AIRSTAR BANK LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 2020

REPORT OF THE DIRECTORS

The directors submit this report together with the audited financial statements for the year ended 31 December 2020 (the "year").

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.

Business review

No business review is presented for the year 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 year are set out in the statement of profit or loss on page 8.

The directors do not recommend the payment of a dividend.

Donations

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

Shares issued during the year

Details of shares issued during the year are set out in Note 20 to the financial statements.

Debentures issued during the year

No debentures were issued during the year.

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 year or subsisted at the end of the year.

REPORT OF THE DIRECTORS

Directors of the Bank

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

Lei, Jun	
Chew, Shou Zi	(Resigned on 19 March 2021)
Lau, Suet Chiu Frederic	
Tong, Wai Cheung Timothy	
Cheng, Hoi Chuen Vincent	
Wong, Shun Tak	
Mao, Zhenhua	(Re-appointed on 17 January 2020)

All directors will continue in office.

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

Save as disclosed in Note 23 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 year or at any time during the year.

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

At no time during the year, 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 year.

REPORT OF THE DIRECTORS

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 year.

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, 24 March 2021

INDEPENDENT AUDITOR'S REPORT
To The Members of Airstar Bank Limited
(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 8 to 44, which comprise:

- the balance sheet as at 31 December 2020;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; 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 2020, 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 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.

INDEPENDENT AUDITOR'S REPORT
To The Members of Airstar Bank Limited
(Incorporated in Hong Kong with limited liability)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors and Corporate Governance Report, 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.

INDEPENDENT AUDITOR'S REPORT
To The Members of Airstar Bank Limited
(Incorporated in Hong Kong with limited liability)

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, 24 March 2021

STATEMENT OF PROFIT OR LOSS

	Notes	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Interest income	5	23,571	15,780
Interest expense	6	(10,174)	-
Net interest income		13,397	15,780
Net gain from investment and other income		2,175	-
Total income		15,572	15,780
Operating expenses	7	(241,350)	(98,372)
Finance costs	8	(1,018)	(630)
Impairment losses		(5,292)	-
Loss before income tax		(232,088)	(83,222)
Income tax expense	9	-	-
Loss for the year/period		(232,088)	(83,222)

The notes on pages 13 to 44 are the integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Loss for the year/period		(232,088)	(83,222)
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of financial assets at fair value through other comprehensive income ("FVOCI")		1,172	-
Total comprehensive income for the year/period		(230,916)	(83,222)

The notes on pages 13 to 44 are the integral part of these financial statements.

BALANCE SHEET

	Notes	2020 HK$000	2019 HK$000
Assets			
Balances with banks and other financial institutions	10	226,157	20,174
Placement with banks	10	688,000	1,338,653
Investment securities	12	1,224,274	-
Loans and advances to customers	11	552,026	6
Prepayment and other assets	13	28,559	16,093
Property, plant and equipment	15	47,152	55,753
Right-of-use assets	14	31,289	44,018
Intangible assets	16	83,012	49,182
Total Assets		2,880,469	1,523,879
Liabilities			
Deposits from customers	17	1,577,775	47
Other payables and accruals	18	64,083	55,586
Lease liabilities	14	29,245	41,608
Make good provision		6,330	4,675
Total Liabilities		1,677,433	101,916
Equity			
Share capital	20	1,500,000	1,500,000
Other reserves		18,346	5,185
Accumulated losses		(315,310)	(83,222)
Total Equity		1,203,036	1,421,963
Total Liabilities and Equity		2,880,469	1,523,879

The notes on pages 13 to 44 are the integral part of these financial statements.

The financial statements on pages 8 to 44 were approved by the Board of Directors on 24 March 2021 and were signed on its behalf.

Lei Jun

Lau Suet Chiu Frederic

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital HK$000	Other reserves HK$000	Accumulated losses HK$000	Total equity HK$000
Balance as at 13 July 2018 (date of incorporation)		-	-	-	-
Total comprehensive income		-	-	(83,222)	(83,222)
Issuance of shares	20	1,500,000	-	-	1,500,000
Employee share scheme	21	-	5,185	-	5,185
Balance as at 31 December 2019		1,500,000	5,185	(83,222)	1,421,963
Total comprehensive income		-	1,172	(232,088)	(230,916)
Employee share scheme	21	-	11,452	-	11,452
Regulatory reserve	22	-	537	-	537
Balance as at 31 December 2020		1,500,000	18,346	(315,310)	1,203,036

