

CHAU'S BROTHERS FINANCE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



WONG BROTHERS CPA LIMITED
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

CHAU'S BROTHERS FINANCE COMPANY LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2019.

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. The year of 2019 was a more difficult year than last year for a local loan market with a weak loan demand, aggressive competitors and great uncertainty. The company adhered to the basic belief of seeking progress while maintaining stability and sustained driving force in the pursuit of customised and professional services to customers. More importantly, we keep monitoring the coronavirus outbreak very closely as we always treasure the well-being of our customers and staff members. We will endeavour to ensure their safety and support them to get through the difficult time.

Global and local economies

In 2019, trade policy uncertainty of market economies, geopolitical tensions and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity, especially in the manufacturing and trade sectors. In the second half of 2019, intensifying social unrest in several countries, weather-related disasters such as hurricanes in the Caribbean, drought and bushfires in Australia and floods in eastern Africa, also posed new challenges to the global economy.

On the other hand, some indications emerged towards the year end that global growth may have been bottomed out. These indications included improved market sentiment, favourable development in the US-China trade negotiations, etc. Moreover, monetary policy easing of major economies continued in the second half of 2019.

Back to Hong Kong, the social unrest in the second half of 2019 has impacted the local economy much. Following that was the coronavirus outbreak in China. We have lowered our expectations on the growth of the local economy in 2020. It may take some time for the local economy to restore to the right track. Similar to last year, the weak loan demand in the local market, keen market competition, market uncertainties together with increasing compliance costs have created considerable challenges to the company in maintaining profitability.

Amidst the adverse operating environment and increasing uncertainties in operating and market risks, the directors and management continue to enhance and strengthen risks management and internal control to maintain a sustainable growth of the company. Moreover, every effort will be devoted to ensure the safety and well-being of our customers and staff members to pass through the prevailing hard time.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Results and profit analysis

	2019 HK\$'000	2018 HK\$'000	Variance
<u>Key financial data</u>			
<u>Profit and loss items</u>			
1. Net interest income	4,838	4,688	3%
2. Other operating income	364	445	-18%
3. Operating expenses	5,095	5,024	1%
4. Profit before allowance for expected credit losses	107	109	-2%

Balance sheet items

1. Cash at and placement with banks	12,204	11,976	2%
2. Advances to customers	57,314	65,765	-13%
3. Allowance for expected credit losses	430	493	-13%
4. Total assets	70,789	79,100	-11%
5. Fixed deposits of customers	500	9,013	-94%
6. Total liabilities	1,553	10,020	-85%

Key financial ratios

1. Average liquidity maintenance ratio	157%	160%	-3%
2. Common equity tier 1 capital ratio	104%	97%	7%
3. Tier 1 capital ratio	104%	97%	7%
4. Total capital ratio	105%	98%	7%

Analysis of key financial data and ratios

For the financial year of 2019, net interest income amounted to HK\$4,838,000 which was 3% higher than last year. Profit before allowance for expected credit losses amounted to HK\$107,000, declined by 2%. Total assets fell 11% to HK\$70,789,000, of which cash at and placement with banks grew by 2% to HK\$12,204,000.

Total liabilities decreased by 85% because of decreased fixed deposits of customers by 94% when compared with last year. There was no bank borrowing at 31 December 2019. Overall, the company's core business and financial position are strong and asset quality is sound with a low level of expected credit losses. 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 a key asset. 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 2019

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 2018 and 2019 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

	2019 HK\$	2018 HK\$
Loans for use in Hong Kong		
Industrial, commercial and financial sectors:		
- Property development	43,515,792	38,823,742
- Property investment	6,273,396	6,328,220
- Others	500,000	12,000,000
Individuals:		
- Loans for purchase of residential properties	1,033,062	1,168,295
- Others	5,467,368	6,811,855
Loans for use outside Hong Kong	<u>524,501</u>	<u>632,692</u>
	<u>57,314,119</u>	<u>65,764,804</u>

Advances to customers classified by industry sectors are 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 99% 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 2019

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, two 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 audit committee presently has one independent non-executive director.

