ORIX Asia Limited

Announcement of 2018/19 Final Results

CERTIFIED TRUE COPY:
FOR AND ON BEHALF OF
ORIX ASIA LIMITED

HIROYUKI SAKAI
MANAGING DIRECTOR

Statement of profit or loss for the year ended 31 March 2019
(Expressed in United States dollars)

	Note	*2019*	*2018* (Note)
		US$	US$
Interest income calculated using the effective interest method	3(a)	30,206,760	32,390,343
Other interest income	3(a)	15,527	16,767
Interest expense	3(b)	(11,156,675)	(9,879,516)
Net interest income		19,065,612	22,527,594
Fee and commission income	4(a)	4,080,697	3,108,590
Fee and commission expense	4(b)	(2,660,665)	(2,703,713)
Net fee and commission income		1,420,032	404,877
Net trading gain	5	1,881,145	4,211,048
Other operating income	6	2,252,470	60,595
		4,133,615	4,271,643
Operating income		24,619,259	27,204,114
Operating expenses	7	(17,045,276)	(17,247,747)
		7,573,983	9,956,367
Net (charge)/release for impairment losses on loans and advances	8	(4,251,646)	660,931
Impairment of other assets		-	(2,554)
Net loss on sales of fixed assets		(50,862)	-
Profit before taxation		3,271,475	10,614,744
Income tax	10(a)	(516,036)	(1,424,703)
Profit for the year		2,755,439	9,190,041

The notes on pages 7 to 71 form part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 March 2019

(Expressed in United States dollars)

	Note	*2019*	*2018* (Note)
		US$	US$
Profit for the year		2,755,439	9,190,041
Other comprehensive income for the year (after tax and reclassification adjustments)	11		
Item that may be reclassified subsequently to profit or loss:			
Investment securities: Net movement in the revaluation reserve and translation reserve		91,591	(50,921)
Total comprehensive income for the year		2,847,030	9,139,120

Note: The Company has initially applied HKFRS 9 and HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 7 to 71 form part of these financial statements.

Statement of financial position at 31 March 2019

(Expressed in United States dollars)

	Note	*2019*	*2018* (Note)
		US$	US$
Assets			
Cash and balances with banks and other financial institutions	12	22,999,272	31,007,670
Trading assets	13/26(b)	314,475	764,888
Loans and advances to customers	14(a)	667,563,145	749,631,822
Investment securities	15	31,906,697	30,406,301
Property and equipment	16	1,869,260	2,373,931
Deferred tax assets	17(b)	529,818	412,749
Tax recoverable	17(a)	757,645	-
Other assets	18	10,451,300	15,832,979
Total assets		736,391,612	830,430,340
Equity and liabilities			
Deposits and balances from banks and other financial institutions		191,578,509	269,518,505
Deposits from customers	19	112,767,628	102,620,243
Deposits from fellow subsidiaries		93,508,986	121,877,128
Loans from ultimate holding company	20	49,932,249	38,234,095
Trading liabilities	21/26(b)	33,127	-
Tax payable	17(a)	-	938,166
Other liabilities	22	12,119,613	23,221,357
Total liabilities		459,940,112	556,409,494
Equity			
Share capital	23	32,000,000	32,000,000
Reserves	24	244,451,500	242,020,846
Total equity		276,451,500	274,020,846
Total equity and liabilities		736,391,612	830,430,340

Note: The Company has initially applied HKFRS 9 and HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 12 July 2019

Hiroyuki SAKAI)
)
) Directors
LIU Guoping)
)

The notes on pages 7 to 71 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2019

(Expressed in United States dollars)

	Note	*Share capital* US$	*Revaluation reserve/ (deficit)* US$	*Translation reserve/ (deficit)* US$	*Retained profits* US$	*Total* US$
Balance at 1 April 2017		32,000,000	6,346	-	232,875,380	264,881,726
Change in equity for 2018						
Profit for the year		-	-	-	9,190,041	9,190,041
Other comprehensive income		-	(50,921)	-	-	(50,921)
Total comprehensive income for the year		-	(50,921)	-	9,190,041	9,139,120
Balance at 31 March 2018 (Note)		32,000,000	(44,575)	-	242,065,421	274,020,846
Changes on initial application of HKFRS 9, net of tax	2(c)(i)	-	-	-	(416,376)	(416,376)
Restated balance at 1 April 2018		32,000,000	(44,575)	-	241,649,045	273,604,470
Change in equity for 2019						
Profit for the year		-	-	-	2,755,439	2,755,439
Other comprehensive income	11	-	58,322	33,269	-	91,591
Total comprehensive income for the year		-	58,322	33,269	2,755,439	2,847,030
Balance at 31 March 2019		32,000,000	13,747	33,269	244,404,484	276,451,500

Note: The Company has initially applied HKFRS 9 and HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 7 to 71 form part of these financial statements.

Cash flow statement
for the year ended 31 March 2019
(Expressed in United States dollars)

	Note	*2019*	*2018*
			(Note)
		US$	US$
Operating activities			
Operating profit		3,271,475	10,614,744
Adjustments for:			
Interest income on unlisted debt securities	3(a)	(359,290)	(138,779)
Charges/(Net release) for impairment losses on loans and advances		4,251,646	(660,931)
Depreciation	16	875,047	836,730
Amortisation of discounts on purchased lease and loan contracts	3(a)	(15,527)	(16,767)
Impairment of other assets		-	2,554
Net loss on sales of fixed assets		50,862	-
Unrealised exchange loss		425,077	2,786,462
Operating profit before changes in working capital		8,499,290	13,424,013
Decrease/(increase) in operating assets:			
Trading assets		450,413	(608,509)
Gross loans and advances to banks and other financial institutions		-	27,675
Gross loans and advances to customers		76,092,768	84,956,146
Other assets		5,377,125	(1,968,036)
Increase/(decrease) in operating liabilities:			
Trading liabilities		33,127	(131,279)
Deposits and balances from banks and other financial institutions		(77,883,089)	(149,654,818)
Deposits from customers		10,329,806	67,632,117
Amounts due to fellow subsidiaries		(27,943,880)	(11,524,717)
Other liabilities		(10,883,914)	13,975,507
Cash (used)/generated from operations		(15,928,354)	16,128,099
Hong Kong profits tax paid		(2,251,199)	(1,413,194)
Net cash flows (used)/generated from operating activities		(18,179,553)	14,714,905

Cash flow statement
for the year ended 31 March 2019 (continued)
(Expressed in United States dollars)

	Note	*2019*	*2018*
			(Note)
		US$	US$
Investing activities			
Payment for purchase of property and equipment	16	(421,238)	(300,857)
Payment for purchase of investment securities		(36,779,653)	(66,383,965)
Proceeds from disposal of investment securities		35,718,330	56,401,211
Net cash flows used in investing activities		(1,482,561)	(10,283,611)
Financing activities			
Proceeds from loans from parent company		11,760,449	-
Net cash flows from financing activities		11,760,449	-
Net (decrease)/increase in cash and cash equivalents		(7,901,665)	4,431,294
Cash and cash equivalents at 1 April		31,007,670	26,734,660
Effect of foreign exchange rate changes		(106,733)	(158,284)
Cash and cash equivalents at 31 March	25	22,999,272	31,007,670
Cash flows from operating activities include:			
Interest received		29,677,945	32,253,982
Interest paid		(11,836,063)	(9,263,826)

Note: The Company has initially applied HKFRS 9 and HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 7 to 71 form part of these financial statements.

Notes to the financial statements

(Expressed in United States dollars unless otherwise stated)

1 Principal activities

The Company primarily provides lease financing and instalment loans to industrial, commercial and personal customers. It also engages in debt and equity investment activities.

The Company is registered as a restricted license bank under the Hong Kong Banking Ordinance and is an approved seller/servicer of the Hong Kong Mortgage Corporation Limited.

2 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except for financial instruments classified as fair value through profit or loss and fair value through other comprehensive income/available-for-sale which are stated at their fair values (see note 2(d)).

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

2 Significant accounting policies (continued)

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) HKFRS 9*, Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Company has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and the related tax impact at 1 April 2018.

Retained earnings

	US$
Recognition of additional expected credit loss (ECL) on financial assets:	
– Loans and advances to customers	497,804
– Other assets	850
– Related tax	(82,278)
Net decrease in retained earnings at 1 April 2018	416,376

2 Significant accounting policies (continued)

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

a Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

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

	HKAS 39 Carrying amount at 31 March 2018	*Reclassification*	*Remeasurement*	*HKFRS 9 Carrying amount at 1 April 2018*
	US$	US$	US$	US$
Financial assets				
Cash and cash equivalents	31,007,670	-	-	31,007,670
Loans and advances to customers	749,631,822	-	(497,804)	749,134,018
Investment securities	30,406,301	-	-	30,406,301
Other assets (note)	15,832,979	-	(850)	15,832,129

Note: The ECL on off-balance sheet exposures are recorded in "Other assets".

For an explanation of how the Company classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes 2(d)

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

2 Significant accounting policies (continued)

b Credit losses

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

The Company applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, accounts and other receivables);

– debt securities measured at FVOCI (recycling);

– lease receivables;

– financial guarantee contracts issued; and

– loan commitments issued, which are not measured at FVPL.

For further details on the Company's accounting policy for accounting for credit losses, see note 2(h).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 March 2018 with the opening loss allowance (note 14(b)) determined in accordance with HKFRS 9 as at 1 April 2018.

	US$
Loss allowance at 31 March 2018 under HKAS 39	4,350,987
Additional credit loss recognised at 1 April 2018 on:	
– Loans and advances to customers	497,804
– Other assets	850
Loss allowance at 1 April 2018 under HKFRS 9	4,849,641

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for the year ended 31 March 2018 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

2 Significant accounting policies (continued)

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 April 2018 (the date of initial application of HKFRS 9 by the Company):
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, *Revenue from contracts with customers*

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

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

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Company.