The notes on pages 13 to 44 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Cash flows from operating activities			
Loss before income tax		(232,088)	(83,222)
Adjustments for:			
Interest income	5	(23,571)	(15,780)
Interest expense	6	10,174	-
Interest on lease liabilities	8	983	619
Impairment losses		5,292	-
Depreciation of property, plant and equipment	15	14,555	1,662
Depreciation of right-of-use assets	14	20,276	8,954
Amortisation of intangible assets	16	10,512	-
Employee share scheme	21	11,452	5,185
Changes in:			
Loans and advances to customers		(556,525)	(6)
Placement with banks with original maturity beyond 3 months		(195,000)	-
Prepayment and other assets		(7,277)	(13,473)
Deposits from customers		1,577,728	47
Other payables and accruals		5,588	55,585
Interest received		18,382	13,160
Interest paid		(7,265)	-
Net cash generated from / (used in) operating activities		653,216	(27,269)
Cash flows from investing activities			
Purchase of intangible assets		(44,342)	(49,182)
Purchase of property, plant and equipment		(5,954)	(57,415)
Purchase of investment securities		(2,087,934)	-
Proceeds from disposal and redemption of investment securities		864,582	-
Net cash used in investing activities		(1,273,648)	(106,597)
Cash flows from financing activities			
Proceeds from issuance of shares	20	-	1,500,000
Payment of lease liabilities		(19,238)	(7,307)
Net cash (used in) / generated from financing activities		(19,238)	1,492,693
Net change in cash and cash equivalents		(639,670)	1,358,827
Cash and cash equivalents at the beginning of year/period		1,358,827	-
Cash and cash equivalents at end of year	19	719,157	1,358,827

The notes on pages 13 to 44 are the integral part of these financial statements.

NOTES TO THE 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 and was officially launched on 11 June 2020.

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, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

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 year/period presented, unless otherwise stated.

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 are presented in Hong Kong dollars and rounded to the nearest thousands, unless otherwise stated. Comparative figures in the financial statements have been reclassified to conform with current year's presentation.

The financial statements have been prepared on a historical cost basis, except for investment securities measured at FVOCI. 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 the reporting periods 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.3 Leases (continued)

2.3.2 The Bank as a lessee

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.

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.

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 profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.3 Leases (continued)

2.3.2 The Bank as a lessee (continued)

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 profit or loss. Short-term leases are leases with a lease term of 12 months or less (Note 14).

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 profit or loss), 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 3.1 (d) 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 profit or loss.

Subsequent measurement of financial assets 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 financial assets:

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.4 Financial assets (continued)

2.4.2 Measurement (continued)

- 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 profit or loss 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 profit or loss.

- 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 profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the statement of profit or loss 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 profit or loss.

- 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 profit or loss and presented net within other gains/(losses) in the period in which it arises.

2.4.3 Impairment

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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

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 profit or loss 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 3 to 5 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 profit or loss.

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 profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.6 Intangible assets (continued)

2.6.2 Research and development expenditures (continued)

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 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 the original 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.9 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.

2.10 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.

2.11 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.

2.12 Employee Benefits

2.12.1 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.

2.12.2 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.

2.12.3 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.

2.13 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 21.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.13 Equity-settled share-based payment transactions (continued)

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 profit or loss 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 profit or loss, with a corresponding adjustment to equity.

2.14 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); or
(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.

2.15 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 profit or loss. Foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (continued)

2.16 Interest income

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss.

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).

2.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions.

Government grants relating to costs are deferred and recognised under operating expenses in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.18 Current and deferred income tax

The income tax expense for the year/period is the tax payable on the current year/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.

2.18.1 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.

2.18.2 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.

NOTES TO THE FINANCIAL STATEMENTS

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 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, investment securities, loans and advances to customers and other assets, which are carried at amortised cost and fair value through other comprehensive income.

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, credit rating, the loan classification and provisioning. The banks adopts a 3-stage approach expected credit loss model to measure impairment allowance in accordance with the impairment requirements under HKFRS 9 standard. 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.

Credit exposure and credit quality

Credit risk exposure of financial instruments is the gross carrying amount of financial assets. The Bank adopts the loan classification categories under the HKMA classification system, which are either classified as "Pass", "Special Mention", "Substandard", "Doubtful" or "Loss". For impairment allowance measurement, a 3-stage approach expected credit loss model is adopted in accordance with the impairment requirements under HKFRS 9 standard.

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Credit risk (continued)

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, or any early signs of cashflow/liquidity problems, are considered to have significant increase in credit risk.

