Please do not take away this report.
Thank you.

富邦財務(香港)有限公司
Fubon Credit (Hong Kong) Limited

(Incorporated in Hong Kong under the Companies Ordinance)
Pursuant to Subsection (3) of Section 60 of the Banking Ordinance

Directors' Report and Audited Financial Statements

For the year ended 31 December 2018

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

Fubon Credit (Hong Kong) Limited ("the Company") is incorporated and domiciled in Hong Kong and has its registered office at 38 Des Voeux Road Central, Hong Kong and principal place of business at Rooms 2501–2504, 25/F, Wing On House, 71 Des Voeux Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the provision of financial and related services, in particular leasing.

RECOMMENDED DIVIDEND

No interim dividend was paid for the year ended 31 December 2018 and 2017. The Directors do not recommend a payment of final dividend in respect of the year ended 31 December 2018 (2017: Nil).

SHARE CAPITAL

Details of share capital of the Company are set out in Note 12 to the financial statements. There were no movements during the year.

DIRECTORS

The Directors in office during the financial year and up to the issuance date of this Report of the Directors were:

WANG Hao Jen, Henry *(Chief Executive)*

CHAN Tin Ching, Patrick

In accordance with the Company's Articles of Association, all present Directors will remain in office for the ensuing year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

INDEMNITY OF DIRECTORS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

No Directors and Chief Executive of the Company or any of their spouses or children under eighteen years of age have interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance.

AUDITORS

The financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

WANG Hao Jen, Henry

Chairman

Hong Kong, 26 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FUBON CREDIT (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the financial statements of Fubon Credit (Hong Kong) Limited ("the Company") set out on this page, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central,
Hong Kong

26 April 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Interest income calculated using the effective interest method	3	**129**	201
Other operating income	4	**151**	12
Operating income		**280**	213
Operating expenses	5	**(1,085)**	(1,183)
Operating loss before gain and write back of impairment losses		**(805)**	(970)
Write back of impairment losses on advances to customers	6	**1,829**	1,631
Write back of impairment losses on other assets		**–**	2
Write back of impairment losses		**1,829**	1,633
Profit before taxation		**1,024**	663
Taxation	7(a)	**(169)**	(109)
Profit for the year attributable to equity shareholders		**855**	554
Total comprehensive income for the year attributable to equity shareholders		**855**	554

The notes 1 to 18 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Balances with banks		**94,955**	88,049
Advances to customers	9(a)	**1,878**	7,972
Accrued interest and other assets		**165**	170
Deferred tax assets		**2**	–
Total assets		**97,000**	96,191
LIABILITIES			
Other liabilities		**5,472**	5,459
Amount due to the immediate holding company	10	**359**	404
Total liabilities		**5,831**	5,863
EQUITY			
Share capital	12	**65,000**	65,000
Reserves		**26,169**	25,328
Total equity		**91,169**	90,328
Total equity and liabilities		**97,000**	96,191

Approved and authorised for issue by the Board of Directors on 26 April 2019.

WANG Hao Jen, Henry
Director

CHAN Tin Ching, Patrick
Director

The notes 1 to 18 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Regulatory reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
At 1 January 2017	65,000	175	24,599	89,774
Total comprehensive income	–	–	554	554
Profit for the year	–	–	554	554
Transfer (to)/from retained earnings	–	(70)	70	–
At 31 December 2017	**65,000**	**105**	**25,223**	**90,328**
Opening balance adjustments arising from change in accounting policy	–	–	**(14)**	**(14)**
At 1 January 2018	**65,000**	**105**	**25,209**	**90,314**
Total comprehensive income	–	–	**855**	**855**
Profit for the year	–	–	**855**	**855**
Transfer (to)/from retained earnings	–	**(92)**	**92**	–
At 31 December 2018	**65,000**	**13**	**26,156**	**91,169**

The notes 1 to 18 form part of these financial statements.

CASH FLOW STATEMENT

For the year ended 31 December 2018

	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Operating activities				
Profit before taxation	**1,024**		663	
Adjustments for non-cash items:				
Write back of impairment losses on loans and advances	**(1,829)**		(1,631)	
Write back of impairment losses on other assets	**–**		(2)	
Interest income	**(129)**		(201)	
		(934)		(1,171)
Decrease in operating assets:				
Gross advances to customers	**7,906**		5,644	
Other assets	**–**		98	
		7,906		5,742
Decrease in operating liabilities:				
Amount due to the immediate holding company	**(45)**		(65)	
Other liabilities	**(163)**		(68)	
		(208)		(133)
Cash generated from operations		**6,764**		4,438
Interest received		**134**		218
Hong Kong Profits Tax refunded		**8**		467
Net cash generated from operating activities		**6,906**		5,123
Cash and cash equivalents as at 1 January		**88,049**		82,926
Cash and cash equivalents as at 31 December		**94,955**		88,049

The notes 1 to 18 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACTIVITIES AND CORPORATE AFFILIATION

Fubon Credit (Hong Kong) Limited ("the Company") is a deposit taking company incorporated and domiciled in Hong Kong and has its registered office at 38 Des Voeux Road Central, Hong Kong.