(c) Remuneration committee

The remuneration committee, which has one independent non-executive director, 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 2019, the total amount of fixed remuneration, including mandatory provident fund contributions, of the seven directors of the company amounted to HK\$1,430,175. 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 2019

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 2019

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

	2019	2018
Capital adequacy ratio as at 31 December	<u>105.43%</u>	<u>98.01%</u>
Average liquidity maintenance ratio for the financial year	<u>156.91%</u>	<u>160.36%</u>

Components of total capital base after deduction

	2019 HK\$	2018 HK\$
Common equity tier 1 ("CET 1") capital -		
CET 1 capital instruments/paid up ordinary share capital	50,000,000	50,000,000
Retained profits/reserves (eligible for inclusion in core capital)	18,519,485	18,257,469
Intangible assets	(350,000)	(350,000)
Deferred tax assets	<u>(35,645)</u>	<u>(42,436)</u>
	68,133,840	67,865,033
Tier 2 capital		
Allowance for expected credit losses and regulatory reserve, limited to 1.25% of risk-weighted amount for credit risks	<u>696,521</u>	<u>752,321</u>
Total capital base before deductions	68,830,361	68,617,354
Deductions from total capital base	<u>--</u>	<u>--</u>
Total capital base after deductions	<u>68,830,361</u>	<u>68,617,354</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Mainland activities

	2019 HK\$	2018 HK\$
Individuals outside China where the credit is granted for use in China On-balance sheet and total exposure	<u>524,501</u>	<u>632,692</u>

Results and financial position

The company's profit for the year ended 31 December 2019 and its financial position at that date are set out in the financial statements on pages 12 to 37.

The directors do not recommend the payment of a dividend for the year.

Property, plant and equipment

Details of movements in the property, plant and equipment of the company are set out in note 11 to the financial statements.

Directors

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

Chau Chun Wing, William

Ma Shun Ling

Tong Wing Kam

(Resigned on 16 August 2019)

Tsang Chui Hing

Wong Man Hai

(Resigned on 3 October 2019)

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.

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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 CPA Limited, Certified Public Accountants (Practising), be re-appointed as auditors of the company will be put to the Annual General Meeting.

On behalf of the board



Chau Chun Wing, William
Director
Dated 18 MAR 2020



Directors : S M Kan
Johnny M S Yuen
Albert W W Chui

Ricky W P Wong
Clifford C K Lo

董事: 簡迅鳴會計師 黃煒培會計師
袁明碩會計師 勞鎮乾會計師
崔永華會計師

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 37, which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 HKSAAs 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 HKSAAs, 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 CPA Ltd.

Wong Brothers CPA Limited
Certified Public Accountants (Practising)

Johnny M. S. Yuen
Practising Certificate Number: P05632

Hong Kong, 18 MAR 2020

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK\$	2018 HK\$
Interest income		4,894,197	4,730,459
Interest expenses		<u>(56,364)</u>	<u>(42,945)</u>
Net interest income		4,837,833	4,687,514
Fees and commission income, net		<u>363,958</u>	<u>444,772</u>
		5,201,791	5,132,286
Administrative and general expenses	4	<u>(5,094,726)</u>	<u>(5,023,551)</u>
Profit before allowance for expected credit losses		107,065	108,735
Allowance for expected credit losses written back/(charged)	8	<u>63,380</u>	<u>(52,758)</u>
Profit before tax		170,445	55,977
Income tax	6	<u>(14,062)</u>	<u>(11,198)</u>
Profit for the year		156,383	44,779
Other comprehensive income		<u>--</u>	<u>--</u>
Total comprehensive income for the year		<u>156,383</u>	<u>44,779</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	2019 HK\$	2018 HK\$
ASSETS			
Cash and balances at banks		12,204,020	5,099,629
Placement with bank with remaining maturity between one and twelve months		--	6,876,790
Advances and other accounts	7	57,801,400	66,296,768
Deposits and other receivables		316,035	352,553
Intangible assets	9	350,000	350,000
Deferred tax assets	10	35,645	42,436
Property, plant and equipment	11	49,451	42,178
Tax recoverable		32,375	39,646
Total assets		<u>70,788,926</u>	<u>79,100,000</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	12	50,000,000	50,000,000
Reserves		<u>19,235,912</u>	<u>19,079,529</u>
Total equity		<u>69,235,912</u>	<u>69,079,529</u>
Liabilities			
Fixed deposits of customers	13	500,000	9,012,510
Accrued interest payable		888	11,361
Accruals and other payables		<u>1,052,126</u>	<u>996,600</u>
Total liabilities		<u>1,553,014</u>	<u>10,020,471</u>
Total equity and liabilities		<u>70,788,926</u>	<u>79,100,000</u>

