

CHAU'S BROTHERS FINANCE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021



WONG BROTHERS CPA LIMITED
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

CHAU'S BROTHERS FINANCE COMPANY LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2021.

Principal activities

The company is a registered deposit taking company under the Banking Ordinance. 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. During the year, COVID-19 pandemic continued to affect the Hong Kong economy. The local loan market had a weak demand, with keen competition and a great uncertainty. The company adheres to the belief of seeking progress while maintaining stability and sustainable driving force in the pursuit of customised and professional services to customers. Management will continue to look for new business when opportunities arise.

Local economy

The government's statistics showed that the Hong Kong economy had a moderate recovery in 2021. However, due to the sudden outbreak of Omicron in February 2022, management expects the recovery is subject to further uncertainties associated with the political tension between the United States and China and the war between Russia and Ukraine. It will take some time for the local economy restoring on the right track. As in last year, the weak loan demands in the local market, keen market competition and increasing compliance costs have created considerable challenges to the company in maintaining profitability.

In view of that, management will continue to monitor and strengthen the company's risks management and internal control policies to sustain growth with precaution.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

Results and profit and loss analysis

	2021 HK\$'000	2020 HK\$'000	Variance
<u>Key financial data</u>			
<u>Profit and loss items</u>			
1. Net interest income	4,145	4,533	-9%
2. Other operating income	431	356	21%
3. Operating expenses	5,021*	4,408*	14%
4. (Loss)/profit before impairment allowances	(445)	481	-193%

(* after adjustment of government subsidy)

Balance sheet items

1. Cash and balances with banks	21,113	15,938	32%
2. Advances to customers	48,734	54,498	-11%
3. Impairment allowances	862	756	14%
4. Total assets	70,537	71,234	-1%
5. Fixed deposits of customers	605	601	1%
6. Total liabilities	1,715	1,881	-9%

Key financial ratios

1. Average liquidity maintenance ratio	161%	161%	0% points
2. Common equity tier 1 capital ratio	125%	116%	9% points
3. Tier 1 capital ratio	125%	116%	9% points
4. Total capital ratio	126%	117%	9% points

Analysis of key financial data and ratios

In 2021, net interest income amounted to HK\$4,145,000 which was 9% lower than that of last year. Loss before impairment allowances amounted to HK\$445,000 compared to a profit of HK\$481,000 achieved in 2020. Total assets decreased by 1% to HK\$70,537,000, of which cash and balances with banks increased by 32% to HK\$21,113,000.

Total liabilities decreased by 9%, mainly because of the decrease of accruals and other payables by 13%. There was no bank borrowing at 31 December 2021. Overall speaking, the company's core business and financial position were strong and asset quality was sound with a low level of impairment allowance. Both capital adequacy and liquidity maintenance ratios were well above the relevant statutory requirements.

Environmental protection

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

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 2021

Customer-oriented services

The company strives to provide customer-oriented lending services, and has policies in place aiming at minimising 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), loss/profit before tax and loss/profit for the years ended 31 December 2021 and 2020 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

	2021 HK\$	2020 HK\$
Loans for use in Hong Kong		
Industrial, commercial and financial sectors:		
- Property development	33,842,320	38,880,054
- Property investment	6,150,463	6,215,270
- Others	3,000,000	3,000,000
Individuals:		
- Loans for purchase of residential properties	734,367	888,756
- Others	4,720,323	5,104,438
Loans for use outside Hong Kong	<u>286,686</u>	<u>409,380</u>
	<u>48,734,159</u>	<u>54,497,898</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 2021

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 and four executive directors.

(c) Remuneration committee

The remuneration committee, which has one independent non-executive director and four 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 2021, the total amount of fixed remuneration, including mandatory provident fund contributions, of the five directors of the company amounted to HK\$1,421,595. 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 2021

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 2021

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

	2021	2020
Capital adequacy ratio as at 31 December	<u>125.90%</u>	<u>116.86%</u>
Average liquidity maintenance ratio for the financial year	<u>160.97%</u>	<u>160.61%</u>