The Company provides financial services which include leasing and residential mortgage lending. The Directors consider the Company's ultimate holding company at 31 December 2018 to be Fubon Financial Holding Co. Ltd. ("Fubon Financial") which is incorporated in the Republic of China and operates as a financial conglomerate.

The Company is a wholly-owned subsidiary of Fubon Bank (Hong Kong) Limited, herein referred to as the immediate holding company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

(b) New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for the current accounting period of the Company. Note 2(d) provides information on any changes in accounting policies resulting from initial application of these amendments to the extent that they are relevant to the Company for the current and prior accounting periods present in these financial statements.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 17.

(d) Changes in accounting policies

(1) HKFRS 9, Financial Instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The Company adopted HKFRS 9 retrospectively for items that existed at 1 January 2018 in accordance with the transition requirements and took advantage of the exemption in paragraph 7.2.15 of HKFRS 9 from restating prior periods. As such, the Company recognizes cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated and continues to be reported under HKAS 39. The following table gives a summary of the opening balance adjustments recognized for each line item in the statement of financial position that has been impacted:

	31 December 2017 *HK$'000*	Opening balance adjustments *HK$'000*	1 January 2018 *HK$'000*
ASSETS			
Advances to customers less impairment allowances	7,972	(17)	7,955
Deferred tax assets	–	3	3
EQUITY			
Reserves	25,328	(14)	25,314

The following table summarizes the impact of transition to HKFRS 9 on retained earnings and the related tax impact at 1 January 2018:

	HK$'000
Retained earnings	
Difference between provision of impairment loss allowance under HKAS 39 and HKFRS 9 on financial assets measured at amortized cost	(17)
Tax related adjustments	3
Net decrease in retained earnings at 1 January 2018	(14)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 groups financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Company's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount as at 31 December 2017 *HK$'000*	Reclassification *HK$'000*	Remeasurement *HK$'000*	HKFRS 9 carrying amount as at 1 January 2018 *HK$'000*
Financial assets carried at amortized cost				
Advances to customers	7,972	–	(17)	7,955

The measurement categories for the Company's financial liabilities remain the same after the adoption of HKFRS 9 and there is no impact on the carrying amounts of all financial liabilities at 1 January 2018, on the initial application of HKFRS 9.

The Company did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the incurred loss model in HKAS 39 with the Expected Credit Loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Company applies the new ECL model on all financial assets that are measured at amortized cost, including advances to customers. The Company does not recognize ECL in respect of accrued interest and others assets as the impact is considered to be immaterial.

The application of the ECL model is more fully discussed in Note 2(h).

Basis of calculation of interest income on credit-impaired (or defaulted) financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the gross carrying amount less loss allowance of the financial asset.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired (or defaulted) includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a past due event or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognized, the resulting modification loss is recognized within impairment in profit or loss with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Company would not otherwise consider, the instrument is considered to be credit-impaired and is considered forborne.

These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. ECL for modified financial assets that have not been derecognized and are not considered to be credit-impaired will be recognized on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of ECL, with any increase or decrease in ECL recognized within impairment.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment loss in profit or loss for the period in which the recovery occurs.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Opening balance adjustment

The following table reconciles the closing impairment loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening impairment loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Impairment loss allowance as at 31 December 2017 under HKAS 39	–
Additional impairment loss allowance recognized at 1 January 2018 on:	
– Advances to customers	(17)
Impairment loss allowance as at 1 January 2018 under HKFRS 9	(17)

(2) HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Company performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles. The adoption of HKFRS 15 does not have any material impact on the Company's financial position and there is no transitional impact to retained earnings. Under HKFRS 15, a receivable is recognized only if the Company has an unconditional right to consideration. If the Company recognizes the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. The contract asset is transferred to receivables when the right to consideration becomes unconditional. Similarly, a contract liability, rather than a payable, is recognized when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Company recognizes the related revenue.

(e) Advances to customers

The Company recognises advances to customers on the date it becomes a party to the contractual provisions of the instruments. A regular way purchase or sale of loans and receivables is recognised using trade date accounting. Advances to customers are measured initially at the transaction price plus transaction costs that are directly attributable to the acquisition.

Advances to customers held by the Company are classified as amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

Advances to customers are derecognised when the contractual rights to receive the cash flows from the advances to customers expire, or when the advances to customers together with substantially all the risks and rewards of ownership, have been transferred.

(f) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of leased assets

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases

Where the Company is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy for impairment (see Note 2(h)).

(iii) Operating leases

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be delivered from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregated net lease payments made. Contingent rentals are charged to profit or loss in the period in which they are incurred.

(g) Repossessed assets

During the recovery of impaired advances to customers, the Company may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Company is no longer seeking repayment from the borrower, repossessed assets are reported in "Accrued interest and other assets" and the relevant loans and advances are derecognised. The Company does not hold repossessed assets for its own use.

Repossessed assets are initially recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on subsequent remeasurement are recognised in profit or loss. Any gains on subsequent remeasurement are recognised in profit or loss until the repossessed asset is stated at the amount of related loans and advances at the date of exchange.

(h) Credit losses and impairment of assets

HKFRS 9 replaces the incurred loss model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Company applies the ECL model on all financial assets that are measured at amortized cost. The Company does not recognize ECL in respect of balances with banks and accrued interest and others assets as the impact is considered to be immaterial.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; or

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Company recognizes a loss allowance equal to 12-month ECLs ("Stage 1") unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs ("Stage 2" or, where classified as credit impaired, "Stage 3").