2 Significant accounting policies (continued)

(d) Financial assets and liabilities

(A) Policy applicable from 1 April 2018

(1) Financial assets

(i) Classification and subsequent measurement

From 1 April 2018, the Company has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (“FVPL”);
- Fair value through other comprehensive income (“FVOCI”); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Company’s business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(m)(i)).

- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVPL - if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 Significant accounting policies (continued)

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Company makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(m)(v).

2 Significant accounting policies (continued)

(ii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

(2) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(B) Policy applicable prior to 1 April 2018

(1) Financial instruments

(i) Initial recognition

The Company classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity securities, available-for-sale financial assets and other financial liabilities. The Company does not have assets held-to-maturity.

2 Significant accounting policies (continued)

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

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the statement of profit or loss.

2 Significant accounting policies (continued)

Loans and receivables

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

Loans and receivables mainly comprise loans and advances to customers. Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 2(h)(i)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other two categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the statement of profit or loss. Interest income from debt securities calculated using the effective interest method and dividend income from equity securities are recognised in statement of profit or loss in accordance with the policies set out in notes 2(m)(i) and 2(m)(v) respectively.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 2(h)(i)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the statement of profit or loss.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

2 Significant accounting policies (continued)

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of reporting period.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Property and equipment

Property and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(h)(iii)).

Gains or losses arising from the retirement or disposal of an item of property are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of profit or loss on the date of retirement or disposal.

2 Significant accounting policies (continued)

Gains or losses on sale and leaseback transactions which resulted in operating leases are recognised as income immediately if the transaction is established at fair value. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

Depreciation is calculated to write off the cost using the straight line method over their estimated useful lives as follows:

– Leasehold improvements	10% to 20%
– Furniture and equipment	20% to $33^{1}/_{3}$%
– Motor vehicles	20%

Where parts of an item of property and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Leases and hire purchase contracts

(i) Classification

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

(ii) Finance leases

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

(iii) Operating leases

Where the Company leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Company's depreciation policies, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h)(iii). Revenue arising from operating leases is recognised in accordance with the Company's revenue recognition policies, as set out in note 2(m)(iv).

2 Significant accounting policies (continued)

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

(g) Repossessed assets

In the recovery of impaired loans and advances, the Company may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets continue to be reported in “Loans and advances to customers”. The Company does not hold the repossessed assets for its own use.

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

Impairment losses on initial classification and on subsequent remeasurement are recognised in the statement of profit or loss.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and lease receivables

(A) Policy applicable from 1 April 2018

The Company recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, accounts and other receivables);
- debt securities measured at FVOCI (recycling);
- lease receivables; and
- loan commitments issued, which are not measured at FVPL

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

2 Significant accounting policies (continued)

Measurement of ECLs

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

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Company if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Company expects to receive if the loan is drawn down.

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

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 Significant accounting policies (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Company.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Company becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Company considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 Significant accounting policies (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(m)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. accounts and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment.

2 Significant accounting policies (continued)

Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follow:

- For accounts and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of an accounts debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Company was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 Significant accounting policies (continued)

- For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Credit losses from financial guarantees issued

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

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

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 April 2018

The Company monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in “accounts and other payables” in respect of the guarantees(i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Company considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

2 Significant accounting policies (continued)

As the Company is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Company expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Company under the guarantee and (ii) the amount of the claim on the Company was expected to exceed the amount carried in "accounts and other payables" in respect of the guarantee.

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(i) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with note 2(h)(i).

(j) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the statement of profit or loss as incurred.

(k) Income tax

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

2 Significant accounting policies (continued)

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

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

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

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either the same taxable entity, or different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (continued)

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) Revenue recognition

Income is classified by the Company as revenue when it arises from the sale of goods, the provision of services or the use by others of the Company's assets under leases in the ordinary course of the company's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the company is expected to be entitled, excluding those amounts collected on behalf of third parties.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Company's revenue and other income recognition policies are as follows:

(i) Interest income

Effective interest rate

Interest income and expense for all interest-bearing financial instruments are recognized in the profit or loss on an accruals basis using the effective interest method.

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

2 Significant accounting policies (continued)

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

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

Amortized cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

(ii) Fee and commission income

Fee and commission income arises on financial services provided by the Company. Fee and commission income is recognised in the profit or loss when the corresponding service is provided. Origination or commitment fees received/paid by the Company which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If it is uncertain that a loan commitment will result in draw-down of a loan, then the loan commitment fee is recognised as revenue on a straight-line basis over the commitment period.

2 Significant accounting policies (continued)

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

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the profit or loss over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised as other operating income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals receivables are recognised as income in the accounting period in which they are earned.

(v) Dividend income

- Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established unconditionally.

- Dividend income from listed investments is recognised when the share price of the investments is quoted ex-dividend.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into United States dollars (“US dollars”) at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in the statement of profit or loss.

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

Exchange difference relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the statement of profit or loss. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity.

Hong Kong dollar denominated share capital is translated into US dollars at the historical rate of HK$5= US$1.

2 Significant accounting policies (continued)

(o) Related parties

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

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(2) An entity is related to the Company if any of the following conditions applies:

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

3 Interest income and interest expense

(a) Interest income

	2019 US$	*2018* US$
Interest income calculated using the effective interest method:		
- Interest income on deposits to banks and financial institutions	207,056	126,192
- Interest income on loans and advances	29,534,169	31,989,528
- Interest income on unlisted debt securities	359,290	138,779
- Interest income on loans and advances to fellow subsidiaries	105,928	135,715
- Others	317	129
	30,206,760	32,390,343
Other interest income:		
- Amortisation of discounts on purchased lease and loan contracts	15,527	16,767
Total interest income on all financial assets	30,222,287	32,407,110

The interest income above represents interest income on financial assets that are not measured at fair value through profit or loss.

Included in the above is interest income accrued on impaired financial assets of US$135,451 (2018: US$74,463) for the year ended 31 March 2019.

(b) Interest expense

	2019 US$	*2018* US$
Interest expense on borrowings and deposits from fellow subsidiaries and borrowings from ultimate holding company	4,033,518	3,200,200
Interest expense on deposits from customers, banks and other financial institutions	7,123,157	6,679,316
Total interest expense on all financial liabilities	11,156,675	9,879,516

The interest expense above represents interest expense on financial liabilities that are not measured at fair value through profit or loss.

4 Fee and commission income and expenses

(a) Fee and commission income

	2019 US$	*2018* US$
Revenue from contracts with customers within the scope of HKFRS 15:		
- Credit-related fees and commissions	1,659,448	1,114,199
- Management fee	2,421,249	1,994,391
	4,080,697	3,108,590

(b) Fee and commission expense

	2019 US$	*2018* US$
Brokerage fee expenses	2,444,665	2,535,713
Management fee expenses	216,000	168,000
	2,660,665	2,703,713

The credit-related fee and commission income and the brokerage fee expenses to vendors are related to financial assets and liabilities not measured at fair value through profit or loss.

5 Net trading gain

	2019 US$	*2018* US$
Net gain from currency derivatives	1,881,145	4,211,048

6 Other operating income

	2019 US$	*2018* US$
Net exchange loss	(339,329)	(2,734,839)
Penalty income from early termination loans	1,307,408	1,574,742
Others	1,284,391	1,220,692
	2,252,470	60,595

7 Operating expenses

	2019	*2018*
	US$	US$
Staff costs		
– Salaries and other benefits	8,405,582	8,408,966
– Contributions to the Mandatory Provident Funds	364,432	415,986
Depreciation	875,047	836,730
Property rentals	3,022,807	3,034,646
Other premises and equipment expenses	401,001	283,055
Advertising expenses	120,397	24,012
Auditor's remuneration	331,402	325,456
General and administrative expenses	1,748,320	1,717,583
Debt collection expenses	69,313	87,034
Consultancy fee	592,166	566,752
Travelling and transportation	76,187	110,573
Others	1,038,622	1,436,954
	17,045,276	17,247,747

8 Impairment losses on loans and advances

	2019	*2018*
	US$	US$
Stage 3 ECL/Individually assessed		
– new provisions	(4,858,011)	(905,134)
– releases	452,141	1,153,536
– recoveries	450,310	174,144
	(3,955,560)	422,546
Stage 1 and 2 ECL/Collectively assessed		
– new provisions (note)	(296,086)	-
– releases	-	238,385
	(296,086)	238,385
Net (charge)/release to the statement of profit or loss	(4,251,646)	660,931

Note: the stage 1 and 2 ECL on loans and advances includes the stage 1 ECL on off-balance sheet exposures of US$341.

9 Directors' remuneration

Directors' remuneration 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:

	2019 US$	*2018* US$
Directors' fees	38,219	38,401
Salaries, allowances and benefits in kind	86,246	86,656
Discretionary bonuses	140,271	140,937
	264,736	265,994

10 Income tax

(a) Taxation in the statement of profit or loss represents:

	2019 US$	*2018* US$
Current tax - Hong Kong Profits Tax		
Provision for the year	560,015	1,791,456
(Over)-provision/under in respect of prior years	(9,188)	48,203
	550,827	1,839,659
Deferred tax		
Origination and reversal of temporary differences (note 17(b))	(34,791)	(414,956)
Income tax charge	516,036	1,424,703

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18. The Company is eligible for the maximum reduction of HK$30,000 (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017).

