**AIRSTAR BANK LIMITED**
**(**天星銀行有限公司**)**

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 13 JULY 2018 (DATE OF INCORPORATION) TO 31 DECEMBER 2019**

## REPORT OF THE DIRECTORS

The directors submit this report together with the audited financial statements for the period from 13 July 2018 (date of incorporation) to 31 December 2019 (the "Period").

### Principal activities

The principal activity of Airstar Bank Limited ("the Bank") is to carry out banking and related financial services as a virtual bank in Hong Kong. The Banking License was granted on 9 May 2019 by the Hong Kong Monetary Authority. During the Period, the Bank has not yet commenced business.

### Business review

No business review is presented for the Period as the Bank has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly-owned subsidiary of Gravitation Fintech HK Limited.

### Results and appropriations

The results of the Bank for the Period are set out in the statement of comprehensive income on page 7.

The directors do not recommend the payment of a dividend.

### Donations

The Bank made no charitable and other donations during the Period.

### Shares issued during the Period

Details of shares issued during the Period are set out in Note 19 to the financial statements.

### Debentures issued during the Period

No debentures were issued during the Period.

## REPORT OF THE DIRECTORS

### Equity linked agreements

No equity-linked agreements that will or may result in the Bank issuing shares or that requires the Bank to enter into any agreements that will or may result in the Bank issuing shares was entered into by the Bank during the Period or subsisted at the end of the Period.

### Directors of the Bank

The directors of the Bank during the Period and up to the date of this report were:

| | |
|---|---|
| Lei, Jun | (appointed on 13 July 2018) |
| Chew, Shou Zi | (appointed on 13 July 2018) |
| Hong, Feng | (appointed on 13 July 2018 and resigned on 10 June 2019) |
| Choi, Chi Kin Calvin | (appointed on 13 July 2018, resigned on 24 July 2018, re-appointed on 10 May 2019 and resigned on 10 June 2019) |
| Lau, Suet Chiu Frederic | (appointed on 24 July 2018) |
| Tong, Wai Cheung Timothy | (appointed on 14 August 2018) |
| Cheng, Hoi Chuen Vincent | (appointed on 14 August 2018) |
| Wong, Shun Tak | (appointed on 14 August 2018) |
| Mao, Zhenhua | (appointed on 10 May 2019, resigned on 10 June 2019 and re-appointed on 17 January 2020) |

All directors will retire, and being eligible, offer themselves for re-election.

### Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Bank's business

Save as disclosed in Note 21 to the financial statements, no transactions, arrangements and contracts of significance in relation to the Bank's business to which the Bank's parent companies or its fellow subsidiaries was a party and in which directors of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

### Directors' interests in the shares and debentures of the Bank or any specified undertaking of the Bank

At no time during the Period was the Bank or its parent companies or its fellow subsidiaries a party to any arrangement to enable the directors of the Bank to hold any interests in the shares or debentures of the Bank or its specified undertakings.

### Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the Period.

## REPORT OF THE DIRECTORS

### Subsequent event

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the region. The Bank will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Bank. As at the date on which this set of financial statements were authorised for issue, the Bank was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

### Permitted indemnity provisions

A permitted indemnity provision as set out in the articles of association of the Bank that provides for indemnity against liability incurred by directors of the Bank is currently in force and was in force throughout the Period.

### Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lei Jun
Chairman

Hong Kong, 31 Mar 2020

**INDEPENDENT AUDITOR'S REPORT**
**To The Members of Airstar Bank Limited**
**(**天星銀行有限公司**)**
**(Incorporated in Hong Kong with limited liability)**

## Opinion

*What we have audited*

The financial statements of Airstar Bank Limited (the "Bank") set out on pages 7 to 35, which comprise:

- the balance sheet as at 31 December 2019;
- the statement of comprehensive income for the period from 13 July 2018 (date of incorporation) to 31 December 2019;
- the statement of changes in equity for the period from 13 July 2018 (date of incorporation) to 31 December 2019;
- the statement of cash flows for the period from 13 July 2018 (date of incorporation) to 31 December 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

*Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the Period from 13 July 2018 (date of incorporation) to 31 December 2019 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We are independent of the Bank 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.

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the report of the Directors, but does not include 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 Directors and the Audit Committee 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

**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. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional 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 Bank'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 Bank'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 Bank 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 Audit Committee 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.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 31 Mar 2020

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | FOR THE PERIOD FROM 13 JULY 2018 (DATE OF INCORPORATION) TO 31 DECEMBER 2019 HK$ |
|---|---|---|
| Interest income | 5 | 15,779,672 |
| Interest expense | 6 | (9) |
| **Net interest income** | | 15,779,663 |
| Other income | | 30 |
| Operating expenses | 7 | (98,371,972) |
| Finance costs | 8 | (629,379) |
| **Loss before income tax** | | (83,221,658) |
| Income tax expense | 9 | - |
| **Loss for the Period** | | (83,221,658) |
| **Other comprehensive income for the Period, net of tax** | | - |
| **Total comprehensive income for the Period** | | (83,221,658) |

The notes on pages 11 to 35 are the integral part of these financial statements.