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including credit related commitments and contingencies) has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Financial assets that are 30 days or more days past due and not credit impaired will always be considered to have a significant increase in credit risk. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available); or

– an actual or expected significant deterioration in the operating results of the debtor; and existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Company.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment loss or write-back of impairment loss in profit or loss. The Company recognizes an impairment loss or write-back of impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired (or defaulted) financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the gross carrying amount less loss allowance of the financial asset.

Financial assets are considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. Financial assets that are credit-impaired (or defaulted) include those that are at least 90 days past due in respect of principal and/or interest. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Evidence that a financial asset is credit-impaired (or defaulted) includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a past due event or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Credit losses against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realization of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognized, the resulting modification loss is recognized within impairment in the profit or loss with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Company would not otherwise consider, the instrument is considered to be credit-impaired.

These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. ECL for modified financial assets that have not been derecognized and are not considered to be credit-impaired will be recognized on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of ECL, with any increase or decrease in ECL recognized within impairment.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment loss in profit or loss in the period in which the recovery occurs.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits with banks and other financial institutions with a maturity within three months.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the amounts of tax are recognised in other comprehensive income or recognised directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the related current tax assets and settle the related current tax liabilities on a net basis or realise and settle simultaneously.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Effective interest rate

Interest income from all interest-bearing financial instruments is recognised in profit or loss on an accruals basis using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument but not expected credit losses. For financial assets that were purchased or originated credit-impaired on initial recognition, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses (i.e. no expected credit loss provision is required at initial recognition).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. The transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were purchased or originated credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, please refer to Note 2(h).

(ii) Fee and commission income

Fee and commission income arises on financial services provided by the Company. Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred or is accounted for as interest income.

Origination or commitment fees received by the Company which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Company making a loan, the fee is recognised as revenue on expiry.

(iii) Finance income from finance lease and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(l) Translation of foreign currencies

The Company's functioned currency is Hong Kong Dollars. Foreign currency transactions during the year are translated into Hong Kong Dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at exchange rates ruling at the dates the fair value was determined.

(m) Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

(a) a person, or a close member of that person's family, is related to the Company 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 the key management personnel of the Company or the Company's parent.

(b) an entity is related to the Company if any of the following conditions applies:

  (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (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 entities are joint ventures of the same third party.

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

  (vi) the entity is controlled or jointly controlled by a person identified in (a).

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(n) Comparative information

As disclosed in Note 2(d), the Company adopted HKFRS 9 and HKFRS 15 starting from 1 January 2018 without restatement of comparative information in accordance with respective transition arrangements. The comparative information was prepared in accordance with HKAS 39 and HKAS 18 and the relevant principal accounting policies applied by the Company to the comparative information are set out below:

(1) Financial instruments

(i) Initial recognition

The Company classified its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories were: loans and receivables and other financial liabilities.

Financial instruments were measured initially at fair value, which normally will be equal to the transaction price, plus in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of financial liability. Transaction costs on financial assets and financial liabilities designated at fair value through profit or loss were expensed immediately.

The Company recognized financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets is recognized using trade date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities were recorded.

(ii) Categorization

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Company intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Company, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or (c) those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise advances to customers, placements with banks and other financial institutions, and certain debt securities.

Loans and receivables are carried at amortized cost using the effective interest method less impairment losses, if any (see Note 2(n)(2)).

(2) Impairment of assets

The carrying amount of the Company's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence that assets are impaired includes observable data that comes to the attention of the Company about one or more of the following loss events which has an impact on the future cash flows of assets:

Financial assets:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Non-financial assets:

– during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

– significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated;

– evidence is available of obsolescence or physical damage of an asset; or

– significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, impacting how an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

If any such evidence exists, the carrying amount is generally reduced to the estimated recoverable amount by means of a charge to profit or loss. For available-for-sale financial assets, the carrying amount is reduced to the fair value.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of advances to customers, which are measured at amortized cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Company is satisfied that recovery is remote, the amount considered irrecoverable is written off against advances to customers directly and corresponding amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowance.

The Company first assesses whether any objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it then includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in any collective assessment of impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Individual impairment allowances are based upon management's best estimate of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Company. Each impaired asset is assessed on its merits.

In assessing the need for a collective impairment allowance on individually significant loans which are not impaired and assets that are not individually significant, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance the Company makes assumptions both to define the way the Company models inherent losses and to determine the required input parameters based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Company makes depends on how well the Company can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowance. While this necessarily involves judgment, the Company believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to profit or loss. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognized in prior years.

When there is no reasonable prospect of recovery the loan and the related interest receivable are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(3) Revenue

Interest income

Interest income from interest-bearing financial instruments is recognized in profit or loss on an accruals basis using the effective interest method. Interest income from trading assets and financial assets designated at fair value through profit or loss is recognized on basis of accrued coupon and is recognized in net interest income.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar option) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, together with transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalized and amortized to profit or loss over their expected life.