10 Income tax (continued)

(b) Reconciliation between tax charge and accounting profit at applicable tax rates:

	2019 US$	2018 US$
Profit before tax	3,271,475	10,614,744
Notional tax on profit before tax, calculated at 16.5% (2018: 16.5%)	539,793	1,751,433
Tax effect of non-deductible expenses	44,089	15,664
Tax effect of non-taxable revenue	(59,283)	(22,899)
Tax effect of other adjustments	625	(367,698)
(Over)-provision/under in respect of prior years	(9,188)	48,203
Actual tax charge	516,036	1,424,703

11 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2019			2018		
	Before-tax amount US$	Tax benefit US$	Net-of-tax amount US$	Before-tax amount US$	Tax expense US$	Net-of-tax amount US$
Investment securities measured at fair value through other comprehensive income: net movement in revaluation reserve and translation reserve	91,591	-	91,591	(50,921)	-	(50,921)
Other comprehensive income	91,591	-	91,591	(50,921)	-	(50,921)

(b) Reclassification adjustments relating to components of other comprehensive income

	2019 US$	2018 US$
Investment securities:		
Changes in fair value recognised during the year	91,591	(50,921)
Net deferred tax credited/(charged) to other comprehensive income (note 17(b))	-	-
Net movement in the revaluation reserve and translation reserve during the year recognised in other comprehensive income	91,591	(50,921)

12 Cash and balances with banks and other financial institutions

	2019	*2018*
	US$	US$
Cash in hand	637	637
Balances with banks and authorised institutions with remaining maturity of		
– within one month	22,998,635	31,007,033
	22,999,272	31,007,670

13 Trading assets

	2019	*2018*
	US$	US$
Positive fair values of derivatives (note 26(b))	314,475	764,888

14 Loans and advances to customers

(a) Loans and advances to customers

	2019	*2018*
	US$	US$
Loans and advances to customers at amortised cost	120,141,973	87,841,138
Finance leases(note 14(e))	556,685,407	666,163,664
Gross loans and advances to customers	676,827,380	754,004,802
Less: Impairment allowances (note 14(b))		
– stage 3 ECL	(7,637,907)	-
– stage 1 and 2 ECL	(1,619,851)	-
– individually assessed	-	(3,525,267)
– collectively assessed	-	(825,720)
Unearned discount on purchased lease and loan contracts	(6,477)	(21,993)
	667,563,145	749,631,822

14 Loans and advances to customers (continued)

(b) Movement in impairment allowances

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under HKAS 39.

	Collectively assessed US$	*Individually assessed* US$	*Total* US$
At 1 April 2017	1,072,595	3,968,884	5,041,479
Charges	-	905,134	905,134
Releases	(238,385)	(1,327,680)	(1,566,065)
Recoveries	-	174,144	174,144
Amounts written off	-	(158,294)	(158,294)
Exchange adjustments	(8,490)	(36,921)	(45,411)
At 31 March 2018	825,720	3,525,267	4,350,987

	Stage 1 ECL US$	*Stage 2 ECL* US$	*Stage 3 ECL* US$	*Total* US$
At 1 April 2018 (note 2(c)(i)(b))	1,027,690	297,943	3,523,158	4,848,791
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(14,760)	14,760	-	-
Transfer to Stage 3	(13,659)	-	13,659	-
Net remeasurement of loss allowance (including exchange adjustments)	(512,003)	706,309	4,384,040	4,578,346
New financial assets originated or purchased	204,732	188,172	-	392,904
Financial assets that have been derecognised and repayment	(166,195)	(113,138)	-	(279,333)
Write-offs	-	-	(282,950)	(282,950)
At 31 March 2019	525,805	1,094,046	7,637,907	9,257,758

Note: The Company has initially applied HKFRS 9 at 1 April 2018. Under the transition, the additional credit loss recognised at 1 April 2018 was US$497,804.

14 Loans and advances to customers (continued)

(c) Loans and advances to customers analysed by industry sector

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

	2019		*2018*	
	Gross loans and advances to customers US$	*% of gross loans and advances covered by collaterals*	*Gross loans and advances to customers* US$	*% of gross loans and advances covered by collaterals*
Gross loans and advances for use in Hong Kong				
Industrial, commercial and financial				
– Property investment	228,024	80	564,280	100
– Financial concerns	4,327,955	100	-	-
– Wholesale and retail trade	1,666,725	37	2,917,054	26
– Manufacturing	23,315,381	51	21,927,342	55
– Transport and transport equipment	464,392,447	96	553,155,189	98
– Others	69,626,170	77	73,841,571	82
Individuals				
– Loans and advances for the purchase of other residential properties	130,631	100	312,933	100
– Others	30,499,341	71	37,838,948	62
	594,186,674	91	690,557,317	93
Gross loans and advances for use outside Hong Kong	82,640,706	89	63,447,485	89
Gross loans and advances to customers	676,827,380	91	754,004,802	92

14 Loans and advances to customers (continued)

(d) Impaired (stage 3) loans and advances to customers

	2019 US$	*2018* US$
Gross impaired (stage 3/individually assessed) loans and advances to customers	11,761,119	4,872,391
Impairment allowance – stage 3 ECL/individually assessed	(7,637,907)	(3,525,267)
	4,123,212	1,347,124
As a percentage of total loans and advances to customers		
– Gross impaired (stage 3/individually assessed) loans and advances	1.74%	0.65%

Stage 3 ECL/individually assessed impairment allowance were made after taking into account the realisable value of collateral in respect of such loans and advances of US$4,253,668 (2018: US$1,668,255) for the Company. Collateral held by the Company mainly comprised of equipment, vehicles and cash on deposit with the Company.

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

Loans and advances to customers include net investment in equipment and automobiles leased to customers under finance leases, including hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of three to five years, with or without an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

	2019		
	Present value of the minimum lease payments US$	*Interest income relating to future periods* US$	*Total minimum lease payments* US$
Within one year	267,529,425	18,766,586	286,296,011
After one year but within five years	277,194,916	18,836,116	296,031,032
After five years	11,961,066	792,138	12,753,204
	556,685,407	38,394,840	595,080,247
Impairment allowances	(8,330,313)		
Net investment in finance leases and hire purchase contracts	548,355,094		

14 Loans and advances to customers (continued)

	2018		
	Present value of the minimum lease payments US$	*Interest income relating to future periods* US$	*Total minimum lease payments* US$
Within one year	258,078,742	21,171,728	279,250,470
After one year but within five years	394,469,867	20,653,327	415,123,194
After five years	13,615,055	1,044,290	14,659,345
	666,163,664	42,869,345	709,033,009
Impairment allowances	(3,793,031)		
Net investment in finance leases and hire purchase contracts	662,370,633		

15 Investment securities

	2019 US$	*2018* US$
Investment securities measured at fair value through other comprehensive income-debt instruments (note 15(a))	30,384,488	-
Investment securities designated as at fair value through other comprehensive income-equity instruments (note 15(b))	1,522,209	-
Available-for-sale investment securities (note 15(c))	-	30,406,301
	31,906,697	30,406,301

15 Investment securities (continued)

(a) Debt investment securities measured at fair value through other comprehensive income

	2019 US$
Debt investment securities measured at fair value through other comprehensive income	
Unlisted debt securities	30,384,488
Issued by	
- Sovereigns	30,384,488

(b) Equity investment securities designated as at fair value through other comprehensive income

In 2019, this investment was designated as equity security as at fair value through other comprehensive income. The fair value through other comprehensive income designation was made because the investment is expected to be held for the long term for strategic purposes.

	Fair value at 31 March 2019 US$	*Dividend income recognised 2019* US$
Equity investment securities designated as at fair value through other comprehensive income		
Equity security		
- Unlisted	1,522,209	-

This investment was not disposed of during the year ended 31 March 2019, there was no transfer of any cumulative gain or loss within equity relating to this investment.

(c) Available-for-sale-financial assets

	2018 US$
Available-for-sale-financial assets	
Unlisted debt securities	30,406,301
Issued by	
- Sovereigns	30,406,301

16 Property and equipment

	Leasehold improvements US$	*Furniture and equipment* US$	*Motor vehicles* US$	*Total* US$
Cost:				
At 1 April 2018	1,629,153	2,513,544	97,290	4,239,987
Additions	-	421,238	-	421,238
Disposals	(67,956)	-	-	(67,956)
At 31 March 2019	1,561,197	2,934,782	97,290	4,593,269
Accumulated depreciation:				
At 1 April 2018	229,327	1,539,439	97,290	1,866,056
Charge for the year	211,260	663,787	-	875,047
Disposals	(17,094)	-	-	(17,094)
At 31 March 2019	423,493	2,203,226	97,290	2,724,009
Net book value:				
At 31 March 2019	1,137,704	731,556	-	1,869,260
Cost:				
At 1 April 2017	1,606,629	2,246,800	97,290	3,950,719
Additions	22,524	278,333	-	300,857
Disposals	-	(11,589)	-	(11,589)
At 31 March 2018	1,629,153	2,513,544	97,290	4,239,987
Accumulated depreciation:				
At 1 April 2017	17,463	931,027	92,425	1,040,915
Charge for the year	211,864	620,001	4,865	836,730
Disposals	-	(11,589)	-	(11,589)
At 31 March 2018	229,327	1,539,439	97,290	1,866,056
Net book value:				
At 31 March 2018	1,399,826	974,105	-	2,373,931

17 Income tax in the statement of financial position

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

	2019 US$	*2018* US$
Provision for Hong Kong Profits Tax	560,015	1,791,456
Provisional Profits Tax paid	(1,317,660)	(853,290)
Tax (recoverable)/ payable	(757,645)	938,166

(b) Deferred tax assets recognised:

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

Deferred tax arising from:	*Depreciation in excess of related depreciation allowances* US$	*Bonus provision* US$	*Credit loss allowance (i)* US$	*Total* US$
At 1 April 2017	(107,759)	(71,431)	176,983	(2,207)
Charged to statement of profit or loss (note 10(a))	101,196	354,499	(40,739)	414,956
At 31 March 2018	(6,563)	283,068	136,244	412,749
Impact on initial application of HKFRS 9	-	-	82,278	82,278
At 1 April 2018	(6,563)	283,068	218,522	495,027
Charged to statement of profit or loss (note 10(a))	48,163	(62,209)	48,837	34,791
At 31 March 2019	41,600	220,859	267,359	529,818

(i) Upon the initial application of HKFRS 9, the Company has recognised deferred tax assets on the additional credit losses recognised under the ECL model.

