

CHAU'S BROTHERS FINANCE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



WONG BROTHERS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

CHAU'S BROTHERS FINANCE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2017.

Principal activities

The principal activity of the company is commercial lending which was not changed during the year.

Business review

The company is a licensed authorised institution and principally engaged in commercial lending in Hong Kong. In 2017, the company continued to fully leverage on its own competitive advantages, remained to be customer-oriented and took proactive yet prudent risk-based business strategies to maintain the momentum of growth. In response to market changes and customer needs, the company continued to enhance its service model for ongoing pursuit of decent, flexible, customised and professional services to customers.

Global and local economies

In 2017, the mainland China, as one of the world's major economies, acted as an important engine for global economic development through its strong and impressive economic growth and advocate of the Belt and Road Initiative. At the same time, the US economy still persisted to grow along with a high rate. On the other hand, the Eurozone economy sustained stably and continued its recovery.

As an open economy, Hong Kong reaped the benefits from China's continuous economic growth and its mutual market access policy. Coupled with the stabilisation in the global economy, it resulted in an upward momentum for growth for the year despite of various uncertainties over geopolitics.

With steady improvement in the global and mainland economy, the banking industry in Hong Kong is growing steadily. The loan market, benefiting from the growth of cross-border businesses, recorded relatively faster development. However, due to the weak loan demand of the local market, keen market competition and the persistently low interest rate environment, the company still faced considerable challenges in maintaining profitability. In addition, as supervision on the banking industry has been tightening up, compliance cost is expected increasing. Amongst the opportunities and challenges in the operating environment and increasing uncertainties in operating and market risks, the directors and management will step up in enhancing and strengthening risks management and internal control so as to maintain a sustainable growth for the company.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Results and profit analysis

| | 2017 HK\$'000 | 2016 HK\$'000 | Variance |
|--|------------------|------------------|----------|
| <u>Key financial data</u> | | | |
| <u>Profit and loss items</u> | | | |
| 1. Net interest income | 5,163 | 5,117 | 1% |
| 2. Other operating income | 514 | 685 | -25% |
| 3. Operating expenses | 5,077 | 5,124 | -1% |
| 4. Profit before impairment allowances | 600 | 678 | -12% |
| <u>Balance sheet items</u> | | | |
| 1. Cash and balances with banks | 13,514 | 11,056 | 22% |
| 2. Advances to customers | 58,730 | 60,993 | -4% |
| 3. Impairment allowances | 440 | 457 | -4% |
| 4. Total assets | 73,300 | 73,414 | 0% |
| 5. Fixed deposits of customers | 3,011 | 3,209 | -6% |
| 6. Total liabilities | 3,977 | 4,216 | -6% |
| <u>Key financial ratios</u> | | | |
| 1. Average liquidity maintenance ratio | 149% | 139% | 100% |
| 2. Common equity tier 1 capital ratio | 95% | 86% | 9% |
| 3. Tier 1 capital ratio | 95% | 86% | 9% |
| 4. Total capital ratio | 96% | 87% | 9% |

Analysis of key financial data and ratios

For the financial year of 2017, net interest income amounted to HK\$5,163,000 which was 1% higher than that of last year. Profit before impairment allowances amounted to HK\$600,000, declined by 12%. Total assets fell slightly to HK\$73,300,000, of which cash and balances with banks rose by 22% to HK\$13,514,000.

Total liabilities decreased by 6%. There was no bank borrowings at 31 December 2017. Overall, the company's core business and financial position are strong, asset quality is sound with low level of impairment allowances. Both capital adequacy and liquidity maintenance ratios were well above the relevant statutory requirements.

Environmental protection

To maintain the sustainable environmental protection, the company always encourages employees to cultivate environmental-friendly working practices such as recycling paper, efficient use of energy, introducing more paperless digital solutions and so on.

Working conditions and staff benefits

The company treasures its staff to be key assets. To further enhance competence of staff, the company organises various internal training programmes and encourages staff taking external seminars to keep abreast of new developments, and to meet the highest professional and ethical standards.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Customer-oriented services

The company strives to provide customer-oriented lending services, and has policies in place aiming at minimizing customer complaints.

Further discussion and analysis including a description of the principal risks and the company's compliance with the relevant laws and regulations that have a significant impact on the company's operations are set out in the sections "Corporate Governance", "Risk Management" and "Notes to Financial Statements" of this Annual Report.

Segmental information

(a) By geographical area and class of business

The total operating income (net of interest expense), profit before tax and profit for the years ended 31 December 2016 and 2017 and total assets, liabilities and contingent liabilities and commitments of the company on those dates were attributable to the company's commercial lending business in Hong Kong.

(b) Gross advances to customers – by industry sectors and basis of classification

| | 2017 HK\$ | 2016 HK\$ |
|--|-------------------|-------------------|
| Loans for use in Hong Kong | | |
| Industrial, commercial and financial sectors: | | |
| - Property development | 46,277,361 | 55,033,351 |
| - Property investment | 6,373,942 | -- |
| - Others | 2,000,000 | 1,194,160 |
| Individuals: | | |
| - Loans for purchase of residential properties | 1,294,856 | 1,413,302 |
| - Others | 2,049,904 | 2,522,140 |
| Loans for use outside Hong Kong | 734,289 | 829,695 |
| | <u>58,730,352</u> | <u>60,992,648</u> |

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 were classified according to the known principal activity of the borrowers or by reference to the assets financed.