AIRSTAR BANK LIMITED

## BALANCE SHEET

| | Notes | As at 31 December 2019 HK$ |
|---|---|---|
| **ASSETS** | | |
| Balances with banks and other financial institutions | 10 | 20,173,983 |
| Placement with banks | 10 | 1,338,653,400 |
| Loans and advances to customers | 11 | 6,000 |
| Prepayment and other assets | 12 | 16,093,099 |
| Property, plant and equipment | 13 | 55,752,522 |
| Right-of-use assets | 14 | 44,018,153 |
| Intangible assets | 16 | 49,181,705 |
| **TOTAL ASSETS** | | 1,523,878,862 |
| **LIABILITIES** | | |
| Deposits from customers | | 47,349 |
| Other payables and accruals | 17 | 55,584,744 |
| Lease liabilities | 14 | 41,608,289 |
| Make good provision | 15 | 4,675,000 |
| **TOTAL LIABILITIES** | | 101,915,382 |
| **EQUITY** | | |
| Share capital | 19 | 1,500,000,000 |
| Other reserves | 20 | 5,185,138 |
| Accumulated losses | | (83,221,658) |
| **TOTAL EQUITY** | | 1,421,963,480 |
| **TOTAL LIABILITIES AND EQUITY** | | 1,523,878,862 |

The notes on pages 11 to 35 are the integral part of these financial statements.

The financial statements on pages 7 to 35 were approved by the Board of Directors on 31 Mar 2020 and were signed on its behalf.

Lei Jun　　　　Chew Shou Zi

## STATEMENT OF CHANGES IN EQUITY

| | Notes | Share capital HK$ | Other reserves HK$ | Accumulated losses HK$ | Total equity HK$ |
|---|---|---|---|---|---|
| **Balance at 13 July 2018 (date of incorporation)** | | **-** | **-** | **-** | **-** |
| Loss for the Period | | - | - | (83,221,658) | (83,221,658) |
| Issuance of shares | 19 | 1,500,000,000 | - | - | 1,500,000,000 |
| Employee share scheme | 20 | - | 5,185,138 | - | 5,185,138 |
| **Balance at 31 December 2019** | | **1,500,000,000** | **5,185,138** | **(83,221,658)** | **1,421,963,480** |

The notes on pages 11 to 35 are the integral part of these financial statements.

## STATEMENT OF CASH FLOWS

| | Notes | FOR THE PERIOD FROM 13 JULY 2018 (DATE OF INCORPORATION) TO 31 DECEMBER 2019 HK$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before income tax | | (83,221,658) |
| *Adjustments for:* | | |
| Interest income | 5 | (15,779,672) |
| Interest expense | 6 | 9 |
| Finance costs | 8 | 618,548 |
| Depreciation of property, plant and equipment | 13 | 1,662,265 |
| Depreciation of right-of-use assets | 14 | 8,954,496 |
| Employee share scheme | 20 | 5,185,138 |
| Operating cash flows before movements in working capital | | (82,580,874) |
| Increase in loans and advances to customers | | (6,000) |
| Increase in prepayment and other assets | | (13,473,042) |
| Increase in deposits from customers | | 47,349 |
| Increase in other payables and accruals | | 55,584,735 |
| Net cash used in operations | | (40,427,832) |
| Interest received | | 13,159,615 |
| Finance costs paid | | (618,548) |
| Net cash used in operating activities | | (27,886,765) |
| **Cash flows from investing activities** | | |
| Purchase of intangible assets | | (49,181,705) |
| Purchase of property, plant and equipment | | (57,414,787) |
| Net cash used in investing activities | | (106,596,492) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of shares | 19 | 1,500,000,000 |
| Payment of lease liabilities | | (6,689,360) |
| Net cash generated from financing activities | | 1,493,310,640 |
| **Net increase in cash and cash equivalents** | | 1,358,827,383 |
| Cash and cash equivalents at 13 July 2018 (date of incorporation) | | - |
| **Cash and cash equivalents at end of the year** | | 1,358,827,383 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Balances with banks and other financial institutions | | 20,173,983 |
| Placement with banks | | 1,338,653,400 |
| | | 1,358,827,383 |

The notes on pages 11 to 35 are the integral part of these financial statements.

## 1 General information

Airstar Bank Limited (the "Bank") is a private limited liability company incorporated in Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") on 13 July 2018. It is a licensed bank authorised under the Hong Kong Banking Ordinance since 9 May 2019. The principal activity of the Bank is to carry out banking and related financial services as a virtual bank in Hong Kong. The Bank has not commenced business in provision of banking and related financial services during the period from 13 July 2018 to 31 December 2019 (the "Period").