3. INTEREST INCOME

Interest income was earned from advances to customers. No interest expense was incurred in 2017 and 2018. No interest income or expense is attributable to financial assets or liabilities at fair value through profit or loss (2017: Nil).

4. OTHER OPERATING INCOME

Other operating income represents fee and commission income arises from financial assets or financial liabilities which are not measured at fair value through profit or loss.

No fee and commission expense was incurred in 2017 and 2018.

5. OPERATING EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Rental of premises	**128**	178
Auditors' remuneration	**51**	50
Management fee	**297**	334
Other operating expenses		
– Electronic data processing and computer systems	**256**	255
– Business registration and licensing	**116**	116
– Transportation	**34**	45
– Business promotion	**79**	72
– Communication	**67**	66
– Legal and professional fees	**47**	50
– Others	**10**	17
	1,085	1,183

6. WRITE BACK OF IMPAIRMENT LOSSES ON ADVANCES TO CUSTOMERS

	2018	2017
	HK$'000	*HK$'000*
Impairment losses released on advances to customers		
– Stage 1	**6**	–
– Bad debt recovery	**1,823**	1,631
	1,829	1,631

7. INCOME TAX IN THE STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the statement of comprehensive income

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Tax for the year	**168**	109
Deferred tax		
– Origination and reversal of temporary differences *(Note 11(b))*	**1**	–
Total income tax expense	**169**	109

(b) Reconciliation between tax expense and accounting profit at applicable rate

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**1,024**	663
Notional tax on profit before taxation, calculated at the applicable rates in Hong Kong	**169**	109
Actual tax expense	**169**	109

8. DIRECTORS' EMOLUMENTS

The directors are employees of the immediate holding company. No charge for their services as directors has been allocated to the Company.

9. ADVANCES TO CUSTOMERS LESS IMPAIRMENT ALLOWANCES

(a) Advances to customers less impairment allowances

	2018	2017
	HK$'000	*HK$'000*
Gross advances to customers	**1,889**	7,972
Impairment allowances *(Note 14(a)(vii))*		
– Stage 1	**(11)**	–
	1,878	7,972

(b) Advances to customers analysed by industry sector

The following economic sector analysis of gross advances to customers is based on the categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

	2018	2017
	HK$'000	*HK$'000*
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Manufacturing	**159**	325
– Transport and transport equipment	**1,660**	7,530
Individuals		
– Loans for the purchase of other residential properties	**70**	117
	1,889	7,972

(c) Net investment in finance leases and hire purchase contracts

Advances to customers include motor vehicles and equipment leased to customers under hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 3 to 5 years, with an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under hire purchase contracts and their present values at the year end are as follows:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Total minimum lease payments due:		
– within 1 year	**432**	1,071
– after 1 year but within 5 years	**999**	3,853
– after 5 years	**344**	3,396
	1,775	8,320
Interest income relating to future periods	**(115)**	(790)
Present value of the minimum lease payment receivable	**1,660**	7,530
Impairment allowance on Stage 1 financial assets	**(10)**	–
Net investment in finance lease and hire purchase contracts	**1,650**	7,530

The maturity profile of the present value of the minimum lease payments before impairment allowances is as follows:

	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Within 1 year	**395**	905
After 1 year but within 5 years	**932**	3,404
After 5 years	**333**	3,221
	1,660	7,530

Comparative information is restated to exclude non-finance lease contracts that were previously included in this note in prior period.

10. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount due to the immediate holding company is unsecured, interest free and repayable on demand.

11. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	2018	2017
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	**168**	109
Provisional Hong Kong Profits Tax paid	**(109)**	(197)
	59	(88)
Balance of Profits Tax provision relating to prior years	**129**	100
Hong Kong Profits Tax provision	**188**	12

* The amounts of tax provision are expected to be settled within 1 year and are included in "Other liabilities".

(b) Deferred tax assets recognised

The components of deferred tax assets recognised in the statement of financial position and the movement during the year are as follows:

Impairment allowance

	2018	2017
	HK$'000	*HK$'000*
As at 1 January	**3**	–
Charged to profit or loss *(Note 7(a))*	**(1)**	–
As at 31 December	**2**	–

(c) Deferred tax assets unrecognised

The Company has no material unrecognised deferred tax assets as at 31 December 2018 (2017: HK$Nil).

12. SHARE CAPITAL

	2018		2017	
Issued and fully paid:	**Number of shares**	**Share capital *HK$'000***	Number of shares	Share capital *HK$'000*
Ordinary shares	**65,000,000**	**65,000**	65,000,000	65,000

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at a general meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13. RESERVES

Regulatory reserve

A regulatory reserve is established by transferring an amount from the retained earnings to the regulatory reserve. The movement of the regulatory reserve is as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**105**	175
Transfer to retained earnings	**(92)**	(70)
At 31 December	**13**	105

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

14. FINANCIAL RISK MANAGEMENT

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

– Credit risk: losses resulting from customer or counterparty default and arising from credit exposures in all forms, including settlement risk.

– Market risk: exposures to market variables such as interest rates and exchange rates.

– Liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.

– Operational risk: risk arising from inadequate or failed internal processes, people and systems or from external events resulting in financial loss.