(c) Cross-border claims

Over 98% of the company's cross-border claims arise from Hong Kong.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Corporate governance

The company is a deposit taking company incorporated in Hong Kong and operates under the supervision of the Hong Kong Monetary Authority ("HKMA"). The board of directors is fully committed to ensuring that the principles and best practices of corporate governance set out in the guidelines on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA are complied with. The following specialised committees with clear terms of reference and specific authority delegated by the board of directors are established in monitoring the operations of the company:

(a) Executive committee

The executive committee is responsible for management of the company's business in all aspects and implementation of strategic business plans and policies approved and formulated by the board of directors. The members of the executive committee include the chief executive, three directors and a deputy chief executive.

(b) Audit committee

The audit committee is established by the company to provide an independent review of the effectiveness of the financial reporting process and internal control system of the company and to make recommendations to the board of directors. The present members comprise three independent non-executive directors.

(c) Remuneration committee

The remuneration committee, which comprises three directors and the majority of which are independent non-executive directors, is established by the board of directors for the design and operation of the company's remuneration system. The committee has the general powers, duties and responsibilities to review the company's remuneration policy and make recommendations to the board, to determine the specific remuneration packages of executive directors and the chief executive, to make recommendations to the board on the remuneration of non-executive directors, and to report to the board any material issues in relation to the remuneration system on a regular basis. Executive directors have no involvement in making decisions in respect of their own remuneration. In addition, the committee is responsible for ensuring consistency of the company's remuneration system and practices with the guidelines of the Hong Kong Monetary Authority.

In general, remuneration packages of all staff, including the directors, comprise fixed remuneration only. Individual staff's basic salaries are reviewed annually, which takes into account of both financial and non-financial factors such as individual performance, company profit, business development, and compliance with legal, regulatory and ethical standards.

During the year ended 31 December 2017, the total amount of fixed remuneration, including mandatory provident fund contributions, of the eight directors of the company amounted to HK\$1,525,972. No senior management or key personnel has been awarded with new sign-on or severance payment during the year.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management

The board of directors has the responsibility for managing the company's risk exposure to six types of risk, being credit, liquidity, operational, market, currency and interest rate risks through the establishment and close monitoring of adherence to policies, procedures and limits.

(a) Credit risk

Credit risk is the possibility of loss in the event that a borrower or counterparty fails to perform under the terms of a loan or a contract. 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. The majority of credit granted are secured by collaterals which are subject to review and valuation update on a regular basis to reflect current circumstances. Customer creditability, repayment history and overdue reports are regularly reviewed by responsible personnel and senior management to monitor the risk of credit default.

(b) Liquidity risk

Liquidity risk is the possibility that the company's cash flows may not be adequate to fund operations and meet commitments on a timely and cost-effective basis. Information on cash flows and daily liquidity ratio computed by responsible personnel are reviewed by senior management for monitoring liquidity. In case that liquidity ratio and cash flows appear to drop down towards the minimum level, the company will suspend the loan growth, transfer the matured long-term bank placement to short-term and draw on standby bank facilities. The company relies principally on its internally generated capital as well as deposits from its shareholders. A contingency plan is prepared to deal with any possible liquidity crisis in the future.

(c) Operational risk

Operational risk is the potential for direct or indirect loss arising from events such as breakdown of processes and internal controls, human errors, faulty internal and external reporting and non-compliance with regulations and laws. The board of directors has established effective internal control systems to manage operational risk, and senior management and responsible personnel are charged for maintaining a strong and disciplined control environment and the enforcement of internal control procedures.

(d) Market risk

In the normal course of its commercial lending activities, the company engages in transactions that give rise to market risks which are principally interest rate risk. Market risk is the risk of loss arising from adverse changes in value as a result of movements in market rates or prices.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Risk management (Cont'd)

(e) Currency risk

During the year, the company did not trade in any currency risk related financial instruments. Currency risk exposure of the company from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative currency risk information is not disclosed.

(f) Interest rate risk

Interest rate risk is monitored by regular sensitivity analyses to assess the impact of changes in market condition or interest rates and the results of these analyses are reported to management. The company does not trade in market risk sensitive instruments and, accordingly, no quantitative market risk information is presented.

Capital adequacy and liquidity ratios

| | 2017 | 2016 |
|--|----------------|----------------|
| Capital adequacy ratio as at 31 December | <u>95.90%</u> | <u>86.90%</u> |
| Average liquidity maintenance ratio for the financial year | <u>149.07%</u> | <u>138.62%</u> |