Approved by the board of directors
on 18 MAR 2020



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 2019

	Share capital HK\$	Regulatory reserve * HK\$	Retained profits HK\$	Proposed dividend HK\$	Total HK\$
At 1 January 2018	50,000,000	734,129	18,300,621	288,000	69,322,750
Final 2017 dividend declared	--	--	--	(288,000)	(288,000)
Transfer	--	87,931	(87,931)	--	--
Total comprehensive income for the year	--	--	44,779	--	44,779
At 31 December 2018 and 1 January 2019	50,000,000	822,060	18,257,469	--	69,079,529
Transfer	--	(105,633)	105,633	--	--
Total comprehensive income for the year	--	--	156,383	--	156,383
At 31 December 2019	<u>50,000,000</u>	<u>716,427</u>	<u>18,519,485</u>	<u>--</u>	<u>69,235,912</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 expected credit losses recognised under Hong Kong Financial Reporting Standard 9 "Financial Instruments". Transfers to and from the regulatory reserve are made directly through retained profits.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK\$	2018 HK\$
Cash flows from operating activities		
Profit before tax	170,445	55,977
Adjustments for:		
Depreciation	20,746	31,382
Allowance for expected credit losses (written back)/charged	<u>(63,380)</u>	<u>52,758</u>
Operating profit before working capital changes	127,811	140,117
Decrease/(increase) in advances to customers	8,450,685	(7,034,452)
Decrease/(increase) in accrued interest receivable on advances to customers	108,063	(320,694)
Decrease/(increase) in deposits and other receivables	36,518	(70,884)
(Decrease)/increase in fixed deposits of customers	(8,512,510)	6,001,291
(Decrease)/increase in accrued interest payable	(10,473)	7,896
Increase in accruals and other payables	<u>55,526</u>	<u>34,242</u>
Net cash generated from/(used in) from operations	255,620	(1,242,484)
Hong Kong Profits Tax paid	<u>--</u>	<u>(6,685)</u>
Net cash inflow/(outflow) from operating activities	<u>255,620</u>	<u>(1,249,169)</u>
Cash flows from investing activities		
Payment to purchase property, plant and equipment	<u>(28,019)</u>	<u>(484)</u>
Net cash outflow from investing activities	<u>(28,019)</u>	<u>(484)</u>
Cash flows from financing activities		
Dividend paid	<u>--</u>	<u>(288,000)</u>
Net cash outflow from financing activities	<u>--</u>	<u>(288,000)</u>
Net increase/(decrease) in cash and cash equivalents	227,601	(1,537,653)
Cash and cash equivalents at beginning of year	<u>11,976,419</u>	<u>13,514,072</u>
Cash and cash equivalents at end of year, representing cash and balances at and placement with banks	<u>12,204,020</u>	<u>11,976,419</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

(i) Standards, interpretations and amendments effective in 2019

The HKICPA has issued a number of new/revised standards, amendments and interpretations to HKFRS that are effective for the current financial year of the company. Among these standards, HKFRS 16 "Leases" which has been adopted by the company since 1 January 2019 is relevant to the preparation of these financial statements. However, the adoption of HKFRS 16 has no material effect on the reported results, financial position and cash flows of the company.

Major changes introduced by HKFRS 16 include a new definition of lease and accounting for leases by a lessee. The new accounting policy for leases is set out in note 2.16 to the financial statements.