The Bank is wholly-owned by Gravitation Fintech HK Limited, a company incorporated in Hong Kong. The Bank's ultimate holding company is Xiaomi Corporation, a company incorporated in the Cayman Islands and is listed in Hong Kong.

The address of the Bank's registered office is Suites 3201-07, 32/F, Sun Life Tower, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

The financial statements are presented in Hong Kong dollars (HK$), which is the functional and presentation currency of the Bank.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in the Period presented, including HKFRS 16 Leases. Details of the standard please refer to Note 2.3. No comparative information is presented as this is the Bank's first financial statements.

### 2.1 Statement of compliance and basis of preparation

The financial statements of the Bank have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance (Cap. 622).

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### 2.2 New standards and interpretations not yet adopted by the Bank

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Bank. These standards are not expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

### 2.3 Leases

#### 2.3.1 Definition of lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### 2.3.2 The Bank as a lessee

The Bank leases various office and centres, equipment and server racks. Rental contracts are typically made for fixed periods of 3 to 5 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

## 2 Summary of significant accounting policies (continued)

### 2.3 Leases (continued)

#### 2.3.2 The Bank as a lessee (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of offices are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less (Note 14).

## 2 Summary of significant accounting policies (continued)

### 2.4 Financial assets

#### 2.4.1 Classification and recognition

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through statement of comprehensive income), and
- those to be measured at amortised cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset.

See Note 18 for details of each type of financial asset.

#### 2.4.2 Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

There are only debt instruments for the Bank as of 31 December 2019.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the statement of comprehensive income and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the statement of comprehensive income and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as separate line item in the statement of comprehensive income.

## 2 Summary of significant accounting policies (continued)

### 2.4 Financial assets (continued)

#### 2.4.2 Measurement (continued)

- Fair value through profit or loss ("FVPL"): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the statement of comprehensive income and presented net within other gains/(losses) in the period in which it arises.

#### 2.4.3 Impairment

The Bank has the following types of financial assets subject to HKFRS 9's expected credit loss model:

- Placement with banks
- Balances with banks and other financial institutions
- Loans and advances to customers
- Other assets

The Bank assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(a) details how the Bank determines whether there has been a significant increase in credit risk.

Impairment on financial assets is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a financial asset has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

#### 2.4.4 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

### 2.5 Property, plant and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| • Leasehold improvement | 3 years |
| • Furniture and fixture | 5 years |
| • Computer equipment - Server | 5 years |
| • Computer equipment - Hardware | 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

## 2 Summary of significant accounting policies (continued)

### 2.6 Intangible assets

#### 2.6.1 Software

Intangible assets included software acquired externally and capitalised development costs of computer software programmes. Acquired software are initially recognised as intangible assets and measured at costs incurred to acquire and bring them to use. They are amortised on a straight-line basis over 5 years, and recorded in amortisation within operating expenses in the statement of comprehensive income.

#### 2.6.2 Research and development expenditures

Research expenditure is recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Directly attributable costs that are capitalised as part of the software include employee costs.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

### 2.7 Impairment of non-financial assets

Intangible assets with a definite useful life that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.8 Loans and advances to customers

Loans and advances to customers represent loans granted to employees of the Bank held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. They are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The effective interest rate amortisation is included in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income. See Note 3.1(a) for a description of the Bank's impairment policy.

## 2 Summary of significant accounting policies (continued)

### 2.9 Other assets

Other assets represent rental and other deposits, interest receivables and amount due from immediate holding company.

Other assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The loss arising from impairment is recognised in the statement of comprehensive income. See Note 3.1(a) for a description of the Bank's impairment policy.

### 2.10 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include balances with banks and other financial institutions and placement with banks with maturity from the date of acquisition at or less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.11 Provision

Provision is recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.12 Financial liabilities

Financial liabilities represent other payables and accruals, lease liabilities, and deposits from customers. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### 2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

### 2.14 Employee Benefits

#### 2.14.1 Short term obligations

Liabilities for wages and salaries, including unused annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as accruals in the balance sheet.

#### 2.14.2 Retirement benefits scheme

The Bank operates a mandatory provident fund scheme ("MPF Scheme") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee — administered funds. The Bank's contributions to MPF Scheme are expensed as incurred.

## 2 Summary of significant accounting policies (continued)

### 2.14 Employee Benefits (continued)

#### 2.14.3 Bonus plans

The expected cost of bonuses is recognised as a liability when the Bank has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

### 2.15 Equity-settled share-based payment transactions

The ultimate holding company of the Bank operates a share award scheme, under which the Bank receives services from employees as consideration for equity instruments (restricted shares units ("RSUs")) issued by the ultimate holding company. Information relating to the scheme is set out in Note 20.