Components of total capital base after deduction

| | 2017 HK\$ | 2016 HK\$ |
|---|-------------------|-------------------|
| Common equity tier 1 ("CET 1") capital/core capital - | | |
| CET 1 capital instruments/paid up ordinary share capital | 50,000,000 | 50,000,000 |
| Retained earnings/reserves (eligible for inclusion in core capital) | 18,300,621 | 18,025,344 |
| Intangible assets | (350,000) | (350,000) |
| Deferred tax assets | <u>(73,162)</u> | <u>(74,671)</u> |
| | 67,877,459 | 67,600,673 |
| Tier 2 capital/eligible supplementary capital | | |
| Collective impairment allowances and regulatory reserve, limited to 1.25% of risk-weighted amount for credit risks | <u>761,246</u> | <u>851,157</u> |
| Total capital base before deductions | 68,638,705 | 68,451,830 |
| Deductions from total capital base | <u>--</u> | <u>--</u> |
| Total capital base after deductions | <u>68,638,705</u> | <u>68,451,830</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Mainland activities

| | 2017 | 2016 |
|--|----------------|----------------|
| | HK\$ | HK\$ |
| Individuals outside China where the credit is granted for use in China | | |
| On-balance sheet and total exposure | <u>734,289</u> | <u>829,695</u> |

Results and financial position

The company's profit for the year ended 31 December 2017 and its financial position at that date are set out in the financial statements on pages 12 to 35.

The directors recommend the payment of a final dividend of HK\$5.76 per ordinary share totalling HK\$288,000 in respect of the year. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section in the statement of financial position.

Property, plant and equipment

Details of movements in the property, plant and equipment of the company are set out in note 13 to the financial statements.

Directors

The directors of the company during the year and up to the date of this report were:

Chau How Chen (Deceased on 7 August 2017)
Chau Chun Wing, William
Ma Shun Ling
Tong Wing Kam
Tsang Chui Hing
Wong Man Hai
Wong Yu Kau, Patrick
Woo Kwok Yin

In accordance with article 96 of the articles of association, all directors shall continue in office for the ensuing year.

Directors' interests

At no time during the year was the company 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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Permitted indemnity provisions

At no time during the year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the company.

Compliance with financial disclosure requirements

The company's financial statements have complied with the disclosure requirements of Financial Disclosure by Locally Incorporated Authorised Institutions under the Supervisory Policy Manual of the HKMA.

Auditors

A resolution proposing that Wong Brothers & Co., Certified Public Accountants, be re-appointed as auditors of the company will be put to the Annual General Meeting.

On behalf of the board

A handwritten signature in black ink, appearing to read 'Chau Chun Wing', with a long horizontal flourish extending to the right.

Chau Chun Wing, William

Director

Dated 15 March 2018



| | | | | |
|--------------|--------------------------------|-----------------|-------------|--------|
| Partners : | Charles C L Chow ^{MH} | S M Kan | 鄒燦林會計師 榮譽勳章 | 簡迅鳴會計師 |
| | Gordon C P Cheng | Ricky W P Wong | 鄭松波會計師 | 黃煒培會計師 |
| Principals : | Johnny M S Yuen | Clifford C K Lo | 袁明碩會計師 | 勞鎮乾會計師 |

Independent Auditors' Report to the Shareholders of

CHAU'S BROTHERS FINANCE COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Chau's Brothers Finance Company Limited set out on pages 12 to 35, which comprise the statement of financial position as at 31 December 2017, 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 2017, and of its financial performance and 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 auditors' 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 auditors' report thereon

The directors are responsible for the other information. The other information comprises all the information included in the directors' report, other than the financial statements and our auditors' 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.

Independent Auditors' Report to the Shareholders of

CHAU'S BROTHERS FINANCE COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Responsibilities of directors and those charged with governance for the financial statements

The directors are responsible for the preparation of 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.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. This 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 judgment and maintain professional skepticism 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.

Independent Auditors' Report to the Shareholders of

CHAU'S BROTHERS FINANCE COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Auditors' responsibilities for the audit of the financial statements (Cont'd)

- 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 auditors' 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 auditors' 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control, if any, that we identify during our audit.



Wong Brothers & Co.
Certified Public Accountants
Hong Kong, 15 March 2018

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | 2017 HK\$ | 2016 HK\$ |
|--|-------|--------------------|--------------------|
| Interest income | | 5,266,103 | 5,438,026 |
| Interest expenses | | <u>(103,492)</u> | <u>(321,428)</u> |
| Net interest income | | 5,162,611 | 5,116,598 |
| Other operating income | 4 | <u>514,217</u> | <u>685,457</u> |
| | | 5,676,828 | 5,802,055 |
| Operating expenses | 5 | <u>(5,077,159)</u> | <u>(5,123,861)</u> |
| Profit before impairment allowances | | 599,669 | 678,194 |
| Impairment allowances on doubtful debts reversed | 10 | <u>16,967</u> | <u>118,849</u> |
| Profit before tax | | 616,636 | 797,043 |
| Income tax | 7 | <u>(81,639)</u> | <u>(111,614)</u> |
| Profit for the year | | 534,997 | 685,429 |
| Other comprehensive income | | <u>--</u> | <u>--</u> |
| Total comprehensive income for the year | | <u>534,997</u> | <u>685,429</u> |
| Dividend | 8 | <u>288,000</u> | <u>410,000</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