Credit-impaired / Default

A financial instrument is considered as credit-impaired or default when it meets one or more of the following criteria indicating the borrower is unlikely:

- borrower is more than 90 days past due on its contractual payments
- borrower is in significant financial difficulty
- borrower is in long-term forbearance
- borrower is deceased
- borrower is insolvent
- borrower is in breach of financial covenant(s)
- borrower is bankrupt or will enter bankruptcy

Write-off policy

The Bank writes off financial instrument in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Measurement of Expected Credit Loss (“ECL”)

The impairment requirements under HKFRS 9 standard are based on an 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.

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Credit risk (continued)

The calculation of ECL incorporates forward-looking information that several key macroeconomic factors and their forecast are included in the ECL model. Assumption of forward looking economic is incorporated in the probability of default model parameters which key macroeconomic factors will influence the credit risk.

ECL is sensitive to key macroeconomic factors as follows:
Retail portfolios:

- Unemployment rate, given its impact on borrowers' ability to meet their contractual repayments
- Property Price Index, given its impact on borrowers' mortgage collateral valuations

Wholesale portfolios:

- GDP, given the significant impact on companies' performance

The forecast of the macroeconomic factors is determined using reasonable and supportable information that is available without undue cost or effort. The forecast of macroeconomic factors is updated in a regular basis and subjected to the availability of external sources.

ECL is estimated based on key inputs of probability of default ("PD"), loss given default ("LGD"), expected exposure at the time of default ("EAD") and discounted in the basis of time value of money. To take into account of different potential economic condition, probability-weighted ECL under 3 possible outcomes of different economic scenario (base, bad and good scenario) is derived. The ECL measurement has taken into the consideration of COVID-19 impact regarding the scenario projection incorporates latest available data sources.

As of 31 December 2020 and 2019, the Bank's financial assets comprise balances and placement with banks and other financial institutions, investment securities, loans and advances to customers and other assets. Balances and placement with banks and other financial institutions are short dated and with counterparties of investment graded assigned by designated External Credit Assessment Institutions ("ECAI") whereas other assets are treated as receivables in the normal course of business and management considered the credit risk for such are minimal and has insignificant amount of ECL. Investment securities are considered to have low credit risk as all with counterparties of investment graded assigned by ECAI and limited to 12 months expected credit loss under stage 1.

The loss allowance as at 31 December 2020 was determined as follows for loans and advances to customers:

31 December 2020

(in HK$'000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
- Loans and advances to customers	556,487	44	-	556,531
Loss allowance	4,501	4	-	4,505

There is no loss allowance for loans and advances to customers as at 31 December 2019.

As of 31 December 2020, HK$4,000 credit exposure was moved from Stage 1 to Stage 2.

The loss allowance for loans and advances to customers could be increased by HK$46,077,000 (2019: HK$Nil) if all loans and adavnces to customers are classified under stage 2.

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Credit risk (continued)

During the year, the following losses were recognised in profit or loss:

	2020 HK$000	2019 HK$000
Impairment losses		
- Impairment losses on loans and advances to customers	4,505	-
- Impairment losses on other financial assets	79	-
Impairment losses on financial assets at amortised cost	4,584	-
- Impairment losses on financial assets at FVOCI	171	-
Impairment losses on financial assets	4,755	-

(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. The Board of Directors ("the Board") represents the highest authority of the Bank which is ultimately responsible for the overall asset and liability management, including the liquidity risk management. Delegated by the Board, the Risk Committee ("RC") is a board level committee responsible for establishing the liquidity risk management framework and overseeing the liquidity and funding risk management of the Bank.

The Bank has established the Liquidity and Funding Risk Management Policy which setting out approaches for liquidity and funding risk management. 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.

Treasury has the overall first line responsibilities for effective liquidity and funding position management where Risk Management Department has the overall second line responsibilities for the liquidity monitoring and control process, including policies preparation and limits setting.

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

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Liquidity risk (continued)

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.

2020

(in HK$'000)	Repayable on demand	Less than 3 months	Between 3 months to less than 1 year	Between 1 year to 5 years	Total
Liabilities					
Deposits from customers	436,896	935,253	205,626	-	1,577,775
Other payables and accruals	8,719	39,917	14,149	-	62,785
Lease liabilities	-	4,981	14,944	9,878	29,803
Total	445,615	980,151	234,719	9,878	1,670,363

2019

(in HK$'000)	Repayable on demand	Less than 3 months	Between 3 months to less than 1 year	Between 1 year to 5 years	Total
Liabilities					
Deposits from customers	21	26	-	-	47
Other payables and accruals	25,443	13,571	15,835	-	54,849
Lease liabilities	-	4,312	12,934	25,718	42,964
Total	25,464	17,909	28,769	25,718	97,860

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 risk exposure arises from mismatch of assets and liabilities in the banking book impact to the Bank's capital adequacy and earning from adverse movements in interest rate, i.e. Interest Rate Risk in Banking Book (IRRBB). It is inherent in the banking book positions, including both on and off-balance sheet item e.g. customers deposits, loans and advance and treasury investment activities.