Components of total capital base after deduction

	2021	2020
	HK\$	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)	18,218,834	18,676,124
Intangible assets	(350,000)	(350,000)
Deferred tax assets	- -	(208)
	<u>67,868,834</u>	<u>68,325,916</u>
Tier 2 capital		
Allowance for expected credit losses and regulatory reserve,		
limited to 1.25% of risk-weighted amount		
for credit risks	<u>565,211</u>	<u>619,672</u>
Total capital base before deductions	68,434,045	68,945,588
Deductions from total capital base	<u>- -</u>	<u>- -</u>
Total capital base after deductions	<u>68,434,045</u>	<u>68,945,588</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

Mainland activities

	2021	2020
	HK\$	HK\$
Individuals outside China where the credit is granted for use in China		
On-balance sheet and total exposure	<u>286,686</u>	<u>409,380</u>

Results and financial position

The results for the year ended 31 December 2021 are set out in the statement of profit or loss and other comprehensive income on page 12.

The financial position of the company as at 31 December 2021 is set out in the statement of financial position on page 13.

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.

Statement of compliance

The company is exempt from the application of the Banking (Disclosure) Rules under the Banking Ordinance.

Directors

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

Chau Chun Wing, William
Ma Shun Ling
Tsang Chui Hing
Wong Yu Kau, Patrick
Woo Kwok Yin

Management contracts

The company has not entered into any contract whereby the management and administration of the whole or any substantial part of the company's business have been undertaken by a party other than the company's directors or employees.

Directors' interests in shares

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 2021

Permitted indemnity provisions

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance Cap 622) for the benefit of the directors of the company is currently in force and was in force throughout the year.

Directors' interests in contracts, transactions and arrangements

Except for the related party transactions disclosed in note 15 to the financial statements, no other contract, transaction and arrangement of significance in relation to the company's business in which the company, the holding company, or any of its fellow subsidiaries was a party, and in which a director 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.

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 28 MAR 2022



Directors : S M Kan Ricky W P Wong
Clifford C K Lo Albert W W Chui Rose M T On

董事: 簡迅鳴會計師 黃煒培會計師
勞鎮乾會計師 崔永華會計師 安曼廷會計師

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 38, which comprise the statement of financial position as at 31 December 2021, 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 2021, 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 Cap 622.

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 Cap 622, 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 Cap 622, 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

WONG BROTHERS CPA LIMITED

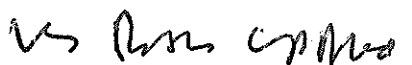
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

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)

- 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 Limited
Certified Public Accountants (Practising)

Ricky W. P. Wong
Practising Certificate Number: P02704

Hong Kong, 28 MAR 2022

CHAU'S BROTHERS FINANCE COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK\$	2020 HK\$
Interest income		4,148,376	4,539,950
Interest expenses		<u>(3,779)</u>	<u>(7,199)</u>
Net interest income		4,144,597	4,532,751
Fees and commission income, net		430,937	355,976
Government subsidy		<u>(3,266)</u>	<u>584,468</u>
		4,572,268	5,473,195
Administrative and general expenses	4	<u>(5,017,694)</u>	<u>(4,992,117)</u>
(Loss)/profit before provision for impairment on credit losses		(445,426)	481,078
Provision for impairment on credit losses	8	<u>(105,647)</u>	<u>(326,253)</u>
(Loss)/profit before tax		(551,073)	154,825
Income tax	6	<u>19,861</u>	<u>(37,764)</u>
(Loss)/profit for the year		(531,212)	117,061
Other comprehensive income		<u>--</u>	<u>--</u>
Total comprehensive income for the year		<u>(531,212)</u>	<u>117,061</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 HK\$	2020 HK\$
ASSETS			
Cash and balances at banks		21,112,597	15,938,194
Advances and other accounts	7	48,653,850	54,699,490
Deposits and other receivables		375,659	205,246
Intangible asset	9	350,000	350,000
Deferred tax assets	10	- -	208
Property, plant and equipment	11	44,943	40,531
Total assets		<u>70,537,049</u>	<u>71,233,669</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Share capital	12	50,000,000	50,000,000
Reserves		18,821,761	19,352,973
Total equity		<u>68,821,761</u>	<u>69,352,973</u>
Liabilities			
Fixed deposits of customers	13	605,126	601,197
Accrued interest payable		152	303
Accruals and other payables		1,110,010	1,269,599
Tax payable		- -	9,597
Total liabilities		<u>1,715,288</u>	<u>1,880,696</u>
Total equity and liabilities		<u>70,537,049</u>	<u>71,233,669</u>