| | Notes | 2017 HK\$ | 2016 HK\$ |
|--|-------|-------------------|-------------------|
| ASSETS | | | |
| Cash and balances with banks | | 12,514,072 | 10,553,607 |
| Placement with bank with remaining maturity between one and twelve months | | 1,000,000 | 502,062 |
| Advances and other accounts | 9 | 58,994,380 | 61,621,859 |
| Deposits and other receivables | | 281,669 | 167,426 |
| Intangible assets | 11 | 350,000 | 350,000 |
| Deferred tax assets | 12 | 73,162 | 74,671 |
| Property, plant and equipment | 13 | 73,076 | 94,578 |
| Tax recoverable | | 13,433 | 49,915 |
| Total assets | | <u>73,299,792</u> | <u>73,414,118</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders | | | |
| Share capital | 14 | 50,000,000 | 50,000,000 |
| Reserves | | 19,034,750 | 18,787,753 |
| Proposed final dividend | 8 | 288,000 | 410,000 |
| Total equity | | <u>69,322,750</u> | <u>69,197,753</u> |
| Liabilities | | | |
| Fixed deposits of customers | 15 | 3,011,219 | 3,208,936 |
| Accrued interest payable | | 3,465 | 5,802 |
| Accruals and other payables | | 962,358 | 1,001,627 |
| Total liabilities | | <u>3,977,042</u> | <u>4,216,365</u> |
| Total equity and liabilities | | <u>73,299,792</u> | <u>73,414,118</u> |

Approved by the board of directors
on 15 March 2018



Chau Chun Wing William
Director



Tsang Chui Hing
Director

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | Share capital HK\$ | Regulatory reserve * HK\$ | Retained profits HK\$ | Proposed dividend HK\$ | Total HK\$ |
|---|-------|-----------------------|------------------------------|--------------------------|---------------------------|-------------------|
| At 1 January 2016 | | 50,000,000 | 960,490 | 17,551,834 | 480,000 | 68,992,324 |
| Final 2015 dividend declared | | -- | -- | -- | (480,000) | (480,000) |
| Transfer | | -- | (198,082) | 198,082 | -- | -- |
| Proposed final 2016 dividend | 8 | -- | -- | (410,000) | 410,000 | -- |
| Total comprehensive income for the year | | -- | -- | 685,429 | -- | 685,429 |
| At 31 December 2016 and 1 January 2017 | | 50,000,000 | 762,408 | 18,025,345 | 410,000 | 69,197,753 |
| Final 2016 dividend declared | | -- | -- | -- | (410,000) | (410,000) |
| Transfer | | -- | (28,279) | 28,279 | -- | -- |
| Proposed final 2017 dividend | 8 | -- | -- | (288,000) | 288,000 | -- |
| Total comprehensive income for the year | | -- | -- | 534,997 | -- | 534,997 |
| At 31 December 2017 | | <u>50,000,000</u> | <u>734,129</u> | <u>18,300,621</u> | <u>288,000</u> | <u>69,322,750</u> |

* The regulatory reserve is an appropriation from retained profits and maintained to set aside amounts in respect of losses which the company will or may incur on advances in addition to individual and collective impairment losses recognised under Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement". Transfers to and from the regulatory reserve are made directly through retained profits and not profit or loss or other comprehensive income.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

| | 2017 HK\$ | 2016 HK\$ |
|--|-------------------|---------------------|
| Cash flows from operating activities | | |
| Profit before tax | 616,636 | 797,043 |
| Adjustments for: | | |
| Depreciation | 42,369 | 46,398 |
| Impairment allowances on doubtful debts reversed | <u>(16,967)</u> | <u>(118,849)</u> |
| Operating profit before working capital changes | 642,038 | 724,592 |
| Decrease in advances to customers | 2,262,296 | 15,846,573 |
| Decrease/(increase) in accrued interest receivable on advances to customers | 382,150 | (159,771) |
| (Increase)/decrease in deposits and other receivables | (114,243) | 27,793 |
| Decrease in fixed deposits of customers | (197,717) | (1,959,664) |
| Decrease in accrued interest payable | (2,337) | (57,935) |
| (Decrease)/increase in accruals and other payables | <u>(39,269)</u> | <u>95,965</u> |
| Net cash generated in operations | 2,932,918 | 14,517,553 |
| Hong Kong profits tax paid | <u>(43,648)</u> | <u>(203,844)</u> |
| Net cash inflow from operating activities | <u>2,889,270</u> | <u>14,313,709</u> |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | <u>(20,867)</u> | <u>(32,860)</u> |
| Net cash outflow from investing activities | <u>(20,867)</u> | <u>(32,860)</u> |
| Cash flows from financing activities | | |
| Decrease in bank loans | -- | (10,000,000) |
| Dividend paid | <u>(410,000)</u> | <u>(480,000)</u> |
| Net cash outflow from financing activities | <u>(410,000)</u> | <u>(10,480,000)</u> |
| Net increase in cash and cash equivalents | 2,458,403 | 3,800,849 |
| Cash and cash equivalents at beginning of year | <u>11,055,669</u> | <u>7,254,820</u> |
| Cash and cash equivalents at end of year, representing cash and balances with banks and placement with bank | <u>13,514,072</u> | <u>11,055,669</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

The company is a limited liability company incorporated in Hong Kong and its registered office is located at 6/F., Chau's Commercial Centre, 284 Sha Tsui Road, Tsuen Wan.

The company's principal activity is commercial lending.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies were consistently applied during the year, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and under the historical cost convention.

(b) Impact of new and revised HKFRS

The HKICPA has issued a number of new/revised standards, amendments and interpretations to HKFRS that are effective for the current financial year. However, none of them is relevant to the preparation of these financial statements.