18 Other assets

	2019 US$	*2018* US$
Interest receivable	710,822	541,297
Amounts due from fellow subsidiaries	3,214,992	9,563,990
Deposits, prepayment and other receivables	6,525,486	5,727,692
	10,451,300	15,832,979

19 Deposits from customers

	2019 US$	*2018* US$
Time, call and notice deposits	112,767,628	102,620,243

20 Loans from ultimate holding company

The balance represents loans from the ultimate holding company bear interest at 2.29% per annum (2018: 2.66%), amounting to US$49,932,249 (2018: US$38,234,095). The loans are unsecured and repayable after three years (2018: after one year).

21 Trading liabilities

	2019 US$	*2018* US$
Negative fair value of derivatives (note 26(b))	33,127	-

22 Other liabilities

	2019 US$	*2018* US$
Interest payable	781,497	1,460,795
Amounts due to fellow subsidiaries	3,787,882	13,606,397
Other liabilities and accrued charges	7,550,234	8,154,165
	12,119,613	23,221,357

23 Share capital

	2019		*2018*	
	No. of shares	*US$*	*No. of shares*	*US$*
Ordinary shares, issued and fully paid:				
Ordinary shares	16,000,000	32,000,000	16,000,000	32,000,000

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 Company. All ordinary shares rank equally with regard to the Company's residual assets. For the year ended 31 March 2018 and 2019, ordinary shares of HK$10 and of US$2 rank pari passu in all respects.

Capital management

Capital of the Company for regulatory and risk management purposes includes share capital, reserves and retained profits. The finance and accounting department is responsible for monitoring the amount of capital base and capital adequacy ratio against trigger limits and for risk exposures, ensuring compliance with relevant statutory limits taking into account business growth, and other relevant factors.

The Company's policy is to maintain a strong capital base to support the development of the Company's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various business activities of the Company depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities.

The Company has complied with all externally imposed capital requirements throughout the year ended 31 March 2018 and 2019 and is well above the minimum required ratio set by the HKMA.

24 Reserves

(a) The reconciliation between the opening and closing balances of each component of the Company's equity is set out in the statement of changes in equity.

(b) Nature and purpose of reserves

(i) Revaluation reserve

The revaluation reserve for investment securities measured at fair value through other comprehensive income/available-for-sale financial assets comprises the cumulative net change in the fair value of investment securities measured at fair value through other comprehensive income/available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies in note 2(d).

(ii) Regulatory reserve

The regulatory reserve is maintained to satisfy the provision of the Hong Kong Banking Ordinance for prudential supervision purpose to set aside amounts in respect of losses which the Company may incur on the loans and advances in addition to the impairment allowances made under HKFRS. As at 31 March 2019, a regulatory reserve of US$6.84 million (2018: US$9.30 million) was earmarked in the retained profits and in consultation with the HKMA.

(iii) Translation reserve

The translation reserve comprises foreign exchange differences arising from the gain or loss of the equity instruments designated at fair value through other comprehensive income.

25 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement

	2019 US$	*2018* US$
Cash and balances with banks and other financial institutions	12,872,703	24,836,806
Placements with banks with original maturity less than three months	10,126,569	6,170,864
	22,999,272	31,007,670

26 Derivatives

(a) *Notional amount of derivatives*

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk. All derivatives are trading.

	2019	*2018*
	US$	US$
Currency derivatives		
– Forwards and futures	257,683,859	257,500,000

(b) *Fair values and credit risk weighted amounts of derivatives*

	2019			*2018*		
	Fair value			*Fair value*		
	Assets	*Liabilities*	*Credit risk weighted* amount	*Assets*	*Liabilities*	*Credit risk weighted* amount
	US$	US$	US$	US$	US$	US$
Currency derivatives	314,475	(33,127)	579,386	764,888	-	667,978

The tables above give the notional amounts, fair value and credit risk weighted amounts of derivative transactions. The fair value is calculated for the purposes of deriving the credit risk weighted amounts. These are assessed in accordance with the Banking (Capital) Rules.

The Company did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

(c) *Remaining life of derivatives*

The following table provides an analysis of the notional amount of derivatives of the Company by relevant maturity grouping based on the remaining periods to settlement at the end of reporting period.

	2019	*2018*
	US$	US$
Currency derivatives		
– Notional amounts with remaining life of one year or less	257,683,859	257,500,000

27 Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2019 US$	*2018* US$
Trade-related contingencies (note 28(i))	2,481,077	4,143,123
Other commitments		
– with an original maturity of under one year or which are unconditionally cancellable	25,302,129	34,459,903
	27,783,206	38,603,026

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the clients default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

(b) Lease commitments

At 31 March, the total future minimum lease payments payable under non-cancellable operating leases of properties are as follows:

	2019 US$	*2018* US$
Leases expiring:		
– within one year	2,905,395	3,129,079
– after one year but within five years	11,482,464	11,513,598
– over five years	1,674,526	4,546,871
	16,062,385	19,189,548

The Company leases a number of properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

28 Financial risk management

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

– credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.

– market risk: exposure to market variables such as interest rates, exchange rates and equity markets.

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

The Company has established policies, procedures and controls for measuring, monitoring and controlling credit, liquidity, capital, interest rate, foreign exchange and other market risks which are reviewed regularly by management. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

The Company undertakes certain derivative transactions, primarily foreign currency forward contracts, to manage foreign currency risk. For accounting purposes, these derivatives do not qualify for hedge accounting and are treated as trading instruments. All derivatives as at 31 March 2019 and 2018 are over-the-counter derivatives.

(a) Credit risk management

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from the lending, investment, treasury, derivatives and other activities undertaken by the Company.

The Board of Directors ("the Board") has delegated authority to the Credit Committee to oversee management of the Company's credit risk. Credit risk control limits are set at different levels and dimensions. The Board approves the core control limits and delegates the Credit Committee to approve the detailed control limits. Risks, return and market situations are considered in the limits setting. Active limit monitoring processes is undertaken.

The Credit Committee is responsible for all credit risk related issues of the Company. The Company identifies and manages credit risk through target market definitions, formulation of credit policies, credit approval process and monitoring of asset quality.

28 Financial risk management (continued)

The Company has established credit policy to define the credit extension criteria, the credit approval and monitoring model, the loan classification system and provisioning process. It also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures and provisioning requirements.

The Company manages its credit risk within its approved framework by evaluating the creditworthiness of counterparties, setting credit limits for counterparties, countries and industry sectors, and obtaining collaterals where appropriate. In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collaterals from the customer or counterparty. Actual credit exposures and limits and asset quality are regularly monitored and controlled by management.

Corporate credit risk

In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Company has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate customers, the Company has a detailed risk grading system that is applied to each counterparty on a regular basis. The Company also has limits for exposures to borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Company also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

Credit risk for treasury transactions

The credit risk of the Company's treasury transactions is managed in the same way as the Company manages its corporate lending risk. The Company applies a risk grading to its counterparties and sets individual counterparty limits.

Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collaterals requirements as for customers applying for loans. The Company does not provide any other guarantees which would expose the Company to credit risk.

Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company is vigilant about credit risk concentration and has been setting credit limit for counterparties, countries and industry sectors.

28 Financial risk management (continued)

(i) Maximum exposure

The maximum exposure to credit risk at the end of reporting period is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2019 US$	*2018* US$
Cash and balances with banks and other financial institutions	22,999,272	31,007,670
Trading assets	314,475	764,888
Loans and advances to customers	667,563,145	749,631,822
Financial assets at fair value through other comprehensive income	31,906,697	-
Available-for-sale financial assets	-	30,406,301
Other assets	10,451,300	15,832,979
Credit-related contingent liabilities (note 27(a))	2,481,077	4,143,123
	735,715,966	831,786,783

(ii) Credit quality of loans and advances

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA. The following table set out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans and advances to customers at amortised cost – gross carrying amount:

	2019				**2018**
	Stage 1 US$	**Stage 2** US$	**Stage 3** US$	**Total** US$	**Total** US$
– Current	648,916,448	2,657,623	515,734	652,089,805	741,199,029
– Overdue 30 days or less	7,476,342	858,642	14,158	8,349,142	7,472,921
– Overdue over 30 days	-	4,335,311	12,053,122	16,388,433	5,332,852
	656,392,790	7,851,576	12,583,014	676,827,380	754,004,802

28 Financial risk management (continued)

Of which:

	2019				**2018**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	US$	US$	US$	US$	US$
– Grade A: Pass	651,888,973	258,235	-	652,147,208	743,513,081
– Grade B: Special mention	4,503,817	7,593,341	87,405	12,184,563	5,506,849
– Grade C: Substandard	-	-	5,875,691	5,875,691	362,683
– Grade D: Doubtful	-	-	5,376,602	5,376,602	4,622,189
– Grade E: Loss	-	-	1,243,316	1,243,316	-
	656,392,790	7,851,576	12,583,014	676,827,380	754,004,802

(iii) Collaterals and other credit enhancements

The Company holds collaterals against loans and advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collaterals held as security for financial assets other than loans and advances is determined by the nature of the instrument.

