

Report of the Directors and Audited Financial Statements
HABIB FINANCE INTERNATIONAL LIMITED
(Incorporated in Hong Kong with limited liability)

31 December 2018



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HABIB FINANCE INTERNATIONAL LIMITED

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HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Habib Finance International Limited (the "Company") for the year ended 31 December 2018.

Principal activities and business review

The Company is registered as a deposit-taking company under the Hong Kong Banking Ordinance and its principal activities are the taking of deposits and the provision of loans and trade financing.

The directors have decided to terminate the Company's operations and have initiated voluntary liquidation. The Company has submitted an application to the Hong Kong Monetary Authority ("HKMA") to revoke its business of taking deposits. Upon the approval from the HKMA, the Company will commence liquidation in 2019.

Results and dividends

The Company's loss 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 11 to 42.

The directors do not recommend the payment of any dividends.

Share issued

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

Directors

The directors of the Company during the year were:

Syed Rizwan Hyder Rizvi

Tariq Hussain

Wajahat Rasul Khan (resigned on February 02, 2018)

Abid Sattar (resigned on September 11, 2018)

Farhan Talib

Liu Sheung Pun (appointed on July 27, 2018)

Rayomond H. Kotwal (appointed on October 15, 2018)

There being no provision in the Company's articles of association for the retirement of director by rotation, the directors continue in office.

Directors' interests in transactions, arrangements or contracts

No director nor a connected entity of a 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 any of the Company's holding companies, subsidiaries or fellow subsidiaries was a party during the year.

Directors' interest

At no time during the year was the Company or any of its holding companies, its subsidiary or fellow subsidiaries a party to any arrangements 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.

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Management contracts

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

Permitted indemnity provision

Pursuant to the Articles of Association, every Director shall be indemnified out of funds of the Company against all liabilities incurred by him to the extent permitted by the Hong Kong Companies Ordinance.

Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Company.

Segment information

(a) By geographical area and class of business

The total operating income, total assets, liabilities and contingent liabilities and commitments of the Company at those dates were attributable to the Company's deposits taking, provision of loans and trade financing business in Hong Kong.

(b) Gross advances to customers by industry sectors:

	2018 HK\$	2017 HK\$
Trade finance	-	3,501,020

Advances to customers are classified by industry sector based on the industry in which the loans granted were used. In those cases, where loans cannot be classified with reasonable certainty, they are classified according to the principal activity of the borrowers or by reference to the assets financed.

Cross-border claims

The following disclosure illustrates the geographical analysis of cross-border claims by types of counterparties. The financial claims by the Company consist of trade bills.

	Banks and other financial institutions HK\$'000,000
31 December 2018	
Nil	-

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Cross-border claims (continued)

	Banks and other financial institutions HK\$'000,000
31 December 2017	
(a) <i>Asia Pacific excluding Hong Kong</i>	
- of which	
- Bangladesh	98
- Pakistan	1
- Vietnam	3
(b) <i>Europe</i>	
- of which	
- United Kingdom	1

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Corporate governance

The Company is a deposit-taking company incorporated in Hong Kong and is under the supervision of the Hong Kong Monetary Authority ("HKMA"). The Board of Directors (the "Board") is committed to ensuring that the principles and best practices of corporate governance set out in the guidelines on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA are applied to the extent applicable and possible having regard to the Company's size and nature of the business.

The Company is a wholly-owned subsidiary of Habib Bank Limited (the "parent bank"), a company incorporated in Pakistan. The subsidiary being a locally incorporated company is expected to have its own set of policies and procedures in line with the Guidelines issued by HKMA from time to time. Accordingly, the Company has its own set of Policy Manuals approved by its Board of Directors. On a regular basis, critical aspects of the Company such as credit risk management, anti-money-laundering ("AML"), compliance, etc. are monitored by the parent bank through its International Banking Group.

Under the corporate governance framework, members of the Board are nominated by the parent bank. The Board is ultimately responsible for the overall leadership, controls, operations and financial soundness of the Company. It ensures that business is conducted with a high degree of integrity and transparency. The Board also ensures that effective internal controls are in place and the Company's operations are in compliance with approved policies as well as applicable laws and regulations.

The Board assumes an oversight responsibility in terms of regularly reviewing performance against the objectives, strategies and approved business plans of the Company. Board meetings are held once every quarter and each director is expected to attend at least half of all meetings held each financial year. A detailed agenda is circulated and active engagement by all members is encouraged.

In addition to the appointment of the Chief Executive in accordance with HKMA guidelines, the Board oversees the appointment of other senior executives to ensure succession and depth in the management cadre. To strengthen the decision-making process and promote high standards within operations, risk management and compliance, the Executive Committee and Assets and Liabilities Committee have been established.