Up to the date of approval of these financial statements, the HKICPA has issued a number of new/revised standards, amendments and interpretations, which are not yet effective and which have not been early adopted by the company for the year ended 31 December 2017. The directors are in the process of making an assessment and are not yet in a position to determine the impact of these new/revised standards, amendments and interpretations on the results and financial position of the company upon adoption.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.2 Investments and other financial assets

Financial assets of the company within the scope of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" are mainly loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The company considers whether a contract contains an embedded derivative when the company first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

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 of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised costs using effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.3 Impairment of financial assets

The company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. When objective evidence of impairment exists as a result of the occurrence of incurred loss events which will have an impact on the estimated future cash flows of the financial assets, impairment allowances are made.

Incurred loss events, not fully listed, include:

- i. significant financial difficulty of the issuer or obligor;
- ii. a serious breach of contract, such as a serious default or delinquency in interest or principal payments;
- iii. the company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider; or
- iv. it becoming probable that the borrower will become bankrupt or enter into other financial reorganisation.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of impairment loss recognised in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (after deducting losses that have been incurred) discounted at the financial asset's effective interest rate after taking into account the value of collateral, if any.

The impairment allowance is reviewed monthly. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

The company first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and collectively for financial assets that are not individually significant. Financial 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. For the purpose of a collective impairment allowance assessment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the expected cash flows of the assets in the company and historical loss experience for assets with credit risk characteristics similar to those in the company. Portfolios of small homogeneous financial assets are collectively assessed using roll rate or historical loss rate methodologies.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.4 Derecognition of financial assets

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

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

Where the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. 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.

2.5 Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.6 Derecognition of financial liabilities

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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.7 Financial guarantee contracts

Financial guarantee contracts within the scope of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with Hong Kong Accounting Standard 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with Hong Kong Accounting Standard 18 "Revenue".

2.8 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 comprise 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 profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

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 economic useful life. The principal annual rates used for this purpose are as follows:

| | |
|--------------------------------|-------|
| Leasehold improvements | - 20% |
| Furniture and fixtures | - 20% |
| Machinery and office equipment | - 20% |

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

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

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.9 Intangible assets

Joining fee to credit search institution is stated at cost less accumulated impairment losses, if any. No amortisation on the cost is provided as the directors are of the opinion that the joining fee is a perpetual asset in nature.

2.10 Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset (other than deferred tax assets and financial assets) is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use or its fair value less costs to sell, and is determined on individual asset, unless the asset does not generate cash inflow that is 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 profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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 an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to profit or loss in the period in which it arises.

2.11 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 cost in profit or loss.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.12 Income tax

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

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

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Tax rates enacted or substantially enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.13 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the company and when the revenue can be measured reliably, on the following bases:

- (a) Interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts and through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (b) Fees and commissions, when services are rendered.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.14 Employee benefits

(a) Retirement benefits scheme

The company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss 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, except for the company's employer voluntary contributions, which are refunded to the company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

In addition to the MPF Scheme, the company operates a separate defined contribution retirement benefits scheme for those employees who are eligible to participate in this scheme. This scheme operates in a similar way to the MPF Scheme, except that when an employee leaves this scheme before his/her interest in the company's employer contribution vesting fully, the ongoing contributions payable by the company are reduced by the relevant amount of the forfeited employer contributions.

(b) Paid leave carried forward

The company provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

2.15 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the assets.

Operating lease payments, net of any incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Cont'd)

2.16 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section in the statement of financial position, until they have been approved by shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.17 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of the company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.18 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.19 Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the company (ii) has an interest in the company that gives it significant influence over the company, or (iii) has joint control over the company; or
- (b) the party is a member of the key management personnel of the company or its holding company; or
- (c) the party is a close member of the family or any individual referred to in (a) or (b); or
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the company, or of any entity that is a related party of the company.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 discussed below.

Impairment allowances on loans and advances

The company reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets of the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimate both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

4. OTHER OPERATING INCOME

| | 2017 HK\$ | 2016 HK\$ |
|---------------------------------|----------------|----------------|
| Fees and commission income, net | <u>514,217</u> | <u>685,457</u> |

5. OPERATING EXPENSES

| | 2017 HK\$ | 2016 HK\$ |
|---|------------------|------------------|
| Auditors' remuneration | 161,642 | 169,518 |
| Employee benefits expense (Including directors' remuneration) | | |
| Salaries and other benefits | 3,327,365 | 3,437,274 |
| Expense on defined contribution scheme | 164,304 | 173,440 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | 754,020 | 736,177 |
| Others | 58 | 2,912 |
| Depreciation | 42,369 | 46,398 |
| License fees | 113,020 | 113,020 |
| Professional fees | 63,905 | 64,505 |
| Other operating expenses | <u>450,476</u> | <u>380,617</u> |
| | <u>5,077,159</u> | <u>5,123,861</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. DIRECTORS' REMUNERATION

Directors' remuneration for the year disclosed pursuant to the section 383(1) of the Hong Kong Companies Ordinance is as follows:-

| | 2017 HK\$ | 2016 HK\$ |
|---|------------------|------------------|
| Fees | -- | -- |
| Other emoluments: | | |
| Salaries, allowance and benefits in kinds | 1,449,667 | 1,476,050 |
| Expense on defined contribution scheme | <u>76,305</u> | <u>85,668</u> |
| | <u>1,525,972</u> | <u>1,561,718</u> |