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

	2019	*2018*
	US$	US$
Fair value of collaterals and other credit enhancements held against financial assets that are:		
– Loans and advances to customers at amortised cost	126,736,700	113,405,208
– Finance leases	753,354,708	899,657,803
	880,091,408	1,013,063,011

28 Financial risk management (continued)

Collaterals

Where possible, the Company takes collaterals as a secondary recourse to the borrower. The collaterals mainly includes properties, equipment and pledged deposits. The Company has put in place policies which determine the types of collaterals for credit risk mitigation.

Whilst the Company's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collaterals, credit guarantees and other actions taken to mitigate the Company's exposure.

The description of collaterals for each class of financial asset is set out below:

(i) Cash and balances with banks and other financial institutions, trading assets, loans and advances to banks and other financial institutions and available-for-sale financial assets

Collateral is generally not sought for these assets.

(ii) Loans and advances to customers, contingent liabilities and commitments

Certain advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. The Company considers the collaterals it has taken as sufficient against its exposures.

(b) Market risk management

Market risk arises on financial instruments which are valued at current market prices ("marked to market basis") and those valued at cost plus any accrued interest ("accrual basis").

Financial instruments traded include certain derivative financial instruments. Derivative instruments are contracts whose value is derived from one or more of the underlying financial instruments or indices as defined in the contracts. They include swaps, forward rate agreements, options and combinations of these instruments.

No quantitative disclosure has been made as the Company has not engaged in any material trading activities during the year.

28 Financial risk management (continued)

(i) Currency risk

The Company's foreign currency positions arise from foreign exchange transactions. All foreign currency positions are managed by the treasury department within limits approved by the Board.

The Company seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies. The Company also uses foreign currency forward contracts to manage foreign currency risk.

The net positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position in all foreign currencies.

	2019		
	USD equivalents		
	HK dollars	*Japanese Yen*	*Total*
Spot assets	682,505,609	46,941,707	729,447,316
Spot liabilities	(385,366,636)	(41,651,142)	(427,017,778)
Forward purchases	92,272	91,588	183,860
Forward sales	(256,880,289)	(91,588)	(256,971,877)
Net long non-structural position	40,350,956	5,290,565	45,641,521

	2018		
	USD equivalents		
	HK dollars	*Japanese Yen*	*Total*
Spot assets	797,206,913	21,846,333	819,053,246
Spot liabilities	(503,604,446)	(16,541,912)	(520,146,358)
Forward purchases	-	-	-
Forward sales	(256,351,320)	-	(256,351,320)
Net long non-structural position	37,251,147	5,304,421	42,555,568

The Company does not have any structural position as at 31 March 2019 (2018: Nil).

28 Financial risk management (continued)

Sensitivity analysis

The following table indicates the approximate change in the Company's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Company has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2019		*2018*	
	Appreciation/ (depreciation) in currency against USD	*Effect on profit after tax and retained profits* US$	*Appreciation/ (depreciation) in currency against USD*	*Effect on profit after tax and retained profits* US$
Hong Kong Dollars	1%	336,930	1%	311,047
	(1%)	(336,930)	(1%)	(311,047)
Japanese Yen	3%	132,529	3%	132,876
	(3%)	(132,529)	(3%)	(132,876)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to the Company's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next fiscal end of reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in the value of the United States dollar against other currencies. The analysis is performed on the same basis for 2018.

28 Financial risk management (continued)

(ii) Interest rate risk

The Company's interest rate positions arise from treasury and commercial banking activities. Interest rate risk principally arises in non-trading portfolios. Interest rate risk primarily results from the timing differences is the repricing of interest-bearing assets, liabilities and commitments, including non-interest bearing liabilities such as shareholders' funds. Interest rate risk is managed by the treasury department within limits approved by the Board, including interest rate gap limits.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds. Structural interest rate risk is monitored by the Asset and Liability Management Committee.

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

	2019						
	Effective interest rate	*Total* US$	*3 months or less (include overdue)* US$	*Over 3 months to 1 year* US$	*Over 1 year to 5 years* US$	*Over 5 years* US$	*Non-interest bearing* US$
Assets							
Cash and balances with banks and other financial institutions	1.75%	22,999,272	13,834,713	-	-	-	9,164,559
Loans and advances to customers	4.36%	667,563,145	255,086,134	180,032,431	232,200,647	243,888	45
Investment securities	1.50%	31,906,697	10,182,180	20,202,309	-	-	1,522,208
Other assets	2.84%	13,922,498	3,162,888	-	-	-	10,759,610
Total assets		736,391,612	282,265,915	200,234,740	232,200,647	243,888	21,446,422
Liabilities							
Deposits and balances of banks and other financial institutions	2.13%	191,578,509	176,290,716	15,287,793	-	-	-
Deposits from customers	2.13%	112,767,628	92,543,676	10,960,529	-	-	9,263,423
Deposits from fellow subsidiaries	2.39%	93,508,986	93,508,986	-	-	-	-
Loans from ultimate holding company	2.29%	49,932,249	49,932,249	-	-	-	-
Other liabilities	0.75%	12,152,740	3,789,003	-	-	-	8,363,737
Total liabilities		459,940,112	416,064,630	26,248,322	-	-	17,627,160
Interest rate sensitivity gap			(133,798,715)	173,986,418	232,200,647	243,888	3,819,262

28 Financial risk management (continued)

	2018						
	Effective interest rate	*Total* US$	*3 months or less (include overdue)* US$	*Over 3 months to 1 year* US$	*Over 1 year to 5 years* US$	*Over 5 years* US$	*Non-interest bearing* US$
Assets							
Cash and balances with banks and other financial institutions	1.50%	31,007,670	6,997,390	-	-	-	24,010,280
Loans and advances to banks and other financial institutions	-	-	-	-	-	-	-
Loans and advances to customers	4.06%	749,631,822	218,408,450	176,706,371	354,316,096	200,866	39
Available-for-sale financial assets	0.70%	30,406,301	5,095,840	25,310,461	-	-	-
Other assets	2.55%	19,384,547	9,413,753	-	-	-	9,970,794
Total assets		830,430,340	239,915,433	202,016,832	354,316,096	200,866	33,981,113
Liabilities							
Deposits and balances of banks and other financial institutions	1.84%	269,518,505	206,049,907	63,468,598	-	-	-
Deposits from customers	1.47%	102,620,243	70,784,746	23,124,987	-	-	8,710,510
Deposits from fellow subsidiaries	1.83%	121,877,128	121,877,128	-	-	-	-
Loans from ultimate holding company	2.66%	38,234,095	38,234,095	-	-	-	-
Other liabilities	1.46%	24,159,523	13,607,282	-	-	-	10,552,241
Total liabilities		556,409,494	450,553,158	86,593,585	-	-	19,262,751
Interest rate sensitivity gap			(210,637,725)	115,423,247	354,316,096	200,866	14,718,362

28 Financial risk management (continued)

Sensitivity analysis

At 31 March 2019, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Company's profit after tax and retained profits by approximately US$298,000 (2018: increase of US$304,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 (2018: 100) basis points increase or minimal decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next fiscal end of reporting period. The analysis is performed on the same basis for the year ended 31 March 2018.

(c) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. To manage liquidity risk, the Company has established a liquidity risk management policy ("the policy") which is reviewed by management and approved by the Directors. The policy is reviewed at least annually.

The Company measures liquidity through the statutory Liquidity Maintenance Ratios ("LMR"), unsecured connected lending exposures and maturity mismatch ratio against internal and/or regulatory requirements.

Management closely monitors the liquidity of the Company on a daily basis to ensure that the liquidity structure of Company's assets, liabilities and commitments can meet its funding needs and that the statutory liquidity ratio is always complied with. The Company's average LMR for the year was well above the statutory minimum requirement of 25%.

The average LMR is the simple average of each calendar month's average LMR, computed on the solo basis, which is the basis of computation agreed with the HKMA and has been computed in accordance with the Banking (Liquidity) Rules.

The Board of Directors empowered the Asset and Liability Management Committee ("ALCO") to formulate, review, and update the policy from time to time in order to oversee the Company in managing its liquidity.

ALCO is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks and funding and liquidity management across the Company's banking business. Monthly meeting will be conducted.

28 Financial risk management (continued)

Liquidity stress testing is a risk management tool for estimating risk exposure under stressed conditions arising from extreme but plausible market or macroeconomic movements. The Company conducts stress testing through scenario analysis for (i) Liquidity Ratio and (ii) Maturity Mismatch Ratio.

Other monitoring measures:

(i) Treasury Department prepares Daily Liquidity Ratio Projection Report to forecast up to 7 days liquidity ratio on daily basis, which reflects a more realistic liquidity position for monitoring and considering the necessity of funding arrangement promptly.

(ii) Regarding unsecured lending to connected companies, Treasury Department daily projects the ratio against capital base and Accounting Department monitors the ratio on daily basis.

(iii) Regarding cash flow projections, Projection of Cash Flow Report for coming four months is prepared by Treasury Department, for establishing financial plans and recognising the timing and amount of fund raising that aligns strategic objectives.

(iv) Liquidity related issues, strategies, internal risk limits and stress testing results are reported in monthly ALCO meetings and documented in meeting minutes.