The Company has established policies and procedures to identify and measure these risks, to set appropriate risk limits as derived from its risk appetite statements and risk appetite indicators and control measures, and to monitor the risks and limits continuously by means of reliable and up-to-date management and information systems. These policies and procedures, including limit excess follow-up procedures, are distributed to the relevant risk taking and risk management units for execution and monitoring. Regular training courses are conducted in order to ensure that all staff are familiar with the key principles of the immediate holding company's code of conduct. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal Audit also performs regular audits to ensure compliance with the policies and procedures. Management of all these financial risks of the Company is covered by its immediate holding company throughout its risk management processes and procedures which are described below.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

(a) Credit risk management

Credit risk is the risk of suffering financial loss in the event that the Company's customers or counterparties fail to fulfil their obligations to the Company. It arises mainly from loans and advances with customer.

The Company manages credit risk through a framework of controls to ensure credit risk taking activities are based on sound principles and in line with the overall business objectives of the Company. It has established a set of credit policies and procedures, which define the credit risk taking criteria, credit approval authorities delegated from the Board of the immediate holding company, the credit monitoring processes, the credit rating system and the loan impairment criteria.

The Board of Directors of the immediate holding company has delegated credit approval authorities to the following in descending order of authority: the Executive Credit Committee, the Credit Committee and the Wholesale Credit Committee.

The Executive Credit Committee serves as the Credit Committee of the Board of Directors of the immediate holding company to review and approve credits that require the approval of the Board of Directors of the immediate holding company. In addition, it approves the Company's credit policies and overall credit risk profile, taking into consideration relevant law and regulations.

The Credit Committee is a management level committee that provides management oversight of the Company's credit risk management. It ensures that the Company has in place an effective credit risk management framework and that its credit risks are within the credit policies and credit risk profile as specified by the Board of Directors or its delegated committees. The Credit Committee reviews and endorses all credit policies and the overall credit risk profile for the Executive Credit Committee's approval, and reviews and approves credit related guidelines. It also conducts on-going review of the market environment and makes necessary policy recommendations to the Executive Credit Committee to ensure that the credit risk profile of the Company is within the established risk appetite of the Company. The Credit Committee also reviews and approves credits that are within the authority as delegated by the Board.

The Wholesale Credit Committee reviews and approves wholesale credits that are within its authority as delegated by the Board of Directors of the immediate holding company.

The credit risk departments, Enterprise Credit Risk Management Department, Special Assets Management Department and Retail Credit Risk Oversight & Data Analytics Team, provide centralised management of credit risk for corporate credits and retail credits respectively. They are responsible for:

– independent evaluation of corporate credit applications;

– monitoring loan portfolio and conducting regular analysis;

– managing problem corporate credits to achieve the highest recovery;

– recommending loan classification, individual impairment and charge-off; and

– reporting to the Credit Committee and Executive Credit Committee regularly on aspects of the loan portfolio.

Specific policies and measures to address different kinds of credit related activities are set out below:

(i) Corporate lending/hire purchase

Corporate lending is generally concentrated among small and medium enterprises. There was no new loan issued in 2018 and 2017.

Credit risk from corporate lending is managed by conducting thorough credit evaluation, credit mitigation through collateral and guarantee, internal credit rating system and post-approval monitoring system. Subject to the size of the credit, value of collateral and the internal credit rating of the borrower, different levels of credit approval authority are required. Credit decisions take into account facility structure, tenor, the repayment ability of the obligor and credit mitigation through collateral and guarantee.

The Company has established limits for exposures to individual industries borrowers and groups of borrowers, regardless if the credit exposure is in the form of funded or non-funded exposures. The Company also undertakes ongoing credit review and monitoring at several levels. The relevant policies and procedures also take into account the rules under the Hong Kong Banking Ordinance, regulatory requirements of the HKMA and best market practices.

The credit risk management procedures are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. Overall portfolio risk is monitored by the Control and Risk Management Division on an on-going basis. Regular management reports are submitted to the Credit Committee for review. The loan portfolio reports cover information on large exposures, country exposures, industry exposures, loan quality and loan impairment level.

(ii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio management and collateral requirements as for loan transactions.

(iii) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of borrowers or market counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company's portfolio of financial instruments mainly consists of hire purchase contracts to customers in Hong Kong and the People's Republic of China ("PRC").

(iv) Credit risk mitigation

The Company's credit evaluation focuses primarily on the borrower's repayment ability from its cash flow and financial condition. In addition, the Company employs various credit risk mitigation techniques such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. There is immaterial credit and market risk concentration within the credit risk mitigations used by the Company. The most commonly used credit risk mitigation measures are provided below:

Collateral

The Company holds collateral against loans and advances to customers mainly in the form of legal title over the leased assets. The Company has in place policies and procedures that govern the assessment, acceptance and the periodic valuation of the collateral. Collateral taken to secure corporate and retail loans is revalued periodically ranging from daily to semi-annually depending on the type of collateral.

Other credit risk mitigation measures

The Company also uses guarantees for credit risk mitigation.