7. INCOME TAX

Hong Kong profits tax has been calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

| | 2017 HK\$ | 2016 HK\$ |
|--|-----------------|-----------------|
| Current tax | | |
| Provision for the year | 100,232 | 113,769 |
| Over-provision in respect of prior years | (102) | -- |
| Tax rebate by the government | <u>(20,000)</u> | <u>(20,000)</u> |
| | 80,130 | 93,769 |
| Deferred tax (note 12) | <u>1,509</u> | <u>17,845</u> |
| | <u>81,639</u> | <u>111,614</u> |

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

| | 2017 | | 2016 | |
|-------------------------------|----------------|---------------|----------------|--------------|
| | HK\$ | % | HK\$ | % |
| Profit before tax | <u>616,636</u> | | <u>797,043</u> | |
| Tax at the statutory tax rate | 101,745 | 16.50 | 131,512 | 16.50 |
| Tax rebate by the government | (20,000) | (3.24) | (20,000) | (2.51) |
| Others | <u>(106)</u> | <u>(0.02)</u> | <u>102</u> | <u>0.01</u> |
| Income tax and effective rate | <u>81,639</u> | <u>13.24</u> | <u>111,614</u> | <u>14.00</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. DIVIDEND

| | 2017 HK\$ | 2016 HK\$ |
|---|----------------|----------------|
| Proposed final dividend of HK\$5.76 (2016: HK\$8.2) per ordinary share | <u>288,000</u> | <u>410,000</u> |

The proposed final dividend for the year is subject to the approval of the company's shareholders at the forthcoming annual general meeting.

9. ADVANCES AND OTHER ACCOUNTS

| | 2017 HK\$ | 2016 HK\$ |
|--|-------------------|-------------------|
| Advances to customers | 58,730,352 | 60,992,648 |
| Impairment allowances (note 10) - collective | <u>(440,478)</u> | <u>(457,445)</u> |
| | 58,289,874 | 60,535,203 |
| Accrued interest receivable on advances to customers | <u>704,506</u> | <u>1,086,656</u> |
| | <u>58,994,380</u> | <u>61,621,859</u> |

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

| | 2017 HK\$ | 2016 HK\$ |
|--|-------------------|-------------------|
| Repayable: | | |
| On demand | -- | -- |
| Three months or less | 26,626,253 | 10,023,551 |
| One year or less but over three months | 9,871,902 | 27,864,890 |
| Five years or less but over one year | 8,299,792 | 15,347,735 |
| After five years | <u>13,932,405</u> | <u>7,756,472</u> |
| | <u>58,730,352</u> | <u>60,992,648</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

10. IMPAIRMENT ALLOWANCES

| | Individual assessment HK\$ | Collective assessment HK\$ | Total HK\$ |
|-------------------------|----------------------------------|----------------------------------|---------------|
| At 1 January 2016 | -- | 576,294 | 576,294 |
| Write-back for the year | -- | (118,849) | (118,849) |
| At 31 December 2016 | -- | 457,445 | 457,445 |
| Write-back for the year | -- | (16,967) | (16,967) |
| At 31 December 2017 | -- | 440,478 | 440,478 |

These represent impairment allowances for advances to customers.

11. INTANGIBLE ASSETS

| | 2017 HK\$ | 2016 HK\$ |
|--|--------------|--------------|
| Joining fee to credit search institution | 350,000 | 350,000 |

12. DEFERRED TAX ASSETS

Deferred tax assets/(liabilities) are analysed into the following components and their movements during the year were:-

| | (Accelerated)/ decelerated tax depreciation HK\$ | Collective impairment allowance for advances HK\$ | Total HK\$ |
|--|--|---|---------------|
| At 1 January 2016 | (2,573) | 95,089 | 92,516 |
| (Charge)/credit to profit or loss (note 7) | 1,766 | (19,611) | (17,845) |
| At 31 December 2016 | (807) | 75,478 | 74,671 |
| (Charge)/credit to profit or loss (note 7) | 1,290 | (2,799) | (1,509) |
| At 31 December 2017 | 483 | 72,679 | 73,162 |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK\$ | Furniture and fixtures HK\$ | Machinery and office equipment HK\$ | Total HK\$ |
|-------------------------------|-----------------------------------|-----------------------------------|--|---------------|
| Cost | | | | |
| At 1 January 2016 | 60,000 | 552,432 | 355,305 | 967,737 |
| Additions | -- | -- | 32,860 | 32,860 |
| At 31 December 2016 | 60,000 | 552,432 | 388,165 | 1,000,597 |
| Additions | -- | -- | 20,867 | 20,867 |
| Disposals | -- | -- | (49,615) | (49,615) |
| At 31 December 2017 | 60,000 | 552,432 | 359,417 | 971,849 |
| Aggregate depreciation | | | | |
| At 1 January 2016 | 60,000 | 531,281 | 268,340 | 859,621 |
| Charge for the year | -- | 5,676 | 40,722 | 46,398 |
| At 31 December 2016 | 60,000 | 536,957 | 309,062 | 906,019 |
| Charge for the year | -- | 5,676 | 36,693 | 42,369 |
| Eliminated on disposals | -- | -- | (49,615) | (49,615) |
| At 31 December 2017 | (60,000) | (542,633) | (296,140) | (898,773) |
| Net book value | | | | |
| At 31 December 2017 | -- | 9,799 | 63,277 | 73,076 |
| At 31 December 2016 | -- | 15,475 | 79,103 | 94,578 |