28 Financial risk management (continued)

(i) Analysis of assets and liabilities by remaining maturity

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

	2019							
	Total US$	Repayable on demand US$	*Within* 1 month US$	*Over 1 month but within* 3 months US$	*Over 3 months* to 1 year US$	*Over 1 year* to 5 years US$	*Over* 5 years US$	*Undated* or overdue US$
Assets								
Cash and balances with banks and other financial institutions	22,999,272	12,872,703	10,126,569	-	-	-	-	-
Loans and advances to customers	667,563,145	-	25,973,493	57,288,306	215,736,147	318,131,496	40,683,100	9,750,603
Investment securities	31,906,697	-	5,092,364	5,089,816	20,202,308	-	-	1,522,209
Other assets	10,451,300	3,214,992	371,982	37,165	9,129	-	-	6,818,032
Undated assets	3,471,198	-	-	-	-	-	-	3,471,198
Total assets	736,391,612	16,087,695	41,564,408	62,415,287	235,947,584	318,131,496	40,683,100	21,562,042
Liabilities								
Deposits and balances of banks and other financial institutions	191,578,509	-	36,690,702	57,619,226	97,268,581	-	-	-
Deposits from customers	112,767,628	-	42,938,106	51,390,544	13,128,770	5,305,466	4,742	-
Deposits from fellow subsidiaries	93,508,986	-	-	93,508,986	-	-	-	-
Loans from ultimate holding company	49,932,249	-	-	-	-	49,932,249	-	-
Other liabilities	12,152,740	3,787,882	7,208,285	158,993	242,904	754,676	-	-
Total liabilities	459,940,112	3,787,882	86,837,093	202,677,749	110,640,255	55,992,391	4,742	-
Asset-liability gap		12,299,813	(45,272,685)	(140,262,462)	125,307,329	262,139,105	40,678,358	21,562,042

28 Financial risk management (continued)

					2018			
	Total US$	Repayable on demand US$	*Within* 1 month US$	*Over 1 month but within* 3 months US$	*Over 3 months* to 1 year US$	*Over 1 year* to 5 years US$	*Over* 5 years US$	*Undated* or overdue US$
Assets								
Cash and balances with banks and other financial institutions	31,007,670	24,836,806	6,170,864	-	-	-	-	-
Loans and advances to customers	749,631,822	-	26,700,398	55,353,475	206,842,537	427,670,347	26,244,826	6,820,239
Available-for-sale financial assets	30,406,301	-	5,095,840	-	25,310,461	-	-	-
Other assets	19,384,547	9,563,991	345,405	22,087	4,236	-	-	9,448,828
Total assets	830,430,340	34,400,797	38,312,507	55,375,562	232,157,234	427,670,347	26,244,826	16,269,067
Liabilities								
Deposits and balances of banks and other financial institutions	269,518,505	-	62,225,989	133,883,054	58,115,824	15,293,638	-	-
Deposits from customers	102,620,243	-	21,122,812	51,319,196	25,301,333	4,707,830	169,072	-
Deposits from fellow subsidiaries	121,877,128	-	-	121,877,128	-	-	-	-
Loans from ultimate holding company	38,234,095	-	-	-	-	38,234,095	-	-
Other liabilities	24,159,523	13,606,397	7,895,143	640,593	996,125	1,021,265	-	-
Total liabilities	556,409,494	13,606,397	91,243,944	307,719,971	84,413,282	59,256,828	169,072	-
Asset-liability gap		20,794,400	(52,931,437)	(252,344,409)	147,743,952	368,413,519	26,075,754	16,269,067

28 Financial risk management (continued)

(ii) Analysis of liabilities by remaining maturity

The following table provides an analysis of the residual contractual maturities of non-derivative financial liabilities of the Company, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of reporting period) and the earliest date the Company can be required to pay:

	2019								
	Carrying amount US$	*Gross nominal outflow* US$	*Repayable on demand* US$	*Within 1 month* US$	*Over 1 month but within 3 months* US$	*Over 3 months but within 1 year* US$	*Over 1 year but within 5 years* US$	*Over 5 years* US$	*Indefinite* US$
Liabilities									
Deposits and balances of banks and other financial institutions	191,578,509	193,565,171	-	36,968,611	58,125,773	98,460,787	-	-	-
Deposits from customers (note 1)	112,767,628	104,203,491	-	41,675,469	51,391,818	11,136,204	-	-	-
Deposits from fellow subsidiaries	93,508,986	93,700,591	-	191,605	93,508,986	-	-	-	-
Loans from ultimate holding company	49,932,249	51,963,256	-	269,930	-	871,813	50,821,513	-	-
Other liabilities (note 2)	12,152,740	8,646,030	3,624,730	5,021,300	-	-	-	-	-
Total liabilities	459,940,112	452,078,539	3,624,730	84,126,915	203,026,577	110,468,804	50,821,513	-	-
Commitments									
Guarantees, acceptances and other financial facilities	2,481,077	2,481,077	-	-	983,077	1,498,000	-	-	-

	2018								
	Carrying amount US$	*Gross nominal outflow* US$	*Repayable on demand* US$	*Within 1 month* US$	*Over 1 month but within 3 months* US$	*Over 3 months but within 1 year* US$	*Over 1 year but within 5 years* US$	*Over 5 years* US$	*Indefinite* US$
Liabilities									
Deposits and balances of banks and other financial institutions	269,518,505	272,188,648	-	62,691,741	134,840,142	58,754,734	15,902,031	-	-
Deposits from customers (note 1)	102,620,243	94,451,312	-	20,568,066	50,512,567	23,370,679	-	-	-
Deposits from fellow subsidiaries	121,877,128	122,068,120	-	190,992	121,877,128	-	-	-	-
Loans from ultimate holding company	38,234,095	41,028,829	-	250,774	-	-	40,778,055	-	-
Other liabilities (note 2)	24,159,523	19,510,314	13,613,891	5,239,905	-	656,518	-	-	-
Total liabilities	556,409,494	549,247,223	13,613,891	88,941,478	307,229,837	82,781,931	56,680,086	-	-
Commitments									
Guarantees, acceptances and other financial facilities	4,143,123	4,143,123	-	921,444	2,880,000	341,679	-	-	-

Note 1: the amount of gross nominal outflow excludes receipt in advance from lessees of US$9,263,423 (2018: US$8,710,510).
Note 2: the amount of gross nominal outflow excludes bonus provision of US$1,338,537 (2018: US$1,715,564).

28 Financial risk management (continued)

(d) Operational risk management

Operational risks arise from the Company's daily operation and fiduciary activities. The Company's internal audit department and compliance department play essential roles in monitoring and limiting the Company's operational risk. The primary focus of these functions is:

- to independently evaluate the adequacy of all internal controls;
- to ensure adherence to the operating guidelines, including regulatory and legal requirements; and
- to pro-actively recommend improvements.

To ensure the total independence of the internal audit functions, the internal audit department and compliance department are separate departments. The internal audit department reports directly to the Board through the Audit Committee, whereas the compliance department reports directly to the Director of Compliance.

29 Fair values of financial instruments

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

29 Fair values of financial instruments (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity price and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm’s length.

The Company uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities and simple over-the-counter (OTC) derivatives like forward exchange contracts. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

– Derivatives

  The fair value of forward exchange contracts is estimated either using broker quotes or by discounting future cash flows. Future cash flows are estimated based on management’s best estimates of the amount it would receive or pay to terminate the contract at the end of reporting period taking into account current market conditions and the current credit worthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the end of reporting period.

29 Fair values of financial instruments (continued)

– Debt and equity securities

Debt securities are valued based on quoted market prices from an exchange or dealer price quotation, where available. For unlisted equity securities, the fair value is estimated based on the investee's financial position and results, risk profile, prospectus and other factors as well as reference to the market valuations for similar entities quoted in an active market.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2019			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$	US$	US$	US$
Assets				
Trading assets	-	314,475	-	314,475
Financial assets at fair value through other comprehensive income				
– Debt securities	30,384,488	-	-	30,384,488
– Equity securities	-	-	1,522,209	1,522,209
	30,384,488	314,475	1,522,209	32,221,172
Liabilities				
Trading liabilities	-	33,127	-	33,127

29 Fair values of financial instruments (continued)

	2018			
	Level 1 US$	*Level 2* US$	*Level 3* US$	*Total* US$
Assets				
Trading assets	-	764,888	-	764,888
Available-for-sale financial assets				
– Debt securities	30,406,301	-	-	30,406,301
	30,406,301	764,888	-	31,171,189
Liabilities				
Trading liabilities	-	-	-	-

During the year ended 31 March 2019 and 2018, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

The fair value of the unlisted equity securities is determined with reference to multiples of comparable listed company such as price/book ratio of comparables, adjusted for a liquidity discounted to reflect the fact that the securities are not actively traded. An increase in ratio in isolation will result in favourable movement in the fair value, while an increase in liquidity discount in isolation will result in unfavourable movement.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through other comprehensive income	
	2019 US$	2018 US$
Assets		
At 1 April	-	-
Additions	1,488,940	-
Translation reserve recognised in the other comprehensive income	33,269	-
At 31 March	1,522,209	-
Total gains or losses for the year included in translation reserve for financial assets at fair value through other comprehensive income held at the end of reporting period	33,269	-

29 Fair values of financial instruments (continued)

(b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below:

(i) The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value. The total fair value is not materially different from total carrying value.

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

30 Material related party transactions

During the year, the Company entered into a number of transactions with its related parties, including fellow subsidiaries, the ultimate holding company, and entities, directly or indirectly controlled or significantly influenced by the ultimate holding company, in the ordinary course of its banking business including lending, the acceptance and placement of inter-bank deposits and off-balance sheet transactions.

(a) Transactions with group companies

In addition to the related party transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions and balances with its related parties during the year.