The award is treated as an equity-settled share-based payment in the Bank's financial statements as the Bank does not have an obligation to settle the award. The fair value of the services received in exchange for the grant of RSUs is recognised as an expense on the statement of comprehensive income over the vesting period with a corresponding increase in equity. The credit to equity is treated as a capital contribution.

The total amount to be expensed is determined by reference to the fair value of RSUs granted:
- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting Period, the Bank revises its estimates of the number of RSUs that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

### 2.16 Related parties

For the purpose of these financial statements, related parties of the Bank are defined as below:

(i) A person, or a close member of that person's family, is related to the Bank if that person:

(a) has control or joint control over the Bank;
(b) has significant influence over the Bank; or
(c) is a member of the key management personnel of the Bank or the Bank's parent

(ii) An entity is related to the Bank if any of the following conditions applies:

(a) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
(b) 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)
(c) Both entities are joint venture of the same third party
(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity
(e) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank
(f) The entity is controlled or jointly controlled by a person identified in (i)
(g) A person identified in (i)(a) 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)
(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the Bank's parent

## 2 Summary of significant accounting policies (continued)

### 2.17 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in the statement of comprehensive income. Foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within operating expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

### 2.18 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised as interest income in the statement of comprehensive income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.19 Current and deferred income tax

The income tax expense for the Period is the tax payable on the current Period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting Period in the countries where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting Period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## 3 Financial risk management

### 3.1 Financial risk factors

The Bank's overall risk management framework focuses on identifying risks inherent from its business and managing the risks within the acceptable level as defined by the the Bank's risk appetite for achieving its strategic objectives. Risk management is carried out by individuals within the 3 Lines of Defence in accordance with the Board approved policies under the oversight by senior management and the Board of Directors.

The Bank's activities expose itself to the following major financial risks: credit risk, liquidity risk and market risk.

*(a) Credit risk*

The Bank is exposed to credit risk in relation to balances and placement with banks and other financial institutions, loans and advances to customers and other assets, which are carried at amortised cost.

The Bank does not hold collateral or other credit enhancements associated with financial assets. The carrying amounts of each class of the above financial assets represent the Bank's maximum exposure to credit risk in relation to financial assets.

Management of credit risk

The Bank's credit risk management policy has been formulated according to the risk appetite approved by the Board of Directors, the Hong Kong Monetary Authority guidelines and other statutory requirements. The credit policy defines risk governance, credit products offered, underwriting criteria, approval and monitoring processes, the loan classification and provisioning. Risk Management Department will review, and update where required, this policy on an annual basis, or more frequent if considered necessary.

The Board has delegated credit approval authorities to the Chief Executive who then sub-delegated the same to the Chief Risk Officer. The Chief Risk Officer further delegated the credit approval authorities to selected credit approvers, based on their experience and expertise. The Chief Risk Officer has the overall executive responsibility to oversee the management of credit risk through formulating credit policies and procedures, overseeing the credit quality of the Bank's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues. Credit approvers perform independent reviews and approvals of credit applications by ensuring that a borrower meets underwriting standards of the Bank and complies with relevant rules and regulations. Credit performance of loan portfolio are presented to Risk Management Committee on a monthly basis for review and oversight.

Significant increase in credit risk

Significant increase in credit risk since initial recognition is assessed based on information that is available without undue cost or effort and that is relevant for financial instrument. An expected credit loss provision will be recognised over the lifetime of the asset if financial instruments experience significant increase in credit risk.

Financial instruments, that are over 30 days past due and not credit-impaired, are considered to have significant increase in credit risk.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

*(a) Credit risk (continued)*

Measurement of ECL

The impairment requirements under HKFRS 9 standard are based on an expected credit loss (ECL) concept that requires the recognition of ECL in a timely and forward-looking manner.

ECL model is adopted to measure impairment allowance. It estimates the expected credit losses at reporting date based on either an estimate of 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition.

Financial instruments are classified into three stages using up-to-date information at reporting date to determine whether 12-month ECL or lifetime ECL is used.

Financial instruments that are not considered to have significant increase in credit risk since initial recognition or low credit risk at reporting date are classified in Stage 1 and are evaluated for impairment using 12-month ECL.

Financial instruments that are considered to have significant increase in credit risk since initial recognition but not credit-impaired are classified in Stage 2. Financial instruments, which are credit-impaired, are classified in Stage 3. Financial instruments classified in Stage 2 or Stage 3 are evaluated using lifetime ECL.

The calculation of ECL incorporates forward-looking information that several key macroeconomic factors and their forecast are included in the ECL model. To take into account of different potential economic condition, probability-weighted ECL under possible outcomes of different economic scenario is derived.

As of 31 December 2019, the Bank's financial assets comprise balances and placement with banks and other financial institutions, loans and advances to customers and other assets which has insignificant amount of ECL. Balances and placement with banks and other financial institutions are short dated and with counterparties of investment graded. Loans and advances to customers are loans granted to employees of the Bank which are immaterial and short dated. Other assets are treated as receivables in the normal course of business and management of the Bank considered the credit risk for such is minimal.

