,160	2,714,447
	98,017,191	73,727,579

The capital requirements above are calculated on the basis of 8% of risk weighted assets and do not reflect the amount of capital held.

		2018 US$	2017 US$
(ii)	Capital charge for central counterparties	4,523	3,056

		2018 US$	2017 US$
(iii)	Capital charge for credit valuation adjustment		
	Derivative financial instruments exposures	228,338	245,897

5. CAPITAL DISCLOSURE (continued)

(iv) Capital charge for operational risk

The capital charge for operational risk calculated at the end of the reporting period is:

	2018 US$	2017 US$
Capital charge for operational risk	4,281,282	4,020,513

(v) Capital charge for market risk

	2018 US$	2017 US$
Interest rate exposures	1,310,775	2,057,051
Foreign exchange exposures	99,615	94,744
	1,410,390	2,151,795

6. CORPORATE GOVERNANCE

(i) The Board

As at 31 December 2018, the Board comprised five executive directors and three non-executive directors. The Board's principal roles include approving and monitoring the Company's strategies, business plan and budget, monitoring compliance with the statutory limits and guidelines, and ensuring the Company's business is conducted with a high degree of integrity. The Board meets at least quarterly.

The Company is in compliance with the guideline in the Supervisory Policy Manual module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

(ii) Committees

The Company's credit review committee and risk management committee are responsible for monitoring its credit risk and market risk respectively. The executive directors are also members of the credit review committee and risk management committee.

The credit review committee is chaired by the managing director and comprises the senior managers in the various business lines. Its responsibilities include formulating and reviewing credit risk policies and procedures, preparing credit proposals for the ultimate holding company's approval, and managing credit risk.

(iii) Internal audit

The Company's audit committee reviews the Company's internal controls system on a regular basis. The Board is responsible for following up the audit committee's findings and monitoring the progress of the implementation of their recommendations.

7. REMUNERATION POLICY

The remuneration policy and systems of the Company is strictly governed by the Remuneration policy and guidelines of our parent company; Korea Development Bank; for its employees engaged in the business and operations in Hong Kong.

With the board of directors undertaking the function of the remuneration committee and is the only authority delegated in accordance with the directives from parent company to be actively involved in overseeing, monitoring and reviewing the design and operation of remuneration system, to ensure the system operates as intended, adjustment for all types of risk, the criteria used for performance measurements, the linkage between pay and performance, deferral policy and vesting criteria and the mix of cash and other forms of remuneration.

Besides the mandate from the parent company, in order to deter excessive risk-taking, when determine the remuneration policy and systems, the Board will also consider the business objectives and strategies, human resources management, business performance, economic environment, leading market practices and the regulatory requirements.

Whilst disclosing the information relating to the remuneration systems, the aggregate quantitative information for senior management and key personnel including deferred remuneration, sign-on and severance payments awarded during 2018 is shown as follow in accordance with the disclosure requirement of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

	2018	2017
Number of beneficiaries:	6	6
Fixed Remuneration:	US$535,359	US$521,783
Variable Remuneration:	US$106,141	US$194,232
Deferred Remuneration Awarded:	NIL	NIL
Sign-on Payment:	NIL	NIL
Severance Payment:	NIL	NIL