(v) Maximum exposure to credit risk

The maximum exposure to credit risk at the end of the reporting period without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure to credit risk for the various components of the statement of financial position is as follows:

	2018	2017
	HK$'000	*HK$'000*
Credit risk exposures relating to on-balance sheet assets:		
Balances with banks	**94,955**	88,049
Advances to customers	**1,878**	7,972
Accrued interest and other assets	**165**	170
	96,998	96,191

(vi) Determination of expected credit losses

Starting from 1 January 2018, the Company adopts the approach below in determining expected credit losses on financial assets in accordance with HKFRS 9:

Component	**Definition**
Probability of default (PD)	The probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (Stage 1) or over the lifetime of the product (Stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The PD is estimated at a point in time which means it will fluctuate in line with the economic cycle. The term structure of the PD is based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.
Loss given default (LGD)	The percentage loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the proportion of the contractual cash flows due that the Company expects to receive. The Company estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.
Exposure at default (EAD)	The expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortization and prepayments, together with the impact of forward-looking economic assumptions where relevant.

The ECLs are measured at the present value of all expected cash shortfalls.

The estimate of expected cash shortfalls is determined by multiplying the PD with LGD and EAD.

Forward looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP, unemployment rate and house price indices amongst others. These assumptions are incorporated using the Company's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios, both in respect of determining the PD, LGD and EAD and in determining the overall expected credit loss amounts.

(vii) Credit quality of loans and advances

The credit quality of advances to customers can be analysed as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,889**	7,972
	1,889	7,972
Of which:		
Gross loans and advances to customers that are neither past due nor impaired		
– Grade 1: Pass	**1,889**	7,972
	1,889	7,972

Advances to customers

The following table sets out information about the credit quality of advances to customers.

	2018 12-month ECL Principal HK$'000	Accrued interest HK$'000	2017 Total Principal HK$'000	Accrued interest HK$'000
Pass	**1,889**	**36**	7,972	41
Gross carrying amount	**1,889**	**36**	7,972	41
Less: Impairment allowance	**(11)**	**–**	–	–
Carrying amount	**1,878**	**36**	7,972	41

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

No loans and advances that would be past due or impaired had the terms not been renegotiated as at 31 December 2018 (2017: Nil).

(viii) Impairment allowances reconciliation

The following tables show reconciliations from the opening to the closing balance of the impairment allowance by class of financial instrument at transaction level.

Advances to customers

	2018 12-month ECL ***HK$000***
Balance at 1 January	**17**
Financial assets decreognised	**(12)**
Net remeasurement of impairment allowances (including exchange adjustments)	**6**
Balance at 31 December *(Note 9(a))*	**11**

The movement in impairment allowances on advances to customers during the year ended 31 December 2017 is as below:

	Individual impairment allowances *HK$'000*	Collective impairment allowance *HK$'000*
At 1 January 2017	–	–
Impairment losses charged to profit or loss	–	–
Impairment losses released back to profit or loss	(1,631)	–
Amounts written off	–	–
Recoveries of advances written off in previous years	1,631	–
At 31 December 2017 *(Note 9(a))*	–	–

(ix) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Fair value of collateral and other credit enhancements held against financial assets that are neither past due nor impaired	**6,300**	27,970
	6,300	27,970

(b) Market risk management

The Company is exposed to interest rate risk in its normal course of business. The Company has no currency risk and equity risk exposure as at both 31 December 2018 and 2017.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Company's exposure to the volatility inherent in financial instruments.

The Board reviews and approves policies for the management of market risks and dealing authorities and limits. The Board has delegated the responsibility for ongoing general market risk management to the immediate holding company's Asset and Liability Committee. This committee articulates the interest rate view of the Company and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

(i) Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by matching the interest rate repricing date for its interest bearing assets and liabilities within the applicable limits approved by the Asset and Liability Committee of the immediate holding company.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by the Asset and Liability Committee of the immediate holding company.

The following tables indicate the effective interest rates for the relevant periods and the mismatches of the expected next repricing dates (or maturity date whichever are earlier) for interest bearing assets and liabilities at the end of the reporting period.

2018

	Average effective interest rate	**Total** ***HK$'000***	**3 months or less (include overdue)** ***HK$'000***	**Non-interest bearing** ***HK$'000***
ASSETS				
Balances with banks	**N/A**	**94,955**	**–**	**94,955**
Advances to customers	**2.62%**	**1,878**	**1,878**	**–**
Accrued interest and other assets	**N/A**	**165**	**–**	**165**
		96,998	**1,878**	**95,120**
LIABILITIES				
Other liabilities	**N/A**	**5,831**	**–**	**5,831**
		5,831	**–**	**5,831**
Interest rate sensitivity gap			**1,878**	

2017

	Average effective interest rate	Total *HK$'000*	3 months or less (include overdue) *HK$'000*	Non-interest bearing *HK$'000*
ASSETS				
Balances with banks	N/A	88,049	–	88,049
Advances to customers	2.36%	7,972	7,972	–
Accrued interest and other assets	N/A	170	–	170
		96,191	7,972	88,219
LIABILITIES				
Other liabilities	N/A	5,863	–	5,863
		5,863	–	5,863
Interest rate sensitivity gap			7,972	

Sensitivity analysis

As at 31 December 2018 and 2017, if other market variables including prime rate were held constant, an increase in HKD market interest rate of 100 basis points would have no impact on earnings and economic value over the next 12 months.

Conversely, if other market variables including prime rate were held constant, a decrease in HKD market interest rates of 100 basis points would have no impact on earnings and economic value over the next 12 months.