As of 31 December 2019, there are no financial instruments classified in Stage 2 or Stage 3 and evaluated using lifetime ECL.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

*(b) Liquidity risk*

Liquidity risk in the Bank is defined as the risk of incurring losses due to an inability to meet payment obligations in a timely manner when they become due or only being able to meet these obligations at excessive costs. The Bank maintains adequate level of high quality assets and diversified funding base in meeting its short-term obligations and long–term needs under normal circumstances or stress scenarios and the liquidity risk management of the Bank is governed by the Liquidity Risk Management Policy approved by the Risk Committee.

The policy requires the Bank to conduct ongoing and periodic review of a set of liquidity metrics, including but not limited to regulatory requirements to ensure that the liquidity exposures is effectively captured and monitored. In addition, daily cash flow analysis is required to ensure that the Bank has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress.

Risk Management Department is responsible for independent measurement and monitoring of liquidity risk exposures, including analysis of cash flows, proposing liquidity risk limits, monitoring liquidity metrics as well as conducting stress testing. Treasury Department is responsible for intraday management of cash flow and liquidity positions.

Any breach of the pre-defined thresholds of these metrics or analysis results will be escalated to Risk Management Committee and Risk Committee, where appropriate. The Bank's Contingency Funding Plan would be ready for activation in severe situations.

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table below has been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate.

| | **Repayable on demand** | **Less than 3 months** | **Between 3 months to less than 1 year** | **Between 1 year to 5 years** | **Total** |
|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ |
| **LIABILITIES** | | | | | |
| Deposits from customers | 20,915 | 26,443 | - | - | 47,358 |
| Other payables and accruals | 25,443,164 | 13,570,896 | 15,834,054 | - | 54,848,114 |
| Lease liabilities | - | 4,311,525 | 12,934,575 | 25,717,746 | 42,963,846 |
| **Total** | 25,464,079 | 17,908,864 | 28,768,629 | 25,717,746 | 97,859,318 |

*(c) Market risk*

The Bank takes on exposure to market risks, which is risk of losses arising from adverse movements in market factors and prices relative to the position undertaken. Open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market factors, such as foreign exchange rates, interest rates, and credit spreads.

The Bank's interest rate exposure arises from mismatch of assets and liabilities in the banking book. The deposits and placement with reputable banks and financial institutions are not expected to have significant impact due to the movements in interest rates. The remaining financial assets and liabilities of the Bank are non-interest bearing. The Bank has not used any interest rate swaps nor forward interest rate contracts to hedge its exposure to interest rate risk. There are specific metrics and limits approved by the Board or Risk Management Committee for monitoring and managing interest rate risk exposures.

The Bank does not have any trading portfolio which market risk exposures mainly arise from the foreign exchange risk of non-trading portfolios.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

*(c) Market risk (continued)*

Management of market risk

The objective of market risk management is to consistently measure and monitor market risk on a timely and unbiased basis in order to better manage the portfolios and financial performance.

The Board delegated Risk Management Committee to establish the market risk management framework, including policies, procedures and limits to monitor the market risk exposure of the Bank are comply with regulatory requirements and within the prescribed internal thersholds. The market risk limits and policies will be reviewed and updated on a regular basis to conform with the regulatory requirements and market standards.

An independent market risk management and control function is responsible for monitoring the market risk exposures against the prescribed limits and requirements and Risk Management Committee provides the management oversight on the market risk management framework.

Foreign exchange risk

The Bank undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuation arise. The following table illustrates the carrying amount of the Bank's foreign currency denominated monetary assets and liabilities. It indicates the concentration of currency risk at the end of the reporting Period:

| (Presented in HK$ equvialent) | **HK$** | **US$** | **CNY** | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Balances with banks and other financial institutions | 13,450,999 | 6,608,990 | 113,994 | 20,173,983 |
| Placement with banks | 630,000,000 | 708,653,400 | - | 1,338,653,400 |
| Loans and advances to customers | 6,000 | - | - | 6,000 |
| Other assets | 5,596,798 | 1,309,288 | - | 6,906,086 |
| **Total** | 649,053,797 | 716,571,678 | 113,994 | 1,365,739,469 |

| (Presented in HK$ equvialent) | **HK$** | **US$** | **CNY** | **Total** |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Deposits from customers | 37,568 | 8,551 | 1,230 | 47,349 |
| Other payables and accruals | 28,731,248 | 431,008 | 25,685,858 | 54,848,114 |
| Lease liabilities | 41,608,289 | - | - | 41,608,289 |
| **Total** | 70,377,105 | 439,559 | 25,687,088 | 96,503,752 |
| **Net on-balance sheet position** | **578,676,692** | **716,132,119** | **(25,573,094)** | **1,269,235,717** |

The aggregate net foreign exchange loss recognised in the statement of comprehensive income for the Period was HK$4,491,281.