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

Management of market risk

The Board represent the highest authority whom is ultimately responsible for ensuring effective market risk management, including IRRBB. RC, delegated by the Board, is responsible for establishing the market risk and IRRBB management of the Bank. ALCO and RMC, accountable to RC, representing the senior management risk oversight at 1st line and 2nd line of defence respectively in relation to market risk and IRRBB management. Treasury has the first line responsibilities on managing the Bank's market risk and IRRBB risk profile and ensuring relevant risk exposure arising are within policy requirements. Risk Management Department has the second line responsibilities for setting policies and relevant risk metrics for monitoring and reporting to ensure in compliance with regulatory requirements. In particular, those policies and risk limits will be reviewed and updated on a regular basis to conform with the regulatory requirements and market standards.

An independent risk management and control function is responsible for monitoring the market risk and IRRBB exposures against the prescribed limits and requirements and ALCO and RMC provide the management oversight on the market risk management framework.

The interest rate risk impact on capital adequacy and earnings, which measured by Economic Value Equity ("EVE") sensitivity and Net Interest Income (NII) respectively, are introduced, together with limits, to measure and monitor the interest rate risk exposure of the Bank. Risk report on IRRBB risk profile are measured by Risk Management Department and prepared for different level of governance on a regular basis.

Management considered that the interest rate risk for the year ended 31 Decemeber 2020 and 31 December 2019 are immaterial.

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Market risk (continued)

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$'000 equivalent)	**31 December 2020**		**31 December 2019**	
	USD	CNY	USD	CNY
Assets				
Balances with banks and other financial institutions	62,511	15,668	6,609	114
Placement with banks	-	-	708,653	-
Investment securities	711,149	41,635	-	-
Loans and advances to customers	142,960	-	-	-
Other assets	4,659	300	1,309	-
Liabilities				
Deposits from customers	124,872	48,700	9	1
Other payables and accruals	515	9,296	431	25,686

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:

(in HK$'000)	**2020**	**2019**
Profit/(loss) after tax	20/(20)	1,279/(1,279)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Financial instruments by category

The Bank's financial instruments include the following:

	2020 HK$000	2019 HK$000
Financial assets measured at amortised cost		
- Balances with banks and other financial institutions	226,157	20,174
- Placement with banks	688,000	1,338,653
- Investment securities	276,521	-
- Loans and advances to customers	552,026	6
- Other assets	11,892	6,906
Financial assets measured at FVOCI		
- Investment securities	947,753	-
	2,702,349	1,365,739
Financial liabilities measured at amortised cost		
- Deposits from customers	1,577,775	47
- Other payables and accruals	62,785	54,849
- Lease liabilities	29,245	41,608
	1,669,805	96,504

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (continued)

3.2 Capital management

Capital Management Policy of the Bank sets out the guideline in relation to the oversight, monitoring and management of the maintenance of an adequate amount of capital, with reference to the Supervisory Policy Manual ("SPM") - "CA-G-1 Overview of Capital Adequacy Regime for Locally Incorporated Authorised Institutions" and "CA-G-5 Supervisory Review Process".

The Bank's capital management strategy is defined as:

- ensuring capital management meets regulatory requirements;
- fully identify, measure, monitor and control all major risks to ensure that the Bank's capital level is compatible with the risk and risk management level it faces;
- ensure that the Bank's capital planning is matched with the operating conditions, risk trends and long-term development strategies; and
- optimize the asset structure, rationally allocate economic capital, and ensure the sustainable and healthy development of the Bank.

The Bank has complied with the capital requirements imposed by the Hong Kong Monetary Authority ("HKMA") throughout 2020 and 2019.

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.

The following table provides an analysis of investment securities measured at FVOCI, grouped into Levels 1 to 3 on the degree to which the fair value is observable.

	2020 **HK$000**	**2019** **HK$000**
Fair value hierarchy		
- Level 1	947,753	-
- Level 2	-	-
- Level 3	-	-
Total	947,753	-

There are no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the year/period ended 31 December 2020 and 2019.

In estimating the fair value of the investment securities classified as Level 1, the fair value is arrived at with reference to the unadjusted quoted prices in active market.

NOTES TO THE FINANCIAL STATEMENTS

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 2020 and 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.