(ii) Impact of standards, amendments and interpretations yet to be adopted

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 2019. 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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.2 Financial assets

Financial assets of the company within the scope of HKFRS 9 "Financial Instruments" are mainly advances and receivables which are held by the company within a business model whose objective is to hold them in order to collect contractual cash flows and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The company recognises such financial assets in the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the instrument.

When such financial assets are initially recognised, they are measured at fair value, plus directly attributable transaction costs. They 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 advances and receivables are derecognised or impaired, as well as through the amortisation process.

2.3 Impairment of financial assets

The company recognises an allowance for expected credit losses ("ECLs") for its advances to and receivables from customers. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held, if any, that are integral to the contractual terms.

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

The directors consider the following constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- (a) When there is a breach of financial covenants by the debtor; or
- (b) Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its debts in full (without taking into account any collateral held by the company).

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.3 Impairment of financial assets (Cont'd)

Irrespective of the above, the directors consider that default has occurred when a financial asset is more than 90 days past due unless the company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event;
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 contractual rights to receive cash flows from the financial asset expire or the company transfers the financial asset.

The company transfers a financial asset in an arrangement when it retains the contractual rights to receive cash flows from the asset but has assumed a contractual obligation to pay the cash flows to one or more recipients and such arrangement meets all the following three conditions:

- (a) The company has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- (b) The company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- (c) The company has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay, and the company is not entitled to reinvest such cash flows except for investments in cash and cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and the interest earned on such investments is passed to the eventual recipients.

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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.6 Derecognition of financial liabilities

A financial liability is removed from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.7 Financial guarantees

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the company's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. ECLs on the financial guarantees is recognised of risk of default by a specified debtor has been increased substantially.

2.8 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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.9 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 2019

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

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 2019

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 at the amount of promised consideration to which the company is expected to be entitled in exchange for those goods or services and net of trade discounts, if any.

(a) Fees and commissions

Fees and commissions are recognised at a point in time when performance obligation is satisfied by the transfer of promised services to a customer which is the time the relevant services are rendered. Invoices are issued to customers before or upon completion of services and consideration is payable when invoiced.

(b) Interest income is accrued on a time 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.

2.14 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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.15 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.

2.16 Leases

At inception of a contract, the company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

At the lease commencement date, the company recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the company enters into a lease in respect of a low-value asset, the company decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognised as an expense on a systematic basis over the lease term.

For short-term leases or low-value asset leases, the lease payments are expensed on a straight-line basis over the terms of the leases.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

2.17 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.

2.18 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 2019

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The presentation of financial statements in conforming with HKFRS requires the use of certain critical accounting estimates and judgements in applying the accounting policies. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the significant accounting estimates and assumptions and judgements in applying the company's accounting policies for preparation of the financial statements.

(a) Significant increase in credit risk

As explained in note 2.3 "Impairment of financial assets", ECLs are measured as an allowance equal to 12-month ECL or lifetime ECL, depending on when the credit risk of the financial asset has increased significantly since initial recognition. Management takes into account of a number of qualitative and quantitative factors and reasonable and supportable forward looking information, and exercises judgement in determining if a financial asset's credit risk has increased significantly.

(b) Measurement of ECLs

ECLs are the discounted product of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD").

PD is an estimate of the likelihood of a borrower defaulting on its financial obligation either over the next 12 months ("12-month PD") or over the remaining lifetime ("lifetime PD"). Its calculation involves using historical data and making assumptions for the future movement of different economic drivers and how these drivers will affect each other.

EAD is based on the amounts the company expects to be owed at the time of default. For a revolving commitment, the company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the company would expect to receive after taking into account cash flows from collateral and integral credit enhancements.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

4. ADMINISTRATIVE AND GENERAL EXPENSES

	2019 HK\$	2018 HK\$
Auditors' remuneration	161,804	161,555
Employee benefits expense (Including directors' remuneration)		
Salaries and other benefits	3,409,130	3,363,688
Expense on defined contribution scheme	135,678	149,297
Short-term lease payments on office premises	677,910	754,020
Depreciation	20,746	31,382
License fees	113,020	113,020
Professional fees	176,755	65,605
Other operating expenses	<u>399,683</u>	<u>384,984</u>
	<u>5,094,726</u>	<u>5,023,551</u>