Approved by the board of directors
on 28 MAR 2022



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 2021

	Share capital HK\$	Regulatory reserve * HK\$	Retained profits HK\$	Total HK\$
At 1 January 2020	50,000,000	716,427	18,519,485	69,235,912
Appropriation to regulatory reserve	- -	(39,578)	39,578	- -
Total comprehensive income for the year	<u>- -</u>	<u>- -</u>	<u>117,061</u>	<u>117,061</u>
At 31 December 2020 and 1 January 2021	50,000,000	676,849	18,676,124	69,352,973
Appropriation to regulatory reserve	- -	(73,922)	73,922	- -
Total comprehensive income for the year	<u>- -</u>	<u>- -</u>	<u>(531,212)</u>	<u>(531,212)</u>
At 31 December 2021	<u>50,000,000</u>	<u>602,927</u>	<u>18,218,834</u>	<u>68,821,761</u>

* The regulatory reserve is an appropriation from retained profits to set aside amounts in respect of losses which the company will or may incur on advances in addition to expected credit losses recognised under Hong Kong Financial Reporting Standard 9 "Financial Instruments". The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	HK\$	HK\$
Cash flows from operating activities		
(Loss)/profit before tax	(551,073)	154,825
Adjustments for:		
Depreciation	17,234	19,314
Provision for impairment on credit losses	105,647	326,253
	<u> </u>	<u> </u>
Operating (loss)/profit before working capital changes	(428,192)	500,392
Decrease in advances to customers	5,763,739	2,816,221
Decrease/(increase) in accrued interest receivable		
on advances to customers	176,254	(40,564)
(Increase)/decrease in deposits and other receivables	(170,413)	110,789
Increase in fixed deposits of customers	3,929	101,197
Decrease in accrued interest payable	(151)	(585)
(Decrease)/increase in accruals and other payables	(159,589)	217,473
	<u> </u>	<u> </u>
Net cash generated from operations	5,185,577	3,704,923
Hong Kong Profits Tax refunded	10,472	39,645
	<u> </u>	<u> </u>
Net cash inflow from operating activities	<u>5,196,049</u>	<u>3,744,568</u>
Cash flows from investing activities		
Payment to purchase property, plant and equipment	(21,646)	(10,394)
	<u> </u>	<u> </u>
Net cash outflow from investing activities	<u>(21,646)</u>	<u>(10,394)</u>
Cash flows from financing activities	<u>- -</u>	<u>- -</u>
Net increase in cash and cash equivalents	5,174,403	3,734,174
Cash and cash equivalents at beginning of year	15,938,194	12,204,020
	<u> </u>	<u> </u>
Cash and cash equivalents at end of year, representing cash and balances at banks	<u>21,112,597</u>	<u>15,938,194</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance with concern the preparation of financial statements. The measurement basis used in preparing the financial statements is historical cost.

(b) Impact of new and revised HKFRS

(i) Standards, interpretations and amendments effective since 1 January 2021

In the current year, the company adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. The adoption of these new and revised HKFRs did not result in significant changes to the Company's accounting policies, presentation of the Company's financial statements and amounts reported for the current year and period years.

(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 2021. 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 2021

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 performs impairment assessment under expected credit losses ("ECLs") on financial assets which are subject to impairment assessment under HKFRS 9. 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 2021

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.

2.4 Derecognition of financial assets

The company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

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 2021

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 loss, if any.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021

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 2021

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 control over a product or service is transferred to the customer, at the amount of promised consideration to which the company is expected to be entitled in exchange for those goods or services. Revenue is net of trade discounts.

Revenue is recognised at a point in time when the customer obtains control of the distinct good or service. If control of the good or service is transferred over time, revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the company's performance as the company performs;
- the company's performance creates and enhances an asset that the customer controls as the company performs; or
- the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for performance completed to date.

(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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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.

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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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.

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.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

2.19 Related parties

A related party is:-

(a) A person or a close member of that person's family if that person:

- (i) Has control or joint control over the company;
- (ii) Has significant influence over the company; or
- (iii) Is a member of key management personnel of the company.