NOTES TO THE FINANCIAL STATEMENTS

5 Interest income

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Interest income arising from:		
Financial assets measured at amortised cost	20,004	15,780
Financial assets measured at FVOCI	3,567	-
Total	23,571	15,780

6 Interest expense

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Interest expense arising from:		
Financial liabilities measured at amortised cost	10,174	-
Total	10,174	-

7 Operating expenses

	Notes	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Auditor's remuneration		1,635	450
Depreciation of property, plant and equipment	15	14,555	1,662
Depreciation of right-of-use assets	14	20,276	8,954
Amortisation of intangible assets	16	10,512	-
Staff costs		133,842	51,437
- Salaries, allowances and benefits in kind		116,127	44,028
- Retirement benefit		6,263	2,224
- Employee share scheme	21	11,452	5,185
Legal and professional fees		8,133	13,372
Other operating expenses		52,397	22,497
Total		241,350	98,372

NOTES TO THE FINANCIAL STATEMENTS

8 Finance costs

	Notes	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Interest on lease liabilities	14	983	619
Bank charges		35	11
Total		1,018	630

9 Income tax expense

Hong Kong profits tax has been provided at the effective rate of 16.5% on the estimated assessable profits arising in Hong Kong.

(a) Income tax expense

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Current income tax	-	-
Deferred income tax	-	-
Total	-	-

NOTES TO THE FINANCIAL STATEMENTS

9 Income tax expense (continued)

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

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Loss before income tax	(232,088)	(83,222)
Tax at the Hong Kong tax rate of 16.5%	(38,295)	(13,732)
Tax effects of:		
Tax effect of expenses not deductible	1,973	1,256
Temporary difference not recognised	(3,739)	(15,477)
Tax effect of tax losses not recognised	40,061	27,953
Income tax expense	-	-

As at 31 December 2020, the Bank had estimated unused and unrecognised tax losses of approximately HK$412,207,000 available for offset against future profits (2019: HK$169,413,000). 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.

NOTES TO THE FINANCIAL STATEMENTS

10 Balances and placement with banks and other financial institutions

	2020 HK$000	2019 HK$000
Balances with banks and other financial institutions		
- Cash at banks	85,103	19,068
- Due from Hong Kong Monetary Authority ("HKMA")	141,054	1,106
Less: Impairment allowances	-	-
Total	226,157	20,174

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

	Notes	2020 HK$000	2019 HK$000
Placement with banks maturing			
- On or less than 3 months	19	493,000	1,338,653
- Beyond 3 months		195,000	-
Less: Impairment allowances		-	-
Total		688,000	1,338,653

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

As at 31 December 2020 and 31 December 2019, there were no impaired, overdue or rescheduled balances and placement with banks and other financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

11 Loans and advances to customers

	2020 HK$000	2019 HK$000
Gross loans and advances to customers	556,531	6
Less: Impairment allowances		
- Stage 1	(4,501)	-
- Stage 2	(4)	-
- Stage 3	-	-
Total	552,026	6

12 Investment securities

	2020 HK$000	2019 HK$000
Investment securities measured at:		
- FVOCI	947,753	-
- Amortised cost	276,600	-
Less: Impairment allowances	(79)	-
Total	1,224,274	-
Issued by:		
- Sovereigns	91,632	-
- Banks and corporates	1,132,642	-
Total	1,224,274	-

As at 31 December 2020 and 31 December 2019, there were no impaired, overdue or rescheduled investment securities.

13 Prepayment and other assets

	2020 HK$000	2019 HK$000
Prepayment	16,667	9,187
Interest receivables	7,809	2,620
Others	4,083	4,286
Total	28,559	16,093

NOTES TO THE FINANCIAL STATEMENTS

14 Leases

The balance sheet shows the following amounts relating to leases:

	2020 HK$000	2019 HK$000
Right-of-use assets		
Office and centres	23,987	31,841
Equipment and server racks	7,302	12,177
Total	31,289	44,018
Lease liabilities		
Current	19,434	16,376
Non-current	9,811	25,232
Total	29,245	41,608

Additions to the right-of-use assets during the year were HK$7,547,000 (2019: HK$44,018,000). The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 2.65% (2019: 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 2020, potential future cash outflows of HK$25,645,000 (undiscounted) have not been included in the lease liability (2019: 20,344,000).

The statement of profit or loss shows the following amounts relating to leases:

	2020 HK$000	2019 HK$000
Depreciation of right-of-use assets		
Office and centres	15,280	5,548
Equipment and server racks	4,996	3,406
Total	20,276	8,954
Interest expense (included in finance costs)	983	619
Expense relating to short-term leases (included in operating expenses)	-	1,968

The total cash outflow for leases for the year was HK$19,238,000 (2019: HK$9,275,000).