Income/(expenses) from transactions with fellow subsidiaries and the ultimate holding company during the year are set out below:

	2019	*2018*
	US$	US$
Fellow subsidiaries		
Interest income	105,928	135,715
Interest expense	(2,929,716)	(2,303,327)
Fee and commission income	2,874,449	1,994,391
Fee and commission expense	(216,000)	(168,000)
Other operating expense	(27,367)	(32,414)
Other operating income	973,961	978,245
Ultimate holding company		
Interest expense	(1,103,802)	(896,873)
Other operating expense	(267,535)	(377,611)

30 Material related party transactions (continued)

Average balances of assets/(liabilities) with fellow subsidiaries and the ultimate holding company for the year are set out below:

	2019 US$	*2018* US$
Fellow subsidiaries		
Loans and advances to customers	20,760	41,964
Other assets	3,888,186	7,513,036
Deposits from fellow subsidiaries	(112,854,702)	(130,899,729)
Other liabilities	(6,130,941)	(4,218,268)
Ultimate holding company		
Other assets	37,679	41,619
Loans from ultimate holding company	(47,002,979)	(38,401,077)
Other liabilities	(228,231)	(233,663)

Loans and advances to customers included a loan to a fellow subsidiary, which was secured, interest bearing at commercial rates and repayable within three years.

Other balances with fellow subsidiaries were unsecured, interest bearing at commercial rates and had no fixed terms of repayment.

Deposits from fellow subsidiaries were unsecured, interest bearing at commercial rates and either had no fixed terms of repayment or repayable within one year.

Included in deposits and balances of banks and other financial institutions were short-term and long-term debts of approximately US$192million (2018: US$270million) guaranteed by the ultimate holding company.

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9.

30 Material related party transactions (continued)

(c) Loans to directors

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

	2019 US$	*2018* US$
Aggregate amount of relevant loans by the Company outstanding at 31 March	-	31,818
Maximum aggregate amount of relevant loans by the Company outstanding during the year	-	69,398

There were no interest due but unpaid nor any provision made against these loans at 31 March 2019 and 2018.

31 Immediate parent and the ultimate controlling party

The directors consider the immediate parent and ultimate controlling party of the Company to be ORIX Corporation, which is incorporated in Japan.

32 Key sources of estimation uncertainty

Expected credit losses for loans and advances

Applicable from 1 April 2018
Policies on credit losses and impairment of loans and advances are set out in note 2(h).

Applicable prior to 1 April 2018
Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Company makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a company has adversely changed. It may also include observable data that local or economic conditions that correlate with defaults on the assets in the Company. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Company. Historical loss experience is adjusted on the basis of the current observable data.

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

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

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

HKFRS 16, Leases

As disclosed in note 2(f), currently the Company classifies leases into finance leases and operating leases and accounts for the lease arrangement differently, depending on the classification of the lease. The Company enters into some leases as the lessor and others as the lessee.

Once HKFRS 16 is adopted, the Company will no longer distinguish between finance leases and operating leases when it is the lessee under the lease. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

The Company plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As disclosed in note 27(b), at 31 March 2019 the Company’s future minimum lease payments under non-cancellable operating leases amount to US$16,062,385 for properties, the majority of which is payable either between 1 and 6 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to approximately US$15 million and US$14 million respectively, after taking account the effects of discounting, as at 1 April 2019.

Unaudited supplementary financial information

(a) Capital and capital adequacy

The Banking (Capital) (Amendment) Rules 2012, effective from 1 January 2013, stipulates the first phase of Basel III requirements to be applied in Hong Kong.

	2019	*2018*
Capital ratio:		
Common Equity Tier 1 ("CET1") Capital Ratio	37.35%	32.57%
Tier 1 Capital Ratio	37.35%	32.57%
Total Capital Ratio	38.52%	33.75%

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules. The Company has adopted the "basic approach" for the calculation of the risk-weighted assets for credit risk and "basic indicator approach" for the calculation of operational risk.

During the year ended 31 March 2019, market risk arising from the Company's trading book is minimal. The Company has been granted exemption by the HKMA as it can fulfil the exemption criteria set out in sections 22(l)(a) and (b) of the Banking (Capital) Rules. Hence, the Company was exempted from the calculation of market risk.

The components of total capital before and after deductions are shown below:

	2019 US$	*2018* US$
CET1 Capital:		
CET1 Capital instruments	32,000,000	32,000,000
Retained earnings	244,404,484	242,065,421
Disclosed reserves	47,016	(44,575)
CET1 Capital before deductions	276,451,500	274,020,846
Regulatory deductions to CET1 capital:		
Regulatory reserve for general banking risks	6,840,491	9,323,051
Net deferred tax assets	529,818	412,749
Total CET1 Capital	269,081,191	264,285,046
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	269,081,191	264,285,046

Unaudited supplementary financial information (continued)

(a) Capital and capital adequacy (continued)

	2019 US$	*2018* US$
Tier 2 ("T2") Capital		
Qualifying Tier 2 capital instruments plus any related share premium	-	-
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	8,407,733	9,577,323
Total T2 Capital	8,407,733	9,577,323
Total Capital	277,488,924	273,862,369

To comply with the Banking (Disclosure) Rules ("BDR"), all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates as specified by the HKMA under "Regulatory Disclosures" section on the Company's website (http://www.orix.com.hk).

(b) Liquidity ratio

	2019 (Under LMR)	*2018 (Under LMR)*	*2017 (Under LMR)*
Average liquidity ratio	58.93%	53.31%	51.96%

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio, computed on the solo basis, which is the basis of computation agreed with the HKMA and has been computed in accordance with the Banking (Liquidity) Rule.

Unaudited supplementary financial information (continued)

(c) Further analysis on loans and advances to customers analysed by industry sector

For each industry sector reported above with loan balance constituting 10% or more of the total balance of advances to customers, the attributable amount of impaired loans, overdue loans, ECL at stage 1, 2 and 3/individually and collectively assessed loan impairment allowances, the amount of new provisions charged to income statement, and the amount of impaired loans and advances written off during the year are as follows:

	2019						
	Gross loans and advances US$	*Impaired loans and advances* US$	*Overdue loans and advances* US$	*ECL at Stage 3* US$	*ECL at Stage 1 and 2* US$	*Impairment charged to income statement during the year* US$	*Impairment allowance written off during the year* US$
Loans and advances for use in Hong Kong							
Industrial, commercial and financial							
– Transport and transport equipment	464,392,447	2,285,662	2,318,794	947,597	1,029,958	230,698	88,383
– Others	69,626,170	525,831	117,119	257,649	102,069	176,529	-

	2018						
	Gross loans and advances US$	*Impaired loans and advances* US$	*Overdue loans and advances* US$	*Individually assessed impairment allowance* US$	*Collectively assessed impairment allowance* US$	*Impairment charged to income statement during the year* US$	*Impairment allowance written off during the year* US$
Loans and advances for use in Hong Kong							
Industrial, commercial and financial							
– Transport and transport equipment	553,155,189	1,637,777	1,635,844	994,595	346,886	730,680	109,520

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2019		2018	
	Amount US$	*% of total advances to customers*	*Amount* US$	*% of total advances to customers*
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:				
– six months or less but over three months	3,334,092	0.49%	354,505	0.05%
– one year or less but over six months	2,977,022	0.44%	766,344	0.10%
– Over one year	4,154,678	0.61%	3,840,265	0.51%
	10,465,792	1.54%	4,961,114	0.66%
Current market value of collateral held against the covered portion of overdue loans and advances	4,563,963		1,755,002	
Covered portion of overdue loans and advances	4,065,912		1,755,002	

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets (continued)

	2019		*2018*	
	Amount US$	*% of total advances to customers*	*Amount* US$	*% of total advances to customers*
Uncovered portion of overdue loans and advances	6,399,880		3,206,112	
Individual impairment allowances made on loans and advances overdue for more than three months	6,422,015		3,499,364	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid as at the end of the reporting period. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid as at the end of the reporting period. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit notice, and advised to the borrower for more than the overdue period in question.

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets (continued)

(ii) Rescheduled loans and advances to customers

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Company. Rescheduled loans and advances to customers are stated net of any loans and advances to customers that have subsequently become overdue for over three months and reported as overdue loans and advances in note (d)(i) above. The amount of rescheduled loans and advances to customers is not material as at 31 March 2019 and 2018.

(iii) Overdue loans and advances to banks and other financial institutions

There are no loans and advances to banks and other financial institutions which are overdue for more than three months as at 31 March 2019 and 2018.

(iv) Rescheduled loans and advances to banks and other financial institutions

There are no rescheduled loans and advances to banks and other financial institutions as at 31 March 2019 and 2018.

(v) Other overdue assets

There are no other assets which are overdue for more than three months as at 31 March 2019 and 2018.

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets (continued)

(vi) Geographical analysis of loans and advances to customers

	2019				
	Gross loans and advances US$	*Loans and advances overdue for more than 3 months* US$	*Impaired loans (Stage 3)* US$	*ECL at Stage 3* US$	*ECL at Stage 1 and 2* US$
Hong Kong	664,462,825	10,172,557	11,467,884	7,346,040	1,608,049
Others	12,364,555	293,235	293,235	291,867	11,802
	676,827,380	10,465,792	11,761,119	7,637,907	1,619,851

	2018				
	Gross loans and advances US$	*Loans and advances overdue for more than 3 months* US$	*Impaired loans (individually determined)* US$	*Individually assessed impairment allowances* US$	*Collectively assessed impairment allowances* US$
Hong Kong	739,553,326	4,961,114	4,872,391	3,525,267	773,373
Others	14,451,476	-	-	-	52,347
	754,004,802	4,961,114	4,872,391	3,525,267	825,720

The above geographical analysis is classified by the location of the borrowers after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party situated in an area different from the counterparty.