(b) An entity if any of the following conditions applies:

- (i) The entity and the company are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both the company and the entity are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the company or an entity related to the company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity.
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

Impairment allowances on advances and other accounts

The measurement of impairment losses under HKFRS 9 across advances and other accounts requires judgement, in particular, the estimation of the amount and time future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Management reviews the company's loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, management 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 that 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 local economic conditions that correlate with defaults on assets in the group.

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 estimating its future cash flows. In estimating the future cash flows, management uses professional valuer's valuation to assess the market value of properties mortgaged to the company. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used would affect the reported allowances on advances and other accounts.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

4. ADMINISTRATIVE AND GENERAL EXPENSES

	2021	2020
	HK\$	HK\$
Auditors' remuneration	154,935	168,000
Employee benefits expense (including directors' remuneration)		
Salaries and other benefits	3,426,491	3,442,773
Expense on defined contribution scheme	128,279	128,730
Short-term lease payments on office premises	716,319	648,174
Depreciation	17,234	19,314
License fees	113,020	113,020
Professional fees	19,503	62,800
Other operating expenses	441,913	409,306
	<u>5,017,694</u>	<u>4,992,117</u>

5. DIRECTORS' REMUNERATION

Remuneration of the company's directors disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap 622) and the Hong Kong Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G) is as follows:-

	2021	2020
	HK\$	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 kind	1,386,500	1,356,500
Expense on defined contribution scheme	35,095	35,475
	<u>1,421,595</u>	<u>1,391,975</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

6. INCOME TAX

	2021	2020
	HK\$	HK\$
Current tax		
Hong Kong Profits Tax for current year	--	--
Tax rebate by the government	(7,271)	(10,472)
Others	(12,798)	12,799
	<u>(20,069)</u>	<u>2,327</u>
Deferred tax (note 10)	<u>208</u>	<u>35,437</u>
Income tax (credit)/expense	<u>(19,861)</u>	<u>37,764</u>

Provision for Hong Kong Profits Tax is not required as the company sustained a taxation loss during the year.

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

	2021		2020	
	HK\$	%	HK\$	%
(Loss)/profit before tax	<u>(551,073)</u>		<u>154,825</u>	
Tax at applicable tax rate	(90,927)	(16.50)	25,546	16.50
Tax effect of non-taxable revenue	--	--	(96,437)	(62.29)
Tax effect on on-deductible expenses	539	0.10	--	--
Effect of change in effective tax rate	--	--	(35,645)	(23.02)
Tax effect of unused tax losses and deductible temporary differences not recognised	90,596	16.44	141,973	91.70
Tax rebate by the government	(7,271)	(1.32)	(10,472)	(6.77)
Others	<u>(12,798)</u>	<u>(2.32)</u>	<u>12,799</u>	<u>8.27</u>
Income tax and effective rate	<u>(19,861)</u>	<u>(3.60)</u>	<u>37,764</u>	<u>24.39</u>

Deferred tax assets unrecognised

Deferred tax asset in respect of the following is not recognised as future profit stream to realise the benefit is unpredictable:-

	2021	2020
	HK\$	HK\$
Net deductible temporary differences arising from decelerated tax depreciation and expected credit losses	350,186	407,376
Unused tax losses	<u>1,059,331</u>	<u>453,074</u>
	<u>1,409,517</u>	<u>860,450</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

7. ADVANCES AND OTHER ACCOUNTS

	2021	2020
	HK\$	HK\$
Advances to customers	48,734,159	54,497,898
Impairment allowances:		
- Individually assessed (note 8)	(500,000)	(350,000)
- Collectively assessed (note 8)	<u>(361,756)</u>	<u>(406,109)</u>
	47,872,403	53,741,789
Accrued interest receivable on advances to customers	<u>781,447</u>	<u>957,701</u>
	<u>48,653,850</u>	<u>54,699,490</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:-

	2021	2020
	HK\$	HK\$
Repayable:		
<u>Stage 1 for measurement of ECL</u>		
On demand	6,242	5,789
Three months or less	6,012,678	21,053,760
One year or less but over three months	11,231,982	8,927,359
Five years or less but over one year	19,620,130	11,665,367
After five years	11,363,127	12,345,623
<u>Stage 3 for measurement of ECL</u>		
Undated	<u>500,000</u>	<u>500,000</u>
	<u>48,734,159</u>	<u>54,497,898</u>