The internal audit and compliance functions are performed independently with the ultimate functional reporting to Group Compliance and Audit at the parent bank. Regular onsite audits are also conducted by management and Internal Audit of the parent bank.

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Corporate governance (continued)

Audit Committee

The Board of the parent bank has formed an Audit Committee of the parent bank based at the parent bank's head office in Karachi, Pakistan. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.

Internal Audit is an independent function of the parent bank and the Company's internal audit is performed by the audit group of the parent bank on a program approved by the Audit Committee of the parent bank's Board. The head of internal audit group reports directly to the Board Audit Committee.

Overseas operations of the parent bank are normally audited at least once in two years, although the frequency can be changed due to special circumstances.

Risk Management Committee

The parent bank has in place a Board Risk Management Committee (BRMC), which is responsible, on behalf of the Board, for oversight and advice to the Board on risk related matters and risk governance with respect to the parent bank's risk appetite and risk profile, structure and completeness of the internal controls and assurance framework in relation to the risk profile, and development and maintenance of an independent, supportive, and proactive risk management culture. BRMC comprises of at least three members including the Chairman of the BRMC. The parent bank's Chief Risk Officer (CRO) performs the role of the Secretary of the BRMC. The parent bank has a Credit Policy approved by the Board of Directors, which lays down the policy rules, standards, and guidelines for underwriting credit.

As per approval rules in the Credit Policy, the credit approval process is based on a three-initial system. Extensions of credit are approved only after an application has been subjected to credit reviews and sign-offs by at least three personnel. At least one of the signatories must be from the business function and one from risk management and both of them must have credit approval authority equal to or greater than the aggregate credit amount being approved. The third signatory can be a 'credit approval authority' holder or 'credit initial authority' holder from risk management or business. Each officer reviewing the credit is equally accountable. Credit approval and initial authorities are granted to individuals on the basis of their credit skills, experience, and nature of their duties and responsibilities.

Anti-money laundering management

The Company has laid down policies and procedures to identify, assess and monitor risk of money laundering activities. The Board reviews and approves policies and procedures on a regular basis and senior management is responsible for maintaining strong and disciplined control environment and the enforcement of the policies and procedures.

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Capital adequacy and liquidity ratios

	2018	2017
Capital adequacy ratio as at 31 December	<u>216.93%</u>	<u>175.40%</u>
Average liquidity ratio for the year ended 31 December	<u>393.48%</u>	<u>573.06%</u>

The capital adequacy ratio is computed in accordance with Section 97 of the Hong Kong Banking Ordinance and the Banking (Capital) Rules. The average liquidity ratio is computed in accordance with the Fourth Schedule of Hong Kong Banking Ordinance.

Remuneration system

The Company follows compensation guidelines of the parent bank in determining the remuneration package of its employees. These guidelines are approved by the Human Resources Committee (the "HR Committee") of the Board of the parent bank. The HR Committee periodically reviews compensation at all levels to ensure that a fair and attractive remuneration package is offered to all employees that is also in line with market. The parent bank's management is committed to provide a compensation package that enables the parent bank to attract and retain highly skilled, talented and motivated employees for all positions.

The goal is three-fold:

- To compete for qualified staff in an evolving environment;
- To pay employees equitably and fairly; and
- To be fiscally responsible.

The parent bank's remuneration structure is based on the conventional model of specific pay range for each grade and function of employees. Minimum pay is defined in each range with respect to the market.

Remuneration packages mainly comprise of fixed pay in the form of basic salary and allowances while variable incentives are also in place to retain and motivate high caliber employees.

Remuneration paid to directors and key management personnel is disclosed in note 8 to the financial statements.

No new sign on and severance payments were awarded during the year ended 31 December 2018.

HABIB FINANCE INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

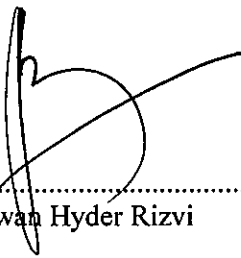
Compliance with the Banking (Disclosure) Rules

HKMA has granted exemption to the Company from the application of Parts 2 and 4 of the Banking (Disclosure) Rules with effect from its letter dated 26 January 2007 to the Company. In addition, since the Company has been exempted from application of Part 4 of the Disclosure Rules, Parts 5, 6 and 7 of the Disclosure Rules do not apply to the Company.

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



.....
Syed Rizwan Hyder Rizvi
Chairman

29 March 2019



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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

Opinion

We have audited the financial statements of Habib Finance International Limited (the "Company") set out on pages 11 to 42, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other 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 ("HKSA") 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.

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

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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.

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

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.