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

*(c) Market risk (continued)*

Foreign exchange risk (continued)

*Foreign exchange sensitivity*

The Bank is exposed to US$ and no sensitivity analysis is prepared as the management considered that the effect is insignificant under the linked exchange rate system.

The following table details the Bank's sensitivity to a 5% increase and decrease in HK$ against CNY. The 5% is the sensitivity rate used when reporting the foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjust their translation at the year end at 5% change in foreign currency rates. For a 5% strengthening/weakening of the HK$ against CNY, the impact on the profit/(loss) after tax would be as follows:

| | **HK$** |
|---|---|
| Pofit/(loss) after tax | 1,278,655/(1,278,655) |

### 3.2 Capital management

The Bank's objectives when managing capital are to meet regulatory requirements and safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The Bank has adopted a policy of maintaining a strong capital base to support the Bank's stability so as to provide reasonable returns for shareholders.

The Bank has an established business planning process to assess the adequacy of its capital to support current and future activities. The process states the Bank's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan.

### 3.3 Fair value estimation

The carrying amounts of the Bank's financial instruments are assumed to approximate their fair values, because of the short-term maturities of these instruments. See Note 18 for details of each type of financial instruments.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*Critical accounting estimate – Taxation*

The Bank is subject to income tax in Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As at 31 December 2019, no deferred tax assets have been recognised due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

*Critical accounting judgment – capitalisation of development costs*

Costs incurred in developing the new platforms/systems are capitalised as intangible assets when recognition criteria as detailed in Note 2.6 are fulfilled.

Management has applied its professional judgement in determining whether these costs fulfilled the recognition criteria and whether the platforms/systems could generate probable future economic benefits to the Bank.

Any severe change in market performance or technology advancement will have an impact on the development costs capitalised.

## 5 Interest income

| | HK$ |
|---|---|
| Interest on balances and placement with banks and other financial institutions | 15,779,653 |
| Interest on loans and advances to customers | 19 |
| **Total** | 15,779,672 |

## 6 Interest expense

| | HK$ |
|---|---|
| Interest on deposits from customers | 9 |
| **Total** | 9 |

## 7 Operating Expenses

| | HK$ |
|---|---|
| Auditor's remuneration | 450,000 |
| Depreciation of property, plant and equipment (Note 13) | 1,662,265 |
| Depreciation of right-of-use assets (Note 14) | 8,954,496 |
| Staff costs | 47,605,122 |
| - Short-term employee benefits | 40,732,200 |
| - Retirement benefit | 1,687,784 |
| - Employee share scheme | 5,185,138 |
| Directors' emoluments (Note 22) | 3,831,370 |
| Recruitment fees | 10,313,141 |
| Net foreign exchange loss | 4,491,281 |
| Legal and professional fees | 13,371,925 |
| Expense relating to short-term leases (Note 14) | 1,967,741 |
| Other operating expenses | 5,724,631 |
| **Total** | 98,371,972 |

## 8 Finance costs

| | HK$ |
|---|---|
| Interest on lease liabilities (Note 14) | 618,548 |
| Bank charges | 10,831 |
| **Total** | 629,379 |

## 9 Income tax expense

The income tax expense of the Bank for the Period are analysed as follows:

### (a) Income tax expense

| | HK$ |
|---|---|
| Current income tax | - |
| Deferred income tax | - |
| **Total** | - |

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

| | HK$ |
|---|---|
| **Loss before income tax** | (83,221,658) |
| Tax at the Hong Kong tax rate of 16.5% | (13,731,574) |
| Tax effects of: | |
| Tax effect of expenses not deductible | 1,255,797 |
| Temporary difference not recognised | (15,477,416) |
| Tax effect of tax losses not recognised | 27,953,193 |
| **Income tax expense** | - |

As at 31 December 2019, the Bank had estimated unused tax losses of approximately HK$169,413,291 available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

## 10 Balances and placement with banks and other financial institutions

| | As at 31 December 2019 HK$ |
|---|---|
| Balances with banks and other financial institutions | |
| - Cash at banks | 19,067,895 |
| - Due from Hong Kong Monetary Authority ("HKMA") | 1,106,088 |
| Less: Impairment allowance – stage 1 | - |
| **Total** | 20,173,983 |

Balances with banks and other financial institutions are demoninated in Hong Kong dollars, Reminbi and United States dollars.

| | As at 31 December 2019 HK$ |
|---|---|
| Placement with banks maturing | |
| - Less than 3 months | 1,338,653,400 |
| Less: Impairment allowance – stage 1 | - |
| **Total** | 1,338,653,400 |

Placement with banks are demoninated in Hong Kong dollars and United States dollars.