Except for an advance to a customer which was classified as “doubtful” against which 100% impairment allowance was made, all other advances were performing and not impaired.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

8. PROVISION FOR IMPAIRMENT ON CREDIT LOSSES

The expected credit loss ("ECL") is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"). PD, EAD and LGD are defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts of the company expects to be owed at the time of default, over the next 12 months ("12M PD"), or the remaining lifetime ("Lifetime EAD").
- Loss Given Default ("LGD") represents the company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default ("EAD")

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Reconciliation of impairment allowances for credit losses against advances to customers is presented as follows:-

	Individually assessed HK\$	Collectively assessed HK\$	Total HK\$
At 1 January 2020	-	429,856	429,856
Charged/(credit) to profit or loss	350,000	(23,747)	326,253
At 31 December 2020	350,000	406,109	756,109
Charged/(credit) to profit or loss	150,000	(44,353)	105,647
At 31 December 2021	500,000	361,756	861,756

Analysis of net impairment for credit losses for the year is as follows:-

	2021 HK\$	2020 HK\$
Net increase in impairment allowances	105,647	326,253

The rate for impairment allowances on advances to customers collectively assessed was 0.75%.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

9. INTANGIBLE ASSET

	2021	2020
	HK\$	HK\$
Joining fee to credit search institution, at cost	<u>350,000</u>	<u>350,000</u>

The joining fee entitles the company to use the credit evaluation services of the credit search institute on perpetuity.

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 2020	182	35,463	35,645
Credit/(charge) to profit or loss (note 6)	<u>26</u>	<u>(35,463)</u>	<u>(35,437)</u>
At 31 December 2020 and 1 January 2021	208	--	208
Charge to profit or loss (note 6)	<u>(208)</u>	<u>--</u>	<u>(208)</u>
At 31 December 2021	<u>--</u>	<u>--</u>	<u>--</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture and fixtures HK\$	Machinery and office equipment HK\$	Total HK\$
Cost				
At 1 January 2020	60,000	552,432	387,920	1,000,352
Additions	--	--	10,394	10,394
At 31 December 2020 and 1 January 2021	60,000	552,432	398,314	1,010,746
Additions	--	--	21,646	21,646
At 31 December 2021	60,000	552,432	419,960	1,032,392
Aggregate depreciation				
At 1 January 2020 and 1 January 2021	60,000	552,432	338,469	950,901
Charge for the year	--	--	19,314	19,314
At 31 December 2020	60,000	552,432	357,783	970,215
Charge for the year	--	--	17,234	17,234
At 31 December 2021	(60,000)	(552,432)	(375,017)	(987,449)
Net book value				
At 31 December 2021	--	--	44,943	44,943
At 31 December 2020	--	--	40,531	40,531

12. SHARE CAPITAL

	2021 HK\$	2020 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. The company has met the capital requirements by maintaining the prescribed ratio of total capital to total risk-weighted assets, based on the Banking (Capital) Rule of the Hong Kong Banking Ordinance.

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 2021

13. FIXED DEPOSITS OF CUSTOMERS

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

	2021 HK\$	2020 HK\$
Director, Madam Ma Shun Ling	<u>605,126</u>	<u>601,197</u>

All time deposits of customers are repayable within 3 months (2020: 3 months) based on their remaining periods to their contractual maturity dates.

14. LOAN COMMITMENTS

	2021 HK\$	2020 HK\$
Loan commitments with original maturity-		
up to one year	--	--
over one year	<u>1,941,600</u>	<u>2,641,600</u>
	<u>1,941,600</u>	<u>2,641,600</u>

The credit risk weighted amount of the above commitments is HK\$970,800 (2020: HK\$1,320,800).

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	2021 HK\$	2020 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)	716,319	648,174
With director, Madam Ma Shun Ling:			
Interest expense on fixed deposits	(ii)	<u>3,779</u>	<u>7,199</u>

- (i) The directors consider that the rental expenses were charged based on open market value.
- (ii) The fixed deposits are interest bearing at market rates.
- (b) Compensation of key management personnel of the company:-

	2021 HK\$	2020 HK\$
Short-term employee benefits	1,386,500	1,356,500
Expense on defined contribution scheme	<u>35,095</u>	<u>35,475</u>
	<u>1,421,595</u>	<u>1,391,975</u>

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

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16. SHORT-TERM LEASE COMMITMENTS

	2021 HK\$	2020 HK\$
Aggregate undiscounted commitments for short-term leases	<u>159,300</u>	<u>148,680</u>

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.