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:

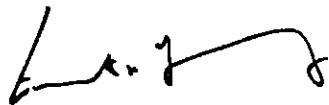
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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. When such use is inappropriate and the directors use an alternative basis of accounting, we conclude on the appropriateness of the directors' use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

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

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

- 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
29 March 2019

HABIB FINANCE INTERNATIONAL LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$	2017 HK\$
Interest income	4(a)	648,831	9,950,598
Interest expense	4(b)	<u>(1,114)</u>	<u>(2,418,224)</u>
NET INTEREST INCOME		647,717	7,532,374
Fee and commission income	5	767,980	2,873,671
Other income	6	11,990	588,000
Operating expenses	7	<u>(8,567,705)</u>	<u>(8,934,434)</u>
(LOSS)/PROFIT BEFORE TAX		(7,140,018)	2,059,611
Income tax expense	9	<u>-</u>	<u>-</u>
(LOSS)/PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>(7,140,018)</u></u>	<u><u>2,059,611</u></u>

HABIB FINANCE INTERNATIONAL LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$	2017 HK\$
ASSETS			
Cash and balances with banks	10	150,614,438	42,241,988
Trade bills	11(a)	-	103,499,588
Loans and advances to customers	11(a)	-	3,501,020
Placements with a fellow subsidiary maturing within one month	16(a)	-	1,670
Placements with the ultimate holding company maturing within one month	16(a)	35,109	8,164,887
Property, plant and equipment	12	-	124,734
Other assets	13	97,820	6,969,928
TOTAL ASSETS		<u>150,747,367</u>	<u>164,503,815</u>
LIABILITIES			
Deposits from banks		-	-
Deposits from customers	14	-	4,052,964
Deposits from a fellow subsidiary	16(a)	-	-
Deposits from the ultimate holding company	16(a)	-	14,579
Loan from the ultimate holding company	16(a)	-	-
Other liabilities	15	2,791,450	5,340,337
TOTAL LIABILITIES		<u>2,791,450</u>	<u>9,407,880</u>
EQUITY			
Share capital	17	165,760,000	165,760,000
Reserves	18	(17,804,083)	(10,664,065)
TOTAL EQUITY		<u>147,955,917</u>	<u>155,095,935</u>
TOTAL LIABILITIES AND EQUITY		<u>150,747,367</u>	<u>164,503,815</u>



.....
Tariq Hussain
Director



.....
Liu Sheung Pun
Director

HABIB FINANCE INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Share capital HK\$ Note 17	General reserve HK\$ Note 18(b)	Accumulated losses HK\$	Capital reserve HK\$	Regulatory reserve HK\$ Note 18 (a)	Total HK\$
At 1 January 2017		165,760,000	500,000	(14,223,676)	-	1,000,000	153,036
Profit for the year		2,059,611	-	2,059,611	-	-	2,059,611
At 31 December 2017 and 1 January 2018		165,760,000	500,000	(12,164,065)	-	1,000,000	155,095,935
Profit for the year		-	-	(7,140,018)	-	-	(7,140,018)
At 31 December 2018		<u>165,760,000</u>	<u>500,000</u>	<u>(19,304,083)</u>	<u>-</u>	<u>1,000,000</u>	<u>147,955,917</u>

HABIB FINANCE INTERNATIONAL LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 201

	Notes	2018 HK\$	2017 HK\$
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
(Loss)/Profit before tax		(7,140,018)	2,059,611
Adjustments for:			
Loss on disposal of fixed assets		105,112	
Depreciation	7	19,622	64,756
		<u>(7,015,284)</u>	<u>2,124,367</u>
Decrease in trade bills		103,499,588	218,327,634
Decrease/ (increase) in loans and advances to customers		3,501,020	1,454,445
Decrease in other assets		6,872,108	(1,944,718)
(Decrease)/increase in deposits from customers		(4,052,964)	(12,069,514)
Decrease in deposits from banks		-	(8,048)
Increase in other liabilities		(2,548,887)	517,111
Change in balances with a fellow subsidiary		1,670	(15,938)
Change in balances with the ultimate holding company		8,115,199	(196,757,175)
Net cash flows from operating activities		<u>108,372,450</u>	<u>11,628,164</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(17,391)
Net cash flows used in investing activities		<u>-</u>	<u>(17,391)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		108,372,450	11,610,773
Cash and cash equivalents at 1 January		42,241,988	30,631,215
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
		<u>150,614,438</u>	<u>42,241,988</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks	10	<u>150,614,438</u>	<u>42,241,988</u>
		<u>150,614,438</u>	<u>42,241,988</u>
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		5,342,035	7,335,271
Interest paid		(2,397)	(3,599,550)

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE INFORMATION

Habib Finance International Limited (the "Company") is a deposit taking company incorporated and domiciled in Hong Kong. The registered office of the Company is located at 1101, 11th Floor, Fourseas Building, 208-212 Nathan Road, Kowloon, Hong Kong

Its principal activities are the taking of deposits and the provision of loans and trade financing.