NOTES TO THE FINANCIAL STATEMENTS

15 Property, plant and equipment

	Leasehold improvement HK$000	Furniture and fixture HK$000	Computer equipment HK$000	Total HK$000
Cost				
At 13 July 2018 (date of incorporation)	-	-	-	-
Additions	11,052	1,632	44,731	57,415
At 31 December 2019	11,052	1,632	44,731	57,415
Additions	3,092	393	2,469	5,954
At 31 December 2020	14,144	2,025	47,200	63,369
Accumulated depreciation				
At 13 July 2018 (date of incorporation)	-	-	-	-
Depreciation charge	(1,543)	(75)	(44)	(1,662)
At 31 December 2019	(1,543)	(75)	(44)	(1,662)
Depreciation charge	(4,457)	(387)	(9,711)	(14,555)
At 31 December 2020	(6,000)	(462)	(9,755)	(16,217)
Carrying amount				
At 31 December 2019	9,509	1,557	44,687	55,753
At 31 December 2020	8,144	1,563	37,445	47,152

NOTES TO THE FINANCIAL STATEMENTS

16 Intangible assets

	HK$000
Cost	
At 13 July 2018 (date of incorporation)	-
Addition	49,182
At 31 December 2019	49,182
Addition	44,342
At 31 December 2020	93,524
Accumulated amortisation	
At 13 July 2018 (date of incorporation)	-
Amortisation charge	-
At 31 December 2019	-
Amortisation charge	(10,512)
At 31 December 2020	(10,512)
Carrying amount	
At 31 December 2019	49,182
At 31 December 2020	83,012

17 Deposits from customers

	2020 HK$000	2019 HK$000
Saving deposits	436,896	21
Time deposits	1,140,879	26
Total	1,577,775	47

NOTES TO THE FINANCIAL STATEMENTS

18 Other payables and accruals

	Notes	2020 HK$000	2019 HK$000
Accrued interest payable		2,909	-
Accrued expenses		24,414	5,601
Amount due to fellow subsidiaries	23	8,719	25,443
Bonus and other payable		28,041	24,542
Total		64,083	55,586

19 Analysis of the balances of cash and cash equivalents

	2020 HK$000	2019 HK$000
Balances with banks and other financial institutions	226,157	20,174
Placement with banks	493,000	1,338,653
Total	719,157	1,358,827

20 Share capital

	Note	Number of shares	2020 & 2019 HK$000
Ordinary shares issued and fully paid	(i)	1,500,000,000	1,500,000
Total		1,500,000,000	1,500,000

(i) Movements in ordinary shares

	Number of shares	HK$000
Opening balance as at 13 July 2018 (date of incorporation)	-	-
Issuance of shares	1,500,000,000	1,500,000
Balance as at 31 December 2019 and 31 December 2020	1,500,000,000	1,500,000

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.

NOTES TO THE FINANCIAL STATEMENTS

21 Employee share scheme

Restricted Stock Unit ("RSU") Awards

The ultimate holding company granted RSU awards to the employees of the Bank 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 as at 13 July 2018 (date of incorporation)	-	-
Granted	2,795,064	8.75
Balance as at 31 December 2019	2,795,064	8.75
Granted	621,327	12.22
Balance as at 31 December 2020	3,416,391	9.38

The weighted average remaining contract life for outstanding RSUs was 2.7 years as of 31 December 2020 (2019: 3.6 years).

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 profit or loss for aforementioned share-based awards granted to the Bank's employees were HK$11,452,000 as of 31 December 2020 (2019: HK$5,185,000).

22 Regulatory reserve

As at 31 December 2020, HK$537,000 (2019: HK$Nil) was earmarked as the regulatory reserve from the accumulated losses. 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 the accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

23 Related party transactions

(a) Parent entities

The Bank is controlled by the following entities:

Name	**Type**	**Place of incorporation**	**Ownership interest**
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**	**2020 HK$000**	**For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000**
Fellow subsidiary	Provision of IT / HR/Admin support services	50	89
Common directorship	Provision of IT services	385	-

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

Relationship	**Nature**	**2020 HK$000**	**2019 HK$000**
Immediate holding company	Payment on behalf of professional expenses	239	84
Fellow subsidiaries	Provision of IT support / system development service	(8,719)	(25,443)
Common directorship	Provision of IT services	(114)	-

NOTES TO THE FINANCIAL STATEMENTS

23 Related party transactions (continued)

(d) Key management personnel compensation

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Short-term employee benefits	17,493	7,705
Retirement benefit	714	273
Employee share scheme	8,349	3,948
Total	26,556	11,926

24 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:

	2020 HK$000	For the period from 13 July 2018 (date of incorporation) to 31 December 2019 HK$000
Directors' fees	2,078	1,032
Salaries, allowances and benefits in kind	3,716	2,679
Retirement benefit	186	120
Employee share scheme	-	-
Total	5,980	3,831

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 year, 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 year or at any time during the year.