14. SHARE CAPITAL

| | 2017 HK\$ | 2016 HK\$ |
|------------------------------|--------------|--------------|
| Issued and fully paid | | |
| 50,000 ordinary shares | 50,000,000 | 50,000,000 |

The HKMA sets and monitors capital requirements for the company. In implementing current capital requirements the HKMA requires the company to maintain a prescribed ratio of total capital to total risk-weighted assets.

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 or other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. FIXED DEPOSITS OF CUSTOMERS

All time deposits of customers are repayable within 3 months (2016: 6 months) based on their remaining periods to their contractual maturity dates.

Fixed deposits, with interest payable at market rates, were placed by:-

| | 2017 HK\$ | 2016 HK\$ |
|---|------------------|------------------|
| Directors, Mr. Chau How Chen and Madam Ma Shun Ling | -- | 3,208,936 |
| Director, Madam Ma Shun Ling | 3,011,219 | -- |
| | <u>3,011,219</u> | <u>3,208,936</u> |

16. LOAN COMMITMENTS

| | 2017 HK\$ | 2016 HK\$ |
|--|------------------|-------------------|
| Loan commitments with original maturity- | | |
| up to one year | -- | -- |
| over one year | 9,407,000 | 17,490,000 |
| | <u>9,407,000</u> | <u>17,490,000</u> |

The credit risk weighted amount of the above commitments is HK\$4,703,500 (2016: HK\$8,745,000).

17. OPERATING LEASE ARRANGEMENTS

The company leases its office property under operating lease arrangements which are negotiated for a term of 2 years. The total future minimum lease payments under non-cancellable operating leases falling due are as follows:-

| | 2017 HK\$ | 2016 HK\$ |
|---|----------------|----------------|
| Within one year | 119,903 | 594,720 |
| In the second to fifth years, inclusive | -- | 119,903 |
| | <u>119,903</u> | <u>714,623</u> |

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in these financial statements, the company had the following material transactions with related parties or a related company during the year:-

| | Notes | 2017 HK\$ | 2016 HK\$ |
|--|-------|--------------|--------------|
| With a related company, Cosmos Asset Group Limited, in which the directors Messrs. Chan How Chen, Chau Chun Wing and Madam Ma Shun Ling are directors: | | | |
| Rental expenses paid | (i) | 754,020 | 736,177 |
| Interest paid on fixed deposits | (ii) | 33,564 | 71,033 |
| With directors, Messrs. Chau How Chen and Madam Ma Shun Ling: | | | |
| Interest paid on fixed deposits | (ii) | 47,179 | 47,902 |

- (i) The directors considered that the monthly rental and service charges in aggregate of HK\$62,835 (2016: HK\$62,835) was charged with reference to open market.
- (ii) Fixed deposits from a related company and directors were interest bearing at market rates.

- (b) Compensation of key management personnel of the company:-

| | 2017 HK\$ | 2016 HK\$ |
|--|--------------|--------------|
| Short-term employee benefits | 1,449,667 | 1,476,050 |
| Expense on defined contribution scheme | 76,305 | 85,668 |
| | 1,525,972 | 1,561,718 |

- (c) The company's bank revolving loan facilities are secured by the personal guarantees of certain directors of the company.

19. DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS

Save for those disclosed in note 18, no contracts, transactions and arrangements of significance in relation to the company's business in which the company was a party, and in which the directors of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company has various financial assets and liabilities such as advances and other accounts and fixed deposits, which arise directly from its operations. It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are credit risk, liquidity, operational, market, currency and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of counterparty defaulting. The carrying amounts of loans and advances and bank balances represent the maximum exposure of the company to credit risk attributable to these financial assets.

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 charged for carrying out credit approval and monitoring procedures in accordance with company's policies and guidelines. The majority of credit granted are secured by collaterals which are subject to review and valuation update on a regular basis to reflect current circumstances. Customer creditability, repayment history and overdue reports are regularly reviewed by responsible personnel and senior management to monitor the risk of credit default.

At the end of the reporting period, the company did not have significant concentration of credit risk in respect of any single customer or a group of customers.