5. DIRECTORS' REMUNERATION

Remuneration of the company's directors disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and the Hong Kong Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:-

	2019 HK\$	2018 HK\$
Directors' emoluments for services as directors of the company	--	--
Other emoluments in connection with the management of the affairs of the company:		
Salaries, allowance and benefits in kinds	1,387,500	1,378,000
Expense on defined contribution scheme	<u>42,675</u>	<u>57,549</u>
	<u>1,430,175</u>	<u>1,435,549</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. INCOME TAX

	2019 HK\$	2018 HK\$
Current tax		
Hong Kong Profits Tax for current year	7,271	10,472
Tax rebate by the government	<u>--</u>	<u>(30,000)</u>
	7,271	(19,528)
Deferred tax (note 10)	<u>6,791</u>	<u>30,726</u>
	<u>14,062</u>	<u>11,198</u>

Hong Kong Profits Tax has been calculated at 8.25% (2018: 8.25%) on the estimated assessable profit for the year.

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

	2019		2018	
	HK\$	%	HK\$	%
Profit before tax	<u>170,445</u>		<u>55,977</u>	
Tax at applicable tax rate	14,062	8.25	4,618	8.25
Effect of changes in tax rate	--	--	36,580	65.35
Tax rebate by the government	<u>--</u>	<u>--</u>	<u>(30,000)</u>	<u>(53.59)</u>
Income tax and effective rate	<u>14,062</u>	<u>8.25</u>	<u>11,198</u>	<u>20.01</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. ADVANCES AND OTHER ACCOUNTS

	2019 HK\$	2018 HK\$
Advances to customers	57,314,119	65,764,804
Allowance for expected credit losses (note 8)	(429,856)	(493,236)
	56,884,263	65,271,568
Accrued interest receivable on advances to customers	917,137	1,025,200
	<u>57,801,400</u>	<u>66,296,768</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:-

	2019 HK\$	2018 HK\$
Repayable:		
On demand	5,383	5,000
Three months or less	27,420,090	8,137,321
One year or less but over three months	13,443,820	12,136,881
Five years or less but over one year	3,050,690	28,648,074
After five years	13,394,136	16,837,528
	<u>57,314,119</u>	<u>65,764,804</u>

The advances to customers do not have credit risk rating grades.

8. ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT ALLOWANCES

	Collective impairment allowances HK\$	Allowance for 12-month expected credit losses HK\$	Total HK\$
At 1 January 2018	440,478	--	440,478
Transfer on 1 January 2018	(440,478)	440,478	--
Charge for the year	--	52,758	52,758
At 31 December 2018	--	493,236	493,236
Write-back for the year	--	(63,380)	(63,380)
At 31 December 2019	--	429,856	429,856

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

9. INTANGIBLE ASSETS

	2019 HK\$	2018 HK\$
Joining fee to credit search institution	<u>350,000</u>	<u>350,000</u>

10. DEFERRED TAX ASSETS

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

	Decelerated tax depreciation HK\$	Allowance for expected credit losses HK\$	Total HK\$
At 1 January 2018	483	72,679	73,162
Credit/(charge) to profit or loss (note 6)	<u>1,261</u>	<u>(31,987)</u>	<u>(30,726)</u>
At 31 December 2018	1,744	40,692	42,436
Credit/(charge) to profit or loss (note 6)	<u>(1,562)</u>	<u>(5,229)</u>	<u>(6,791)</u>
At 31 December 2019	<u>182</u>	<u>35,463</u>	<u>35,645</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Machinery and office equipment HK\$	Total HK\$
Cost				
At 1 January 2018	60,000	552,432	359,417	971,849
Additions	--	--	484	484
At 31 December 2018	60,000	552,432	359,901	972,333
Additions	--	--	28,019	28,019
At 31 December 2019	60,000	552,432	387,920	1,000,352
Aggregate depreciation				
At 1 January 2018	60,000	542,633	296,140	898,773
Charge for the year	--	5,676	25,706	31,382
At 31 December 2018	60,000	548,309	321,846	930,155
Charge for the year	--	4,123	16,623	20,746
At 31 December 2019	(60,000)	(552,432)	(338,469)	(950,901)
Net book value				
At 31 December 2019	--	--	49,451	49,451
At 31 December 2018	--	4,123	38,055	42,178