In the opinion of the directors, the ultimate holding company of the Company is Habib Bank Limited ("HBL"), which is incorporated in Pakistan.

Pursuant to directors' resolution on 7 November 2017 for dissolution of company by way of members' voluntary liquidation, application has been submitted to HKMA for revoking the license which is pending for approval.

2.1 STATEMENT OF COMPLIANCE

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.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention. They are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest dollars except when otherwise indicated.

As disclosed in note 1 to the financial statements, the directors of the Company intend to commence the liquidation of the Company and already submitted the application for voluntary liquidation. In view of this, the financial statements for the year ended 31 December 2017 were prepared on a liquidation basis. The financial statements for the year ended 31 December 2018 have continued to be prepared on the liquidation basis. The Company's assets are stated at their estimated net realizable values. Provision of liquidation expenses of HK\$700,000 is accrued in the statement of financial position as at 31 December 2018.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The amendments and the adoption of the revised standards have had no significant financial effect on the financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2018 in these financial statements. Among the new and revised HKFRSs, the following is expected to be relevant to the Company's financial statements upon becoming effective:

HKFRS 16	<i>Leases¹</i>
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¹ Effective for annual periods beginning on or after 1 January 2019

HKFRS 16 was issued in May 2016 and 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 recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees that they can elect as practical expedients – leases of low-value assets and short-term leases (i.e., where the lease term is 12 months or less).

The Company has concluded that the adoption of HKFRS 16 will not have any significant impact on the Company's results of operations and financial position.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than as adjusted as applicable for the adoption of liquidation basis as further explained in Note 2.2 to the financial statements, the principal significant accounting policies applied in the preparation of the financial statements are as follows:

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 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.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant 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, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes 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, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	33⅓%

The gain or loss on disposal of items of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognized in the statement of profit or loss.

Where parts of an item of property, plant 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, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are initially recognized 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. Regular way purchases and sales of financial assets are recognized on the trade date, that is, the date when the Company commits to purchase or sell the assets.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

Financial liabilities include bank and other borrowings, trade payables, accruals and other monetary liabilities. They are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and short term deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and balance with banks comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognized 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 recognized 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 statement of profit or loss and other comprehensive income.

Income tax

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

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

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

(i) Interest income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(ii) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income.

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 recognized 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 recognized over the commitment period on a straight-line basis.

Employee benefits

Salaries, annual bonuses and other staff costs are accrued in the period in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, provisions are made for the estimated liability as a result of services rendered by employees up to the end of the reporting period.

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss and other comprehensive income.

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 (i.e., translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, 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.

Estimation uncertainty

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

Provision for liquidation

The Company estimates the provision for liquidation based on all the expenses associated with liquidation process.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

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4. INTEREST INCOME AND INTEREST EXPENSE

	2018 HK\$	2017 HK\$
(a) Interest income		
Trade bills and advances to customers	<u>648,831</u>	<u>9,950,598</u>
(b) Interest expense		
Interest expense on deposits from customers and banks, and borrowings from ultimate holding company:		
- Deposits from customers and banks	1,114	12,750
- Short-term interest bearing borrowings from the ultimate holding company	<u>-</u>	<u>2,405,474</u>
	<u>1,114</u>	<u>2,418,224</u>

5. FEE AND COMMISSION INCOME

	2018 HK\$	2017 HK\$
Fees and commissions on import bills, export bills and others	<u>767,980</u>	<u>2,873,671</u>

6. OTHER INCOME

	2018 HK\$	2017 HK\$
Foreign exchange differences, net	<u>11,990</u>	<u>588,000</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. OPERATING EXPENSES

	2018 HK\$	2017 HK\$
Employee benefit expense (including directors' and chief executive's remuneration (note 8))		
Salaries and allowances	4,785,111	5,342,575
Pension scheme contributions	112,913	158,137
	<u>4,898,024</u>	<u>5,500,712</u>
Depreciation	19,622	64,756
Operating lease rentals	1,228,253	1,499,225
Auditors' remuneration	595,400	358,222
Legal and professional fee	660,654	360,000
Others	1,165,049	1,151,519
	<u>3,669,681</u>	<u>3,433,722</u>
	<u>8,567,705</u>	<u>8,934,434</u>

8. DIRECTORS' REMUNERATION

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

	2018 HK\$	2017 HK\$
Fees	-	-
Other emoluments:		
Salaries and allowances	1,736,735	1,863,285
Pension scheme contributions	18,487	18,000
	<u>1,755,222</u>	<u>1,881,285</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company has available tax losses brought forward from prior years to offset the assessable profits generated during the year (2017: Nil).