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 year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

25 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2021.

CORPORATE GOVERNANCE REPORT (Unaudited)

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements

Corporate Governance Practices and Objectives

Airstar Bank Limited (the "Bank) is a licensed bank and one of virtual banks in Hong Kong. The Bank is under the supervision of the Hong Kong Monetary Authority. The board of directors of the Bank (the "Board" or "Directors") is fully committed to adopting and implementing the principles and best practices in corporate governance as set out in the Supervisory Policy Manual Module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions". Special committees with clear terms of references and specific authorities delegated by Board have been set up.

The Board

The Board currently comprises seven members, including four Independent Non-Executive Directors. All Directors possess appropriate experience and competence to discharge their responsibilities effectively.

The Composition of the Board for the year ended 31 December 2020 (the "year")

Chairman	***Directors***
Mr. Lei Jun	Mr. Cheng Hoi Chuen Vincent
	Mr. Chew Shou Zi
	Prof. Mao Zhenhua
	Mr. Lau Suet Chiu Frederic
	Prof. Tong Wai Cheung Timothy
	Mr. Wong Shun Tak

Board meetings shall be held in any event no less than once every quarter. During the year, the Board held four meetings.

Board-level Committees

The Bank has set-up four board-level committees including the Audit Committee, Risk Committee, Nomination and Remuneration Committee and Connected Party Transactions Committee.

1. Audit Committee

   The Audit Committee is formed to assist the Board in ensuring the adequacy of internal control systems and reinforcing the work of internal and external auditors while offering the Board an independent review of the integrity and effectiveness of the financial reporting process. The Audit Committee meetings shall be held on a quarterly basis and two meetings will coincide with the year-end and interim financial reporting cycles. The members of Audit Committee will meet at least annually with the external auditors and Head of Internal Audit individually without other management being present. The Audit Committee comprises of three Independent Non-Executive Directors, namely Mr. Wong Shun Tak (Chairman), Mr. Cheng Hoi Chuen Vincent and Prof. Tong Wai Cheung Timothy. During the year, the Audit Committee held four meetings.

CORPORATE GOVERNANCE REPORT (Unaudited)

2. Risk Committee

The Risk Committee is responsible to discharge the duties relating to overall risk management. It oversees the risk management framework, ensures the risks exposed are properly managed and advises the Board on the risk-related matters and the level of risk exposed is commensurate with the Bank's risk appetite, risk management systems and risk management measures. The Risk Committee meetings shall be held on a quarterly basis and the Risk Committee may from time to time, request ad hoc reports in addition to such reports submitted under the Risk Committee meeting agenda, from Chief Risk Officer if considered necessary.

The Risk Committee comprises of three Independent Non-Executive Directors, namely Mr. Cheng Hoi Chuen Vincent (Chairman), Mr. Wong Shun Tak and Prof. Mao Zhenhua. During the year, the Risk Committee held four meetings.

3. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is formed to assist the Board in discharging its responsibility for nomination, remuneration and bank culture related matters. The Nomination and Remuneration Committee meetings shall be held at least once every year or more frequently as the chairman of the Nomination and Remuneration Committee deems necessary.

The Nomination and Remuneration Committee comprises of three Independent Non-Executive Directors, namely Prof. Mao Zhenhua (Chairman), Prof. Tong Wai Cheung Timothy and Mr. Cheng Hoi Chuen Vincent. During the year, the Nomination and Remuneration Committee held three meetings.

4. Connected Party Transactions Committee

The Connected Party Transactions Committee is formed to assist the Board in overseeing the connected party transactions of the Bank and ensuring those transactions are properly reviewed and approved. The Connected Party Transactions Committee Meetings shall be held with such frequency and at such time as the chairman of the Connected Party Transactions Committee may determine.

The Connected Party Transactions Committee comprises of three Independent Non-Executive Directors, namely Tong Wai Cheung Timothy (Chairman), Mr. Wong Shun Tak and Mr. Mao Zhenhua. During the year, the Connected Party Transactions Committee held three meetings.

Management-level Committees

In addition to the Board-level committees. The Bank has set-up a Management Committee and five sub-committees to oversee and implement business strategies, risk management systems and internal controls.

1. Management Committee

The Management Committee has the responsibility for exercising all of the power, authorities and discretions of the Board in so far as they concern the management, operations and day-to-day running of the Bank in accordance with relevant laws and regulations as well as internal policies and directions as the Board may determine from time to time determine, with power to sub-delegate.