(c) Liquidity risk management

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

Liquidity is managed on a daily basis by the Funding Desk department of the immediate holding company under the direction of the Asset and Liability Committee of the immediate holding company. The Funding Desk department is responsible for ensuring that the Company has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

As part of its liquidity risk management, the Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and balances with banks) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. The Company regularly performs stress tests on its liquidity position.

(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of the reporting period to the contractual maturity date:

2018	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	Over 1 month but within 3 months HK$'000	Over 3 months but within 1 year HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000	Undated or overdue HK$'000
ASSETS								
Balances with banks	94,955	94,955	-	-	-	-	-	-
Advances to customers	1,878	-	49	99	451	948	331	-
Accrued interest and other assets	165	-	12	120	-	-	-	33
	96,998	94,955	61	219	451	948	331	33
LIABILITIES								
Other liabilities	5,472	-	5,012	460	-	-	-	-
Amount due to the immediate holding company	359	62	-	-	297	-	-	-
	5,831	62	5,012	460	297	-	-	-
Net liquidity gap		94,893	(4,951)	(241)	154	948	331	

2017	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	Over 1 month but within 3 months HK$'000	Over 3 months but within 1 year HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000	Undated or overdue HK$'000
ASSETS								
Balances with banks	88,049	88,049	-	-	-	-	-	-
Advances to customers	7,972	12	91	184	832	3,632	3,221	-
Accrued interest and other assets	170	-	16	120	-	-	-	34
	96,191	88,061	107	304	832	3,632	3,221	34
LIABILITIES								
Other liabilities	5,459	-	5,040	407	12	-	-	-
Amount due to the immediate holding company	404	70	-	-	334	-	-	-
	5,863	70	5,040	407	346	-	-	-
Net liquidity gap		87,991	(4,933)	(103)	486	3,632	3,221	

(ii) Analysis of liabilities by contractual maturity

The following contractual cash flow projections of the Company's financial liabilities analysed by the remaining period as at the end of the reporting period to the contractual maturity dates.

2018	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	Over 1 month but within 3 months HK$'000	Over 3 months but within 1 year HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000
LIABILITIES							
Other liabilities	5,472	-	5,012	460	-	-	-
Amount due to the immediate holding company	359	62	-	-	297	-	-
	5,831	62	5,012	460	297	-	-

2017	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	Over 1 month but within 3 months HK$'000	Over 3 months but within 1 year HK$'000	Over 1 year but within 5 years HK$'000	Over 5 years HK$'000
LIABILITIES							
Other liabilities	5,459	-	5,040	407	12	-	-
Amount due to the immediate holding company	404	70	-	-	334	-	-
	5,863	70	5,040	407	346	-	-

(d) Operational risk management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Given that operational risk is inherent in all business products, activities, processes and systems, the Company has developed, implemented and maintained a robust operational risk management framework to facilitate the timely identification, effective assessment and mitigation of the risk. Internal controls, an integral part of a sound operational risk management framework, are maintained by the departmental operational manuals which provide guidance on the baseline controls to ensure a sound management of business and operations.

The Risk Committee ("RC") is a Board level committee of the immediate holding company which provides oversight of the risk management of the immediate holding company regularly reviews the operational risk framework, and approves the risk profiles and the risk management policies. The Internal Control and Compliance Committee ("ICC") of the immediate holding company, also plays an active role to assist the RC in overseeing operational risk related issues and monitoring the implementation of improvement plan for risk events identified and rectifications found in the operational risk management tools, including Control Self Assessment and Key Risk Indicator.

Business and support units are required to review their procedures regularly to ensure compliance with the internal control standards and regulatory requirements. They are also required to work closely with Operational Risk Management Department and Business Compliance Department on internal control, regulatory compliance and operational risk management related activities and initiatives.

Each new product or service introduced is subject to a rigorous review and approval process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or services. Variations of existing products or services are also subject to a similar process. In addition, the Company maintains business continuity plans and tests contingency facilities regularly to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

Internal Audit Division and Compliance Department play an essential role in monitoring and limiting operational risk. Their foci include evaluating the adequacy of all internal controls independently, ensuring adherence to operating guidelines (including regulatory and legal requirements) and making improvement recommendations pro-actively.

(e) Capital management

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

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

The Company's capital management is overseen by the ALCO of the immediate holding company and reviewed regularly by the Board of Directors of the immediate holding company. Key tools adopted include capital budgeting, monitoring, stress testing. An annual capital budget is prepared during the annual budgeting process to assess the adequacy of the immediate holding company's capital to support current and future business activities taking into account projected business growth and any new business activities. The annual budget is approved by the Board of Directors of the immediate holding company. Actual capital adequacy is measured and compared against the approved budget on a regular basis. In addition, regular stress testing and scenario analysis of major sources of risk faced by the Company is performed to assess impact on capital adequacy ratios. The immediate holding company has also established a Company Recovery Plan in accordance with the HKMA's Supervisory Policy Manual on "Recovery Planning", which has been approved by the Board of Directors of the immediate holding company, to ensure the Company is capable to preserve or restore its capital level during the severe stress period. The Recovery Plan is subject to regular, at least annual, review and update.