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 HK\$	2017 HK\$
Profit / (Loss) before tax	<u>(7,140,018)</u>	<u>2,059,611</u>
Tax at the statutory tax rate of 16.5%	(1,178,103)	339,836
Temporary difference not recognized	-	6,385
Utilization of tax losses not recognized	-	(346,221)
Tax losses not recognized	<u>1,178,103</u>	<u>-</u>
Tax charged at effective rate	<u>-</u>	<u>-</u>

The Company has tax losses arising in Hong Kong of HK\$ 35,241,423 (2017: HK\$28,101,405) that are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognized in respect of these losses as it is not probable that they will be utilized in the foreseeable future.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

10. CASH AND BALANCES WITH BANKS

	2018 HK\$	2017 HK\$
Balances with banks	<u>150,614,438</u>	<u>42,241,988</u>

11. TRADE BILLS AND LOANS AND ADVANCES TO CUSTOMERS

(a) Trade bills and loans and advances to customers

	2018 HK\$	2017 HK\$
Gross trade bills	<u>-</u>	<u>103,499,588</u>
Gross loans and advances to customers	-	3,561,020
Less: Allowance for impairment losses	-	-
	<u>-</u>	<u>3,561,020</u>

(b) There were no movements in impairment allowance on trade bills and loans and advances to customers in 2018 and 2017.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements HK\$	Computer equipment HK\$	Furniture, Fixtures and office equipment HK\$	Total HK\$
31 December 2018				
At 31 December 2017 and at 1 January 2018:				
Cost	1,580,218	775,352	1,201,126	3,556,696
Accumulated depreciation	(1,580,217)	(681,248)	(1,170,497)	(3,431,962)
Net carrying amount	<u>1</u>	<u>94,104</u>	<u>30,629</u>	<u>124,734</u>
At 1 January 2018, net of accumulated depreciation:				
	1	94,104	30,629	124,734
Disposals	(1)	(77,083)	(28,028)	(105,112)
Depreciation provided during the year	-	(17,021)	(2,601)	(19,622)
At 31 December 2018, net of accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2018:				
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Net carrying amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2017				
At 31 December 2016 and at 1 January 2017:				
Cost	1,580,218	761,552	1,198,535	3,539,305
Accumulated depreciation	(1,580,217)	(624,180)	(1,162,809)	(3,367,206)
Net carrying amount	<u>1</u>	<u>137,372</u>	<u>34,726</u>	<u>172,099</u>
At 1 January 2017, net of accumulated depreciation:				
	1	137,372	34,726	172,099
Additions	-	13,800	3,591	17,391
Depreciation provided during the year	-	(57,068)	(7,688)	(64,756)
At 31 December 2017, net of accumulated depreciation	<u>1</u>	<u>94,104</u>	<u>30,629</u>	<u>124,734</u>
At 31 December 2017:				
Cost	1,580,218	775,352	1,201,126	3,556,696
Accumulated depreciation	(1,580,217)	(681,248)	(1,170,497)	(3,431,962)
Net carrying amount	<u>1</u>	<u>94,104</u>	<u>30,629</u>	<u>124,734</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. OTHER ASSETS

	2018 HK\$	2017 HK\$
Rental deposit	88,000	439,334
Interest receivable	-	4,693,204
Commission receivables	-	1,773,211
Prepayment and others	9,820	64,179
	<u>97,820</u>	<u>6,969,928</u>

14. DEPOSITS FROM CUSTOMERS

	2018 HK\$	2017 HK\$
Imprest accounts	-	252,720
Time deposits	-	3,800,244
	<u>-</u>	<u>4,052,964</u>

15. OTHER LIABILITIES

	2018 HK\$	2017 HK\$
Interest payable	-	3,580,694
Accrued expenses	1,709,680	1,225,111
Unearned revenue	-	133,402
Others	1,081,770	401,130
	<u>2,791,450</u>	<u>5,340,337</u>

Due to the approval of dissolution of the Company by the directors, HK\$1,081,770 was recognised as a provision for termination payment to employees. In addition, included in accrued expenses as at 31 December 2018 was a provision for onerous operating lease contracts of HK\$184,516, which represents unavoidable lease payments in the remaining lease term.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

16. RELATED PARTY TRANSACTIONS

(a) Ultimate holding company and fellow subsidiary

During the year, the Company entered into transactions with its affiliates in the ordinary course of business including acceptance and placement of inter-bank deposits. These transactions were priced at relevant market rates at the time of each transaction.

	Note	2018 HK\$	2017 HK\$
Interest expense:			
- on short-term interest bearing borrowings from the ultimate holding company	(i)	-	2,405,474
		<u> </u>	<u> </u>

(i) During the year, interest bearing short term loans denominated in USD and EUR were borrowed from the ultimate holding company.