12. SHARE CAPITAL

	2019 HK\$	2018 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 2019

13. FIXED DEPOSITS OF CUSTOMERS

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

	2019 HK\$	2018 HK\$
Related company, Cosmos Asset Group Limited in which the directors, Mr. Chau Chun Wing William and Madam Ma Shun Ling are directors	--	4,000,000
Director, Madam Ma Shun Ling	<u>500,000</u>	<u>5,012,510</u>
	<u>500,000</u>	<u>9,012,510</u>

All time deposits of customers are repayable within 3 months (2018: 3 months) based on their remaining periods to their contractual maturity dates.

14. LOAN COMMITMENTS

	2019 HK\$	2018 HK\$
Loan commitments with original maturity-		
up to one year	--	--
over one year	<u>4,605,200</u>	<u>7,774,000</u>
	<u>4,605,200</u>	<u>7,774,000</u>

The credit risk weighted amount of the above commitments is HK\$2,302,600 (2018: HK\$3,887,000).

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. 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	2019 HK\$	2018 HK\$
With a related company, Cosmos Asset Group Limited, in which the directors Mr. Chau Chun Wing and Madam Ma Shun Ling are directors:			
Rental expenses	(i)	677,910	754,020
Interest expense on fixed deposits	(ii)	14,246	5,479
With director, Madam Ma Shun Ling:			
Interest expense on fixed deposits	(ii)	<u>33,837</u>	<u>26,187</u>

- (i) The directors consider that the monthly rental and service charges in aggregate of HK\$62,835 (2018: HK\$62,835) was charged with reference to open market.

- (ii) The fixed deposits are interest bearing at market rates.

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

	2019 HK\$	2018 HK\$
Short-term employee benefits	1,387,500	1,378,000
Expense on defined contribution scheme	<u>42,675</u>	<u>57,549</u>
	<u>1,430,175</u>	<u>1,435,549</u>

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

16. DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS AND ARRANGEMENTS

Save for those disclosed in note 15, 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 2019

17. 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 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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17. 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\$
2019			
Fixed deposits of customers and accrued interest	500,888	502,992	502,992
Others	1,052,126	1,052,126	1,052,126
	<u>1,553,014</u>	<u>1,555,118</u>	<u>1,555,118</u>
2018			
Fixed deposits of customers and accrued interest	9,023,871	9,056,955	9,056,955
Others	996,600	996,600	996,600
	<u>10,020,471</u>	<u>10,053,555</u>	<u>10,053,555</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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2019

17. 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 2019							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 at banks	11,917,400	--	--	--	--	--	286,620	12,204,020
Advances to customers	57,314,119	--	--	--	--	--	--	57,314,119
Total assets	69,231,519						286,620	69,518,139
Liabilities								
Fixed deposits of customers	500,000	--	--	--	--	--	--	500,000
Total interest sensitivity gap	68,731,519	--	--	--	--	--	286,620	69,018,139
	At 31 December 2018							
	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 at banks	4,999,879	--	--	--	--	--	99,750	5,099,629
Placement with banks	6,876,790	--	--	--	--	--	--	6,876,790
Advances to customers	65,764,804	--	--	--	--	--	--	65,764,804
Total assets	77,641,473	--	--	--	--	--	99,750	77,741,223
Liabilities								
Fixed deposits of customers	9,012,510	--	--	--	--	--	--	9,012,510
Total interest sensitivity gap	68,628,963	--	--	--	--	--	99,750	68,728,713

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FOR THE YEAR ENDED 31 DECEMBER 2019

17. 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:-

	2019	2018
	%	%
Assets		
Cash and balances at banks	0.01	0.12
Placement with bank	- -	2.06
Advances to customers	8.57	8.17
Liabilities		
Fixed deposits of customers	<u>2.40</u>	<u>2.00</u>

At 31 December 2019, 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\$631,000 (2018: HK\$630,000) 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 2018.