The Chief Executive is the chairman of the Management Committee. The Management Committee shall meet at least once a month. During the Year, the Management Committee met the meeting frequency requirements.

CORPORATE GOVERNANCE REPORT (Unaudited)

2. Risk Management Committee (the “RMC”)

   The RMC is the formal governance committee for enterprise-wide risk management with focuses on risk culture, risk appetite, risk profile and consideration of risk into strategic planning and business decisions. It supports the Chief Risk Officer of the Bank on oversight of all risk taking and management activities across the 3 lines of defence.

   The RMC is accountable to the Risk Committee. Material risk matters and issues discussed at the RMC meetings should be escalated to the Management Committee and Risk Committee for oversight or decisions, where appropriate. The Chief Risk Officer is the chairman of the RMC.

3. Information Technology Committee (the “IT Committee”)

   IT Committee is formed in discharging its responsibility for overseeing the development, implementation, monitoring and review of the information technology infrastructure and services, and cybersecurity of the Bank. The Chief Information Officer is the chairman of the IT Committee.

4. Asset and Liability Committee (“ALCO”)

   The responsibility of ALCO is to ensure efficient implementation of the management of balance sheet, net interest income/ margin, liquidity risk and interest rate risk in the banking book (IRRBB) to ensure that capital management, earnings and the risk assumed is consistent with the overall risk appetite, to determine the Bank’s approach to balance sheet management and recovery and resolution planning. The Chief Executive is the chairman of the ALCO.

5. New Product Committee

   The New Product Committee is formed to review and approve New Product development, launch and exit and to ensure that associated risks are adequately identified, assessed and managed in accordance with the New Product Policy approved by the Board. The Chief Executive is the chairman of the New Product Committee.

6. Compliance Committee

   The Compliance Committee is formed in assisting the Board and senior management in discharging its responsibility for overseeing and managing compliance issues within the Bank, and ensuring the Bank's strict compliance with applicable laws, regulatory requirements, internal rules, policies and procedures for its banking and regulated activities. The Chief Compliance Officer is the chairman of the Compliance Committee.

CORPORATE GOVERNANCE REPORT (Unaudited)

Risk Appetite Framework

The Bank's Risk Appetite Framework ("RAF") set out the Bank's approach to defining, articulating and reporting risk appetite, it is formally articulated in Risk Appetite Statements ("RAS").

RAS must consist of both qualitative statements and quantitative metrics, covering all material risk types as defined in Risk Taxonomy.

The qualitative statements outline the Bank's core principles in dealing with and managing such risks and, where appropriate, supplemented by quantitative metrics with thresholds to support monitoring and embedding of Risk Appetite.

Risk Appetite and/or Risk Tolerance thresholds, as defined below, should be determined for each quantitative metric in the RAS.

- ***Risk Appetite (RA) threshold*** - the level of risk that the Bank is willing to accept in achieving its strategic objectives. It is set referencing the Bank's strategy and desired risk profile.

- ***Risk Tolerance (RT) threshold*** – the level of risk that the Bank may, on a short-term basis, need or choose to accept beyond its Risk Appetite in order to achieve its strategic objectives. If breached, mitigation actions should be underway.

Use of two thresholds allows management to have escalation process that are aligned to the materiality of the breach and promotes determination of mitigation actions before approaching unacceptable levels (i.e. outside Risk Tolerance).

The Risk Appetite is governed by the Board, the Risk Committee and RMC with respective responsibilities defined below:

The Board
- Formally approve the Bank's RAS and RAF under the advice of Risk Committee and Risk Management Committee
- Ensure that RAS is in line with the strategic objectives, capital and business plans

Risk Committee
- Review and recommend RAS and RAF for approval by the Board
- Advise the Board on Risk Appetite related matters
- Review Risk Appetite Profile ("RAP") on a regular basis and, where a breach has occurred, challenge the appropriateness and effectiveness of mitigation actions

RMC
- Review and recommend RAS and RAF for endorsement by Risk Committee and approval by the Board
- Oversee implementation of RAF
- Monitor RAP on a monthly basis and, where a breach has occurred, determine appropriate mitigation actions and ensure effective implementation of such actions

CORPORATE GOVERNANCE REPORT (Unaudited)

The Approach for Recruitment and Selection of Members of the Board and Senior Management

The Board has established a Nomination and Remuneration Committee which is mandated to, amongst others, identify individuals suitably qualified to become members of the Board or senior management, and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships and senior management positions (based on the role and its responsibilities and the knowledge, experience and competence which the role requires), make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairman and the chief executive.

Major share ownership and voting rights and related party transactions

Please refer to the Audited Financial Statements for the year ended 31 December 2020.