	2018 HK\$	2017 HK\$
Placements maturing within one month with:		
- Ultimate holding company	35,109	8,164,887
- Fellow subsidiary	-	1,670
	<u> </u>	<u> </u>
	<u>35,109</u>	<u>8,166,557</u>
Deposits from:		
- Ultimate holding company	-	14,579
- Fellow subsidiary	-	-
	<u> </u>	<u> </u>
	<u> </u>	<u>14,579</u>
Loan from the ultimate holding company	<u> </u>	<u> </u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

16. RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel compensation

	2018 HK\$	2017 HK\$
Short-term employee benefits	1,736,735	1,863,285
Post-employment benefits	<u>18,487</u>	<u>18,000</u>
	<u>1,755,222</u>	<u>1,881,285</u>

Key management personnel is defined as being those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, representing the directors of the Company.

(c) Loans to officers

There were no loans to officers of the Company outstanding as at 31 December 2018 (2017: Nil) to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of information about Benefits of Directors) Regulation.

17. SHARE CAPITAL

	2018 HK\$	2017 HK\$
Issued and fully paid:		
16,576,000 (2016: 16,576,000) ordinary shares	<u>165,760,000</u>	<u>165,760,000</u>

There is no movement in the Company's share capital during the year.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

18. RESERVES

(a) Regulatory reserve

Regulatory reserve is an appropriation from retained earnings and is maintained for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Company will or may incur on loans and advances in addition to impairment losses recognized under HKFRS 9 – Financial Instruments.

Transfers to and from the regulatory reserve are made directly through accumulated losses and not the statement of profit or loss and other comprehensive income in consultation with the Hong Kong Monetary Authority.

A minimum regulatory reserve of HK\$1 million (2017: HK\$1 million) has been agreed with the HKMA and is maintained to the extent that the total of individual impairment allowances and the collective impairment allowance is less than this amount. As at 31 December 2018, there were no individual and collectively assessed impairment allowances; therefore, HK\$1 million had been maintained in regulatory reserve.

(b) General reserve

General reserve comprises amounts set aside from accumulated losses as decided by the directors.

19. ASSETS PLEDGED AS COLLATERAL

At 31 December 2018 and 2017, the Company did not have any assets pledged as collateral for the Company's banking or other financing facilities.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2018 Contractual amount HK\$	2018 Credit Risk weighted amount HK\$	2017 Contractual amount HK\$	2017 Credit Risk weighted amount HK\$
Trade-related contingencies				
- Financial guarantees	<u> -- </u>	<u> - </u>	<u>1,945,121</u>	<u>389,024</u>

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities, may expire without being drawn upon, the contractual amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

For the purpose of the Banking (Capital) Rules ("the Capital Rules"), confirmation of letters of credit, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

(b) Operating lease commitments

At 31 December 2018, the Company had total future minimum lease payments under non- cancellable operating leases falling due as follows:

	2018 HK\$	2017 HK\$
Within one year	<u>184,516</u>	<u>664,048</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and balances with bank, trade bills, advances to customers, other assets, deposits from banks, deposits from customers, placements with ultimate holding company and fellow subsidiary and deposits from the ultimate holding company and fellow subsidiary.

The main risks arising from the Company's financial instruments are credit risk, market risk, foreign exchange risk, interest rate risk, liquidity risk and operational risk. The board of director's reviews and agrees policies for managing each of these risks and they are summarized below.

(a) Credit risk

Credit risk is the risk that the Company may incur a loss because its customers or counterparties may fail to discharge their contractual obligations. The board of directors has established policies, limits and detailed guidelines for the granting and continuous monitoring of credits. The executive committee and responsible personnel are responsible for carrying out credit approval and monitoring procedures in accordance with company policies and guidelines. Customer's credit status, repayment history and overdue reports are regularly reviewed by responsible personnel and senior management to monitor the risk of credit default.

(i) Maximum exposure to credit risk

The maximum exposure to credit risk at the reporting date without taking into consideration 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 exposure is as follows:

	2018 HK\$	2017 HK\$
Cash and balances with banks	150,614,438	42,241,988
Trade bills	-	103,499,588
Loans and advances to customers	-	3,501,020
Placements with a fellow subsidiary maturing within one month	-	1,670
Placements with the ultimate holding company maturing within one month	35,109	8,164,887
Other assets	97,820	6,969,928
Financial guarantees (Note 20 (a))	-	1,945,121
	<u>150,747,367</u>	<u>166,324,202</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

(ii) Collateral and other credit enhancements

The Company holds collateral against advances to customers in the form of cash deposits.