Concentration of credit risk

| | As at 31 December 2019 HK$ |
|---|---|
| Concentration by sector | |
| - HKMA | 1,106,088 |
| - Local banks | 1,357,721,295 |
| **Total** | 1,358,827,383 |

| | As at 31 December 2019 HK$ |
|---|---|
| Concentration by region | |
| - Hong Kong | 1,358,827,383 |
| **Total** | 1,358,827,383 |

## 11 Loans and advances to customers

Loans and advances to customers at amortised cost represent loans granted to employees of the Bank. Loans to employees are unsecured and due within three months from the end of the reporting Period.

| | As at December 2019 HK$ |
|---|---|
| Loans to employees | 6,000 |
| Less: Impairment allowance – stage 1 | - |
| **Total** | 6,000 |

## 12 Prepayment and other assets

| | As at 31 December 2019 HK$ |
|---|---|
| Prepayment | 9,187,013 |
| Rental and other deposits | 4,201,610 |
| Interest receivables | 2,620,057 |
| Amount due from immediate holding company | 84,419 |
| **Total** | 16,093,099 |

Amount due from immediate holding company is unsecured, interest free and repayable on demand.

## 13 Property, plant and equipment

| | Leasehold improvement HK$ | Furniture and fixture HK$ | Computer equipment - Server HK$ | Computer equipment - Hardware HK$ | Total HK$ |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 13 July 2018 | - | - | - | - | - |
| Addition | 11,051,641 | 1,631,649 | 20,387,027 | 24,344,470 | 57,414,787 |
| At 31 December 2019 | 11,051,641 | 1,631,649 | 20,387,027 | 24,344,470 | 57,414,787 |
| **ACCUMULATED DEPRECIATION** | | | | | |
| At 13 July 2018 | - | - | - | - | - |
| Depreciation charge | (1,543,302) | (74,936) | - | (44,027) | (1,662,265) |
| At 31 December 2019 | (1,543,302) | (74,936) | - | (44,027) | (1,662,265) |
| **CARRYING AMOUNT** | | | | | |
| At 13 July 2018 | - | - | - | - | - |
| At 31 December 2019 | 9,508,339 | 1,556,713 | 20,387,027 | 24,300,443 | 55,752,522 |

## 14 Leases

The balance sheet shows the following amounts relating to leases as of 31 December 2019:

| | **As at 31 December 2019 HK$** |
|---|---|
| **Right-of-use assets** | |
| Office and centres | 31,841,113 |
| Equipment | 586,585 |
| Server racks | 11,590,455 |
| **Total** | 44,018,153 |
| | |
| **Lease liabilities** | |
| Current | 16,375,750 |
| Non-current | 25,232,539 |
| **Total** | 41,608,289 |

Additions to the right-of-use assets during the Period were HK$44,018,153. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 2.68%.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. The extension option in office has not been included in the lease liability because it is not reasonably certain that the leases will be extended. As at 31 December 2019, potential future cash outflows of HK$20,343,960 (undiscounted) have not been included in the lease liability.

The statement of comprehensive income shows the following amounts relating to leases:

| | **HK$** |
|---|---|
| **Depreciation of right-of-use assets** | |
| Office and centres | 5,548,543 |
| Equipment | 20,227 |
| Server racks | 3,385,726 |
| **Total** | 8,954,496 |
| | |
| Interest expense (included in finance costs) | 618,548 |
| Expense relating to short-term leases (included in operating expenses) | 1,967,741 |

The total cash outflow for leases for the Period was HK$9,275,649.

## 15 Make good provision

The Bank is required to restore the leased office building to its original condition at the end of the lease term. A provision of HK$4,675,000 has been recognised as of 31 December 2019 for the present value of the estimated expenditure required to remove any leasehold improvement. These costs have been capitalised as part of the right-of-use assets and are amortised over the lease term.

## 16 Intangible assets

| | HK$ |
|---|---|
| **COST** | |
| At 13 July 2018 | - |
| Addition | 49,181,705 |
| At 31 December 2019 | 49,181,705 |
| **ACCUMULATED AMORTISATION** | |
| At 13 July 2018 | - |
| Amortisation charge | - |
| At 31 December 2019 | - |
| **CARRYING AMOUNT** | |
| At 13 July 2018 | - |
| At 31 December 2019 | 49,181,705 |

## 17 Other payables and accruals

| | As at 31 December 2019 HK$ |
|---|---|
| Accrued interest payable | 9 |
| Accrued bonus payable | 5,251,738 |
| Other payables and accruals | 24,889,833 |
| Amounts due to fellow subsidiaries | 25,443,164 |
| **Total** | 55,584,744 |

Amounts due to fellow subsidiaries are unsecured, interest free and repayable on demand.