(b) Liquidity risk

Information on cash flow and daily liquidity ratio computed by responsible personnel are reviewed by senior management for monitoring liquidity. In case that liquidity ratio and cash flow appear to drop down towards the minimum level, the company will suspend the loan growth, transfer the matured long-term bank placement to short-term and draw on standby bank facilities. The company relies principally on its internally generated capital as well as deposits from its shareholders. A contingency plan is prepared to deal with any possible liquidity crisis in the future.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(b) Liquidity risk (Cont'd)

The following table indicates the remaining contractual maturities of the financial liabilities of the company at the end of the reporting period. The amounts of repayments are based on undiscounted cash flows and the earliest date of repayments.

| | Carrying value HK\$ | Total contractual undiscounted cash flows HK\$ | Repayable within 1 year or on demand HK\$ |
|--|------------------------|---|--|
| 2017 | | | |
| Fixed deposits of customers and accrued interest | 3,014,684 | 3,022,480 | 3,022,480 |
| Others | 962,358 | 962,358 | 962,358 |
| | <u>3,977,042</u> | <u>3,984,838</u> | <u>3,984,838</u> |
| 2016 | | | |
| Fixed deposits of customers and accrued interest | 3,214,738 | 3,221,332 | 3,221,332 |
| Others | 1,001,627 | 1,001,627 | 1,001,627 |
| | <u>4,216,365</u> | <u>4,222,959</u> | <u>4,222,959</u> |

(c) Operational risk

Operational risk is the potential for direct or indirect loss from events such as breakdown of processes and internal controls, human errors, faulty internal and external reporting and non-compliance with regulations and laws. The board of directors has established effective internal control systems to manage operational risk and senior management and responsible personnel are charged for maintaining a strong and disciplined control environment and the enforcement of internal control procedures.

(d) Market risk

In the normal course of its commercial lending activities, the company engages in transactions that give rise to market risks which are principally interest rate risk. Market risk is the risk of loss arising from adverse changes in value as a result of movements in market rates or prices.

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21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(e) Currency risk

The currency risk exposure of the company from both on and off balance sheet activities is considered immaterial.

(f) Interest rate risk

Interest rate risk is monitored by regular sensitivity analyses to assess the impact of changes in market condition or interest rates and the results of these analyses are reported to management. The company does not trade in market risk sensitive instruments and, accordingly, no quantitative market risk information in this regard is presented.

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing are detailed as follows:-

| | At 31 December 2017 | | | | | | | Total HK\$ |
|---------------------------------------|--------------------------|--|---|---|---|----------------------|------------------------------|--------------------|
| | One year or less HK\$ | More than 1 year but not more than 2 years HK\$ | More than 2 years but not more than 3 years HK\$ | More than 3 years but not more than 4 years HK\$ | More than 4 years but not more than 5 years HK\$ | Over 5 years HK\$ | Non-interest bearing HK\$ | |
| Assets | | | | | | | | |
| Cash and balances with banks | 12,343,720 | -- | -- | -- | -- | -- | 170,352 | 12,514,072 |
| Placement with banks | 1,000,000 | -- | -- | -- | -- | -- | -- | 1,000,000 |
| Advances to customers | 58,730,352 | -- | -- | -- | -- | -- | -- | 58,730,352 |
| Total assets | 72,074,072 | -- | -- | -- | -- | -- | 170,352 | 72,244,424 |
| Liabilities | | | | | | | | |
| Fixed deposits of customers | 3,011,219 | -- | -- | -- | -- | -- | -- | 3,011,219 |
| Bank loans | -- | -- | -- | -- | -- | -- | -- | -- |
| Total liabilities | (3,011,219) | -- | -- | -- | -- | -- | -- | (3,011,219) |
| Total interest sensitivity gap | 69,062,853 | -- | -- | -- | -- | -- | 170,352 | 69,233,205 |
| | At 31 December 2016 | | | | | | | |
| | One year or less HK\$ | More than 1 year but not more than 2 years HK\$ | More than 2 years but not more than 3 years HK\$ | More than 3 years but not more than 4 years HK\$ | More than 4 years but not more than 5 years HK\$ | Over 5 years HK\$ | Non-interest bearing HK\$ | Total HK\$ |
| Assets | | | | | | | | |
| Cash and balances with banks | 10,245,917 | -- | -- | -- | -- | -- | 307,690 | 10,553,607 |
| Placement with banks | 502,062 | -- | -- | -- | -- | -- | -- | 502,062 |
| Advances to customers | 60,992,648 | -- | -- | -- | -- | -- | -- | 60,992,648 |
| Total assets | 71,740,627 | -- | -- | -- | -- | -- | 307,690 | 72,048,317 |
| Liabilities | | | | | | | | |
| Fixed deposits of customers | 3,208,936 | -- | -- | -- | -- | -- | -- | 3,208,936 |
| Bank loans | -- | -- | -- | -- | -- | -- | -- | -- |
| Total liabilities | (3,208,936) | -- | -- | -- | -- | -- | -- | (3,208,936) |
| Total interest sensitivity gap | 68,531,691 | -- | -- | -- | -- | -- | 307,690 | 68,839,381 |

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21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

(f) Interest rate risk (Cont'd)

The table below summaries the effective average interest rates at the end of the reporting period for monetary financial instruments:-

| | 2017 | 2016 |
|-----------------------------|-------------|-------------|
| | % | % |
| Assets | | |
| Cash and balances with bank | 0.01 | 0.02 |
| Placement with bank | 0.66 | 0.35 |
| Advances to customers | 8.52 | 8.15 |
| Liabilities | | |
| Fixed deposits of customers | <u>1.50</u> | <u>1.50</u> |

At 31 December 2017, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the profit or loss and equity by HK\$577,000 (2016: HK\$572,000) approximately. The sensitivity analysis for interest rate risk has been determined assuming that the change in interest rates occurred at the end of the reporting period. The increase/decrease of basis points is based on management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2016.