An estimate of the fair value of collateral and other credit enhancements held against loans and advances to customers is as follows:

	Neither past due nor impaired HK'000	Past due but not impaired HK'000	Total HK'000
31 December 2018			
Fair value of collateral and other credit enhancements held against loans and advances to customers	-	-	-
31 December 2017			
Fair value of collateral and other credit enhancements held against loans and advances to customers	2,444	1,356	3,800

(iii) Credit quality of advances to customers and trade bills

The Company manages the credit quality of financial assets in accordance with the loan classification system required to be adopted for reporting to the HKMA. The table below shows the credit quality of advances to customers and trade bills, based on the Company's loan classification system. The amounts presented are gross of impairment allowances.

	Neither past due nor impaired HK'000	Past due but not impaired HK'000	Individually impaired HK'000	Total HK'000
31 December 2018				
Loans and advances to customers	-	-	-	-
Trade bills	-	-	-	-
31 December 2017				
Loans and advances to customers	2,193	1,308	-	3,501
Trade bills	102,186	1,314	-	103,500
	104,379	2,622	-	107,001

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Credit risk (continued)

(iv) Advances to customers and trade bills past due but not impaired

	Overdue less than 1 month HK'000
31 December 2018	
Loans and advances to customers	-
Trade bills	-
	<u>-</u>
	<u>-</u>
31 December 2017	
Loans and advances to customers	1,308
Trade bills	1,314
	<u>2,622</u>
	<u>2,622</u>

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

The Company's policy is not to take any proprietary trading positions and hence it is not exposed to market risk arising from the trading book. Accordingly, the Company has met all of the de minimis exemption criteria for reporting market risk as set out in HKMA's guidelines "Maintenance of Adequate Capital against Market Risks".

The Company has been exempted under section 22(1) of the Banking (Capital) Rules (the "Rules") from the calculation of market risk under section 17 of the Rules.

(i) Foreign exchange risk

The Company's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. The Company has maintained a reasonable open position in various currencies resulting from maintaining of minimum balances in balances with banks. The limits for such open positions are approved by financial institutions division of the parent bank. To ensure compliance with stated policies and to avoid undue exposure to market risk, the foreign currency position and the interest rate maturity mismatch positions of the Company are closely monitored by management on a regular basis.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk

(i) Foreign exchange risk (continued)

Foreign exchange exposures arising from non-trading and structural position in all foreign currencies, are shown as follows:

	2018			
	United States Dollars HK\$'000	Euro HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
Assets				
Cash and balances with banks	141,895	-	-	141,895
Placements with the ultimate holding company and a fellow subsidiary maturing within one month	-	35	-	35
Trade bills				
Advances to customers	-	-	-	-
Other assets				
Spot assets	<u>141,895</u>	<u>35</u>	<u>-</u>	<u>141,930</u>
Liabilities				
Deposits from customers	-	-	-	-
Other liabilities	-	-	-	-
Spot liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net foreign currencies position	<u>141,895</u>	<u>35</u>	<u>-</u>	<u>141,930</u>

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk

(i) Foreign exchange risk (continued)

	2017			Total HK\$'000
	United States Dollars HK\$'000	Euro HK\$'000	Other foreign Currencies HK\$'000	
Assets				
Cash and balances with banks	26,165	-	-	26,165
Placements with the ultimate holding company and a fellow subsidiary maturing within one month	7,800	359	7	8,166
Trade bills	103,500	-	-	103,500
Advances to customers	3,501	-	-	3,501
Other assets	6,464	2	-	6,466
Spot assets	<u>147,430</u>	<u>361</u>	<u>7</u>	<u>147,798</u>
Liabilities				
Deposits from customers	1,510	-	-	1,510
Other liabilities	3,788	-	-	3,788
Spot liabilities	<u>5,298</u>	<u>-</u>	<u>-</u>	<u>5,298</u>
Net foreign currencies position	<u>142,132</u>	<u>361</u>	<u>7</u>	<u>142,500</u>

As at 31 December 2018 and 2017, the Company's exposures to foreign exchange risk were minimal.

(ii) Interest rate risk

Interest rate risk is monitored by matching the maturity of the Company's loan portfolio to the Company's deposit liabilities on a regular basis. The major portion of funding is provided by the ultimate holding company as placements/capital.