## 18 Financial instruments by category

The maturity analysis of financial assets and liabilities shown on the balance sheet, based on the remaining period at the end of the reporting Period to the contractual maturity date is shown below:

| **Assets as per balance sheet** | **Notes** | **As at 31 December 2019 HK$** |
|---|---|---|
| Financial assets at amortised cost | | |
| - Balances with banks and other financial institutions | 10 | 20,173,983 |
| - Placement with banks | 10 | 1,338,653,400 |
| - Loans and advances to customers | 11 | 6,000 |
| - Other assets | 12 | 6,906,086 |
| **Total current assets** | | 1,365,739,469 |

| **Liabilities as per balance sheet** | | **As at 31 December 2019 HK$** |
|---|---|---|
| Financial liabilities at amortised cost | | |
| - Deposits from customers | | 47,349 |
| - Other payables and accruals | 17 | 54,848,114 |
| - Lease liabilities | 14 | 16,375,750 |
| **Total current liabilities** | | 71,271,213 |
| Financial liabilities at amortised cost | | |
| - Lease liabilities | 14 | 25,232,539 |
| **Total non-current liabilities** | | 25,232,539 |

The Bank's exposure to various risks associated with the financial instruments is discussed in Note 3.

## 19 Share capital

| | Note | Shares | HK$ |
|---|---|---|---|
| Ordinary shares | | | |
| Issued and fully paid | (i) | 1,500,000,000 | 1,500,000,000 |
| **Total** | | **1,500,000,000** | **1,500,000,000** |

(i) *Movements in ordinary shares:*

| | Number of shares | Total HK$ |
|---|---|---|
| Opening balance as at 13 July 2018 | - | - |
| Issuance of shares | 1,500,000,000 | 1,500,000,000 |
| Balance as at 31 December 2019 | **1,500,000,000** | **1,500,000,000** |

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Bank do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

## 20 Employee share scheme

Restricted Stock Unit ("RSU") Awards

The ultimate holding company granted RSU awards to the employees of the Bank on 4 September 2019 and 28 November 2019 respectively and the grantee are entitled to the ordinary shares of the ultimate holding company for no cash consideration. The shareholders' rights of these shares were restricted and would be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement.

Movements in the number of RSUs granted to the Bank's employees and the respective weighted average grant date fair value are as follows:

| | Number of shares | Weighted average grant date fair value per RSU HK$ |
|---|---|---|
| Balance at 13 July 2018 (date of incorporation) | - | - |
| Granted | 2,795,064 | 8.7474 |
| **Balance at 31 December 2019** | 2,795,064 | 8.7474 |

The weighted average remaining contract life for outstanding RSUs was 3.6 years as of 31 December 2019.

**20 Employee share scheme (continued)**

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the ultimate holding company that issued to its shareholders.

The total expenses recognised in the statement of comprehensive income for aforementioned share-based awards granted to the Bank's employees were HK$5,185,138 as of 31 December 2019.

**21 Related party transactions**

(a) Parent entities

The Bank is controlled by the following entities:

| **Name** | **Type** | **Place of incorporation** | **Ownership interest 2019** |
|---|---|---|---|
| Gravitation Fintech HK Limited | Immediate holding company | Hong Kong | 100% |
| Xiaomi Finance H.K. Limited | Intermediate holding company | Hong Kong | 90% |
| AMTD Group Company Limited | Intermediate holding company | British Virgin Islands | 10% |
| Xiaomi Corporation | Ultimate holding company | Cayman Islands | 90%* |

* Xiaomi Corporation holds 100% of the issued ordinary shares of Xiaomi Finance H.K. Limited.

All related party transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

(b) Transactions with related parties

| **Relationship** | **Nature** | **HK$** |
|---|---|---|
| Fellow subsidiary | Provision of HR/Admin support services | 88,662 |
| **Total** | | 88,662 |

(c) Outstanding balances due from/(to) related parties

| **Relationship** | **Nature** | **As at December 2019 HK$** |
|---|---|---|
| Immediate holding company | Payment on behalf of professional expenses | 84,419 |
| Fellow subsidiaries | Provision of IT system development service | (25,443,164) |
| **Total** | | (25,358,745) |

## 21 Related party transactions (continued)

(d) Key management personnel compensation

| | HK$ |
|---|---|
| Short-term employee benefits | 7,705,494 |
| Retirement benefit | 273,123 |
| Employee share scheme | 3,947,916 |
| **Total** | 11,926,533 |

## 22 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

| | HK$ |
|---|---|
| Directors' fees | 1,032,258 |
| Salaries, allowances and benefits in kind | 2,679,112 |
| Retirement benefit | 120,000 |
| Employee share scheme | - |
| **Total** | 3,831,370 |

All remuneration received by the directors from the Bank are for their services in connection with the management of the affairs of the Bank.

During the Period, no consideration was provided to or receivable by third parties for making available directors' services. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

No director of the Bank had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was or is a party that subsisted at the end of the Period or at any time during the Period.

There was no significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

## 23 Events after the reporting Period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the region. The Bank will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Bank. As at the date on which this set of financial statements were authorised for issue, the Bank was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

## 24 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 31 Mar 2020.