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.

Categories of financial assets and liabilities

	2021 HK\$	2020 HK\$
Financial assets at amortised cost:		
Advances and other accounts	49,515,606	55,455,599
Other receivables	127,006	58,019
Cash and balances at bank	<u>21,112,597</u>	<u>15,938,194</u>
	<u>70,755,209</u>	<u>71,451,812</u>
Financial liabilities at amortised cost:		
Fixed deposits of customers and accrued interest	605,278	601,500
Other payables	<u>35,360</u>	<u>155,959</u>
	<u>640,638</u>	<u>757,459</u>

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

(a) Credit risk

Credit risk is the risk of counterparty defaulting. The carrying amounts of advances and other accounts deposits and other receivables, 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 delegated 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.

The following tables below detail the credit risk exposure of the company's financial assets which are subject to ECL assessment:

		Note to the financial statement	2021 HK\$	2020 HK\$
Advances and other accounts	8	12m ECL or Lifetime ECL	49,515,606	55,455,599
Other receivables		12m ECL	127,006	58,019
Cash and balances at bank		12m ECL	21,112,597	15,938,194
			<u>70,755,209</u>	<u>71,451,812</u>

The credit risk of bank balances are limited because the counterparties are banks with high credit ratings and quality.

For other receivables, the directors made periodic individual assessment on the recoverability of the receivables based on historical settlement history, past experience, and the reasonable and supportive forward-looking information that was available at the reporting date. The directors believed that there was no significant increase in credit risk of the receivables since initial recognition. The amount of ECL on other receivables was considered insignificant and no loss allowance was recognised.

Details of ECL assessment on the advance and other accounts are set out in the note 8 to the financial statements.

CHAU'S BROTHERS FINANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

(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.

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.

2021	Carrying value HK\$	Total contractual undiscounted cash flows HK\$	Repayable within 1 year or on demand HK\$
Fixed deposits of customers and accrued interest	605,278	605,723	605,723
Others	<u>1,110,010</u>	<u>1,110,010</u>	<u>1,110,010</u>
	<u>1,715,288</u>	<u>1,715,733</u>	<u>1,715,733</u>
2020	Carrying value HK\$	Total contractual undiscounted cash flows HK\$	Repayable within 1 year or on demand HK\$
Fixed deposits of customers and accrued interest	601,500	602,383	602,383
Others	<u>1,269,599</u>	<u>1,269,599</u>	<u>1,269,599</u>
	<u>1,871,099</u>	<u>1,871,982</u>	<u>1,871,982</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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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

(d) Market risk

In the normal course of commercial lending activities, market risk of the company is 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.

(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 2021								
	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	19,935,972	--	--	--	--	--	1,176,625	21,112,597
Advances to customers	44,734,159	4,000,000	--	--	--	--	--	48,734,159
Total assets	64,670,131	4,000,000					1,176,625	69,846,756
Liabilities								
Fixed deposits of customers	605,126	--	--	--	--	--	--	605,126
Total interest sensitivity gap	64,065,005	4,000,000	--	--	--	--	1,176,625	69,241,630
At 31 December 2020								
	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	15,129,290	--	--	--	--	--	808,904	15,938,194
Advances to customers	54,497,898	--	--	--	--	--	--	54,497,898
Total assets	69,627,188						808,904	70,436,092
Liabilities								
Fixed deposits of customers	601,197	--	--	--	--	--	--	601,197
Total interest sensitivity gap	69,025,991	--	--	--	--	--	808,904	69,834,895

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FOR THE YEAR ENDED 31 DECEMBER 2021

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:-

	2021	2020
	%	%
Assets		
Cash and balances at banks	0.01	0.01
Advances to customers	8.39	8.30
Liabilities		
Fixed deposits of customers	<u>0.40</u>	<u>0.80</u>

At 31 December 2021, 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\$635,000 (2020: HK\$633,000) 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 2020.