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's financial assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

	2018			Total HK\$'000
	Non-interest bearing HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	
Assets				
Cash and balances with banks	150,614	-	-	150,614
Trade bills	-	-	-	-
Loans and advances to customers	-	-	-	-
Placements with the ultimate holding company and a fellow subsidiary maturing within one month	35	-	-	35
Other assets	-	-	98	98
Total financial assets	150,649	-	98	150,747
Liabilities				
Deposits from customers	-	-	-	-
Deposits from the ultimate holding company	-	-	-	-
Other liabilities	-	-	2,791	2,791
Total financial liabilities	-	-	2,791	2,791
Net re-pricing gap	150,649	-	(2,693)	147,956
2017				
	Non-interest bearing HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	Total HK\$'000
Assets				
Cash and balances with banks	42,242	-	-	42,242
Trade bills	-	41,185	62,315	103,500
Loans and advances to customers	-	3,501	-	3,501
Placements with the ultimate holding company and a fellow subsidiary maturing within one month	366	7,800	-	8,166
Other assets	504	-	6,466	6,970
Total financial assets	43,112	52,486	68,781	164,379
Liabilities				
Deposits from customers	253	3,800	-	4,053
Deposits from the ultimate holding company	15	-	-	15
Other liabilities	1,626	-	3,714	5,340
Total financial liabilities	1,894	3,800	3,714	9,408
Net re-pricing gap	41,218	48,686	65,067	154,971

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

During the year, it is estimated that a net increase/decrease of 50 basis points change in interest rates with all other variables held constant, would increase/decrease the Company's profit before tax by approximately 2018: HK\$ 753,072 (2017: HK\$569000).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the reporting date and had been applied to the Company's exposure to interest rate risk for financial instruments in existence at that date, and that all other variables remain constant. The stated changes represent management's assessment of a reasonably possible change in interest rates over the period until the next reporting period.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity ratio is complied with. The Company's average liquidity ratio of 393.48% (2017: 573.06%) in 2018 was well above the statutory minimum ratio of 25%.

Information on maturity mismatches and liquidity ratios is computed by responsible personnel on a regular basis and is reviewed by senior management and the Assets and Liabilities Committee for monitoring liquidity. Should the liquidity ratio and maturity mismatch ratio appear to decrease towards the minimum level, the Company will suspend loan growth and sell a portion of its outstanding trade bills under forfeiting business to other banks. The Company relies principally on its internally generated capital as well as borrowings from its ultimate holding company. A contingency plan is prepared to deal with any possible liquidity crisis in the future.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The table below analyses the Company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period:

	2018					Total HK\$'000
	On demand HK\$'000	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	
Assets						
Cash and balances with banks	150,614	-	-	-	-	150,614
Trade bills	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Placements with a fellow subsidiary maturing within one month	-	-	-	-	-	-
Placements with the ultimate holding company maturing within one month	35	-	-	-	-	35
Other assets	-	-	-	98	-	98
Total assets	150,649	-	-	98	-	150,747
Liabilities						
Deposits and balances of banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Deposits from a fellow subsidiary	-	-	-	-	-	-
Deposits from the ultimate holding company	-	-	-	-	-	-
Other liabilities	-	-	-	2,791	-	2,791
Total liabilities	-	-	-	2,791	-	2,791
Net liability gap	150,649	-	-	(2,693)	-	147,956

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

	2017					Total HK\$'000
	On demand HK\$'000	Less than 1 month HK\$'000	1 to 3 months HK\$'000	3 to 12 months HK\$'000	1 to 5 years HK\$'000	
Assets						
Cash and balances with banks	42,242	-	-	-	-	42,242
Trade bills	1,314	13,070	26,800	62,316	-	103,500
Loans and advances to customers	1,308	1,143	1,050	-	-	3,501
Placements with a fellow subsidiary maturing within one month	2	-	-	-	-	2
Placements with the ultimate holding company maturing within one month	364	7,800	-	-	-	8,164
Other assets	-	-	-	6,970	-	6,970
Total assets	45,230	22,013	27,850	69,286	-	164,379
Liabilities						
Deposits and balances of banks	-	-	-	-	-	-
Deposits from customers	253	1,499	2,301	-	-	4,053
Deposits from a fellow subsidiary	-	-	-	-	-	-
Deposits from the ultimate holding company	15	-	-	-	-	15
Other liabilities	-	-	-	5,340	-	5,340
Total liabilities	268	1,499	2,301	5,340	-	9,408
Net liability gap	44,962	20,514	25,549	63,946	-	154,971

(d) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include systems and procedures to monitor transactions and positions, documentation of transactions, regulatory compliance reviews and periodic reviews by internal auditors of the ultimate holding company. Reconciliation procedures are also in place to ensure that systems capture critical data for ongoing monitoring purposes.

HABIB FINANCE INTERNATIONAL LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

The HKMA sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements the HKMA requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets. The Company's operations are categorized as banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders return 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. Capital consists of shareholders' equity.

The process of allocating capital to specific operations and activities is undertaken and 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 as at 31 December 2018 and 2017 are computed as specified by the HKMA for its regulatory purposes, and is in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007.

The Company has complied with all capital requirements throughout the years ended 31 December 2018 and 2017 and is well above the minimum required ratio set by the HKMA.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 29 March 2019.