The principal forms of capital are included in the following balances on the statement of financial position: share capital and reserves. Capital for regulatory purposes also includes the impairment allowances made against Stage 1 and Stage 2 of advances to customers as allowed by the Banking (Capital) Rules.

The Company adopts the standardised approach for the calculation of risk-weighted assets for credit risk and the basis indicator approach for the calculation of operational risk.

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

The Company computes its capital adequacy ratios in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company have complied with all externally imposed capital requirements throughout the years ended 31 December 2018 and 2017, and were above the minimum required ratio set by the HKMA.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Estimation of fair values

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

The fair value of loans does not reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

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

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2018 and as at 31 December 2017.

16. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into transactions with related parties in the normal course of its business. Information relating to related party transactions during the year is set out below:

	2018	2017
	HK$'000	*HK$'000*
(a) Expenses		
Immediate holding company		
Management fee	**297**	334

	2018	2017
	HK$'000	*HK$'000*
(b) Placement of deposits		
Immediate holding company		
Balances with banks	**94,932**	88,026

There was no impairment allowance made against these amounts.

(c) Loans to directors and entities connected with directors

Loans to directors of the Company and entities connected with directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018	2017
	HK$'000	*HK$'000*
Aggregate amount of relevant loans at 31 December by the immediate holding company	**47**	27
Maximum aggregate amount of relevant loans outstanding during the year by the immediate holding company	**53**	43

There was no interest due but unpaid nor any impairment allowance made against these loans at 31 December 2018 (2017: Nil).

(d) Key management personnel remuneration

Remuneration for key management personnel includes amounts paid to the Company's Directors as disclosed in Note 8. All directors received no remuneration from the Company but instead were remunerated by the immediate holding company for their roles with the immediate holding company.

17. ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, certain assumptions and estimates have been made by management of the Company. The accuracy of these assumptions and estimates are continuously reviewed by management with reference to actual results, historical experience and other factors, including projection of future cash flows and possible outcomes from future events. Management believes that the assumptions and estimates made are reasonable and supportable.

The key source of estimation uncertainty is as follows:

Impairment losses for advances to customers

Applicable to 2018 only

Management exercises judgement in establishing the criteria for determining whether the credit risk of a financial asset has increased significantly since initial recognition and determining inputs into the ECL measurement model, including the incorporation of forward-looking information. For details of the ECL model, please refer to Note 14(a)(vi).

Applicable to 2017 only

Loan portfolios are reviewed periodically to assess whether impairment losses exist. Management makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence of impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data of local economic conditions that correlate with defaults on the assets in the group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the group. Historical loss experience is adjusted on the basis of current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

In assessing the need for a collective impairment allowance, besides factors such as credit quality, portfolio size, concentrations, management also considers economic factors. In order to estimate the required adjustment to the collective impairment allowance from economic factors, the Company makes assumptions and judgements to determine the relevant economic indicators and their relevant weighting based on historical experience and current economic conditions.

18. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments, a new standard and interpretation which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Company is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Company does not identify any new standard that would have a significant impact on the financial statements. As the Company has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

OTHER INFORMATION OF FUBON CREDIT (HONG KONG) LIMITED

BOARD OF DIRECTORS

WANG Hao Jen, Henry

CHAN Tin Ching, Patrick

MANAGEMENT

Chief Executive	*Alternate Chief Executive*
WANG Hao Jen, Henry	CHAN Tin Ching, Patrick

REMUNERATION SYSTEM

Fubon Credit (Hong Kong) Limited (the "Company") follows the remuneration system of its immediate holding company, Fubon Bank (Hong Kong) Limited.

The Nomination and Remuneration Committee (the "Committee") of the immediate holding company meets periodically and as required and provides oversight of the management of the immediate holding company's human resources including the appointment of Directors (both executive and non-executive), Senior Management and Management Committee Members. The Committee has to establish the immediate holding company's overall human resources management framework to ensure that it is in compliance with the applicable government regulations and follows the market best practice whenever possible. The Committee is also responsible to ensure that Directors, Senior Management and Management Committee Members appointed possess the necessary and appropriate qualifications to perform and discharge their duties. The Committee regularly reviews whether each existing Director continues to remain qualified for his post. It also reviews the structure, size and composition of the Board and makes recommendations on any proposed change to the Board. The Committee reviews and approves the remuneration of Directors, members of Board Committees, Senior Management and Key Personnel (as defined in the Remuneration Policy of the immediate holding company).

Remuneration of Senior Management and Key Personnel

Basically, the remuneration packages of senior management and key personnel consist of fixed and variable remuneration.

Fixed pay includes base salary, fixed allowances and year-end double pay, while variable pay may cover sales incentives and year-end discretionary bonus. The remuneration packages of senior management and key personnel are determined by the immediate holding company with reference to a number of factors as follows:

– alignment of compensation to its profitability, risk and capital;
– maximization of employees' and the Company's performance;
– attraction and retention of talent and skilled staff;
– calibration to the differing needs of each division and staff's levels of responsibility; and
– benchmarking against industry norms should be done at least on bi-annual basis to check the reasonableness of the compensation by peers.

There are two senior management and key personnel of the Company for the financial year, namely, Henry Wang Hao Jen and Patrick Chan Tin Ching. They are also employees of the immediate holding company and derive no remuneration from the Company.