Unaudited supplementary financial information (continued)

(e) International claims

The Company analyses international claims by exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. The transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Those areas which contribute 10% or more of the aggregate international claims are as follows:

	31 March 2019				
		Non-bank private sector			
	Banks	*Official sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
	US$	US$	US$	US$	US$
Developed countries	13,906,977	-	-	1,559,790	15,466,767
Offshore centres	779,831	-	538,090	44,639,144	45,957,065
– of which: Hong Kong	779,731	-	538,090	43,993,385	45,311,206
Developing Asia Pacific	31,354	-	-	12,132,948	12,164,302
– of which: China	-	-	-	12,132,948	12,132,948
	14,718,162	-	538,090	58,331,882	73,588,134

	31 March 2018				
		Non-bank private sector			
	Banks	*Official sector*	*Non-bank financial institutions*	*Non-financial private sector*	*Total*
	US$	US$	US$	US$	US$
Developed countries	18,970,158	-	-	177,876	19,148,034
Offshore centres	117,417	-	7,042,819	22,911,232	30,071,468
– of which: Hong Kong	117,317	-	7,042,819	21,728,978	28,889,114
Developing Asia Pacific	31,263	-	-	13,617,230	13,648,493
– of which: China	-	-	-	13,617,230	13,617,230
	19,118,838	-	7,042,819	36,706,338	62,867,995

Unaudited supplementary financial information (continued)

(f) Non-bank Mainland China exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return of Mainland Activities. This analysis includes the exposures extended by the Company only.

	2019		
	On-balance sheet exposure US$	*Off-balance sheet exposure* US$	*Total* US$
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	148,176	-	148,176
Other entities of local governments	1,139,141	-	1,139,141
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	39,953,835	3,236,179	43,190,014
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	5,075,236	-	5,075,236
	46,316,388	3,236,179	49,552,567
Total assets after provision	736,391,612		
On-balance sheet exposures as percentage of total assets	6.29%		

Unaudited supplementary financial information (continued)

(f) Non-bank Mainland China exposures (continued)

	2018		
	On-balance sheet exposure US$	*Off-balance sheet exposure* US$	*Total* US$
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	283,113	-	283,113
Other entities of local governments	835,257	-	835,257
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	44,913,919	2,276,383	47,190,302
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	527,852	1,126,994	1,654,846
	46,560,141	3,403,377	49,963,518
Total assets after provision	830,430,340		
On-balance sheet exposures as percentage of total assets	5.61%		

(g) Repossessed assets

	2019 US$	*2018* US$
Repossessed assets	11,972	230,767

Unaudited supplementary financial information (continued)

(h) Segmental analysis

(i) By geographical area

The Company's operations are entirely located in Hong Kong.

(ii) By class of business

	2019		*2018*	
	Profit before taxation US$	*Total assets* US$	*Profit before taxation* US$	*Total assets* US$
Commercial financing business	3,984,702	670,798,419	13,663,663	752,202,057
Investment	(2,247,749)	31,906,697	(2,997,860)	30,406,301
Others	1,255	-	5,488	129,744
	1,738,208	702,705,116	10,671,291	782,738,102
Unallocated income/assets	1,533,267	32,202,945	(56,547)	46,404,673
	3,271,475	734,908,061	10,614,744	829,142,775

Commercial financing activities included the acceptance of deposits, provision of advances and other international banking services.

Investment activities included investing in equity and debt securities which generate dividend and interest income.

Other business activities included ship finance and staff loan scheme.

Unaudited supplementary financial information (continued)

(i) Additional disclosures on credit risk management

(i) Capital requirement

The capital requirements on each class of exposures calculated under the basic (credit risk) approach at the end of reporting period can be analysed as follows:

	2019 US$	*2018* US$
Total capital requirements for on-balance sheet exposures	671,543,056	764,689,244
Total capital requirements for off-balance sheet exposures	1,075,601	1,496,603
	672,618,657	766,185,847

(ii) Capital charge

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of reporting period is:

	2019 US$	*2018* US$
Capital charge for operational risk	3,788,060	3,616,053

(iii) Market risk

The Company has been exempted by the HKMA under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17 of the Banking (Capital) Rules.

Unaudited supplementary financial information (continued)

(j) Corporate governance

The Company is committed to high standards of corporate governance, and has complied throughout the year with the guideline on "Corporate governance of locally incorporated authorised institutions" under the Supervisory Policy Manual issued by the HKMA.

Board committees

In addition to the Board of Directors ("the Board") which meet on a quarterly basis, the Company has established a number of committees including Credit Committee, Asset and Liability Management Committee, Operational Risk Management Team and Audit Committee.

(i) Quarterly Board of Directors Meeting

The Board including all executive and non-executive directors, meet at least once a quarter to review and discuss the management and financial performance of the Company.

(ii) Credit Committee

The Credit Committee is responsible for assisting the Board to formulate the Company's risk appetite and strategies for managing credit risk. It is also responsible for the implementation and maintenance of the Company's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Committee comprises the chief executive officer/managing director, head of credit department and heads of marketing departments.

(iii) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks and funding and liquidity management across the Company's banking business. It recommends policy and guidelines to the Board. The Committee comprises a director, head of treasury department and chief accountant.

Unaudited supplementary financial information (continued)

(j) Corporate governance (continued)

(iv) Operational Risk Management Team

Operational risk is the risk of unexpected loss resulting from inadequate or failed internal processes, people and systems or from external events. In the beginning of the year 2010, the Company enhanced its operational risk management framework to ensure that its operational risks are consistently and comprehensively identified, controlled, and reported for prevention and avoidance of operational losses.

An Operational Risk Management Team is formed to assist the Board on a regular basis ensuring that such initiatives are addressed by utilising various risk management tools including compliance control self-assessment exercises, updating of workflows and risk matrix, key risk event register and indicators, internal audits, keeping current of business continuity plan and relevant insurance policies. The operational risk assessment is regularly submitted to the Board for review.

(v) Audit Committee

The Audit Committee meets regularly with the senior management, head of internal audit department and compliance department to consider the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance. The Audit Committee also discusses matters raised by the external auditors and ensures that all audit recommendations are implemented. The Audit Committee comprises non-executive directors, head of internal audit department, head of compliance department and all resident executive directors who attend as observers.

(k) Remuneration of directors and senior management

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. It also promotes effective risk management, and is designed to encourage employee behaviour that supports the Company's business objectives, long-term financial soundness, risk tolerance, and risk management framework.

In accordance with the Supervisory Policy manual CG-5 "Guideline on a Sound Remuneration Systems" issued by the HKMA in March 2015, the Company has reviewed and revised its remuneration policy for all employees of the Company which includes a reassessment of the principles applied in determining remuneration packages, as well as the structure and amount of compensation ultimately awarded.

The level of fees paid to non-executive directors is determined by reference to factors including fees paid by comparable institutions, directors' workload and commitments.

Unaudited supplementary financial information (continued)

(k) Remuneration of directors and senior management (continued)

The remuneration packages of directors who are expatriates seconded from the parent company, ORIX Corporation, Japan ("ORIX"), are determined and reviewed by ORIX. The following factors are considered when determining the remuneration packages of directors:

- business needs and economic environment
- remuneration packages in the labour markets
- directors' workload and commitments
- directors' individual and collective contributions to the Company which are assessed in the performance appraisal process; and
- retention consideration and individual potential.

No individual director will be involved in decisions relating to his/her own remuneration.

The Board reviews the remuneration packages of all local employees on an annual basis. The remuneration packages of local employees are composed of a combination of fixed and variable remuneration. The appropriate proportion of fixed and variable remuneration varies according to the employee's seniority, role, responsibilities, and activities within the Company, among other things.

Fixed remuneration refers to the employee's annual salary (including year-end pay), while variable remuneration is awarded based on the employee's performance in order to better align incentives with risk and longer-term value creation. Variable remuneration is in the form of cash bonus payment only and is directly related to performance. Poor performance (either financial or non-financial) will result in a reduction or elimination of variable remuneration.

In determining the remuneration packages of the local senior management, the Company takes into account individual performance, the performance of respective divisions and departments, and the Company's overall business goals and objectives.

Unaudited supplementary financial information (continued)

(k) Remuneration of directors and senior management (continued)

Aggregate quantitative information on the remuneration for the Company's directors and local senior management is set out below.

(i) Amount of remuneration for the financial year, split into fixed and variable remuneration in the form of cash bonus, and number of beneficiaries;

Fixed remuneration US$	*Variable remuneration* US$	*Number of beneficiaries*
1,412,885	495,068	14

(ii) There was no amounts of deferred remuneration during the financial year; and

(iii) No senior management was awarded with new sign-on or severance payment during the financial year.

The Company will keep abreast of the latest developments in the labour market, especially in the financial services sector, and will review and refine its compensation and remuneration policies whenever necessary to enable the provision of competitive remuneration packages to ensure to retention of talent.

(l) Leverage ratio

The leverage ratio as at 31 March was compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

	2019	*2018*
Leverage ratio	36.63%	31.90%

To comply with the BDR, information in relation to the Company's regulatory leverage ratio disclosures will be published by using the standard disclosure templates as specified by the HKMA under "Regulatory Disclosures" section on the Company's website (http://www.orix.com.hk).

Unaudited supplementary financial information (continued)

(m) Countercyclical capital buffer ratio

The countercyclical capital buffer ("CCyB") ratio as at 31 March 2019 was compiled in accordance with the CCyB ratio framework issued by the HKMA.

	2019	*2018*
CCyB ratio	2.4471%	1.8379%

To comply with the BDR, the Company's risk-weighted amounts in relation to each jurisdiction in which the Company has private sector credit exposures and the applicable JCCyB ratio for each jurisdiction that is relevant to the calculation of the Company's CCyB ratio are as follows:

Jurisdiction	*2019 Total risk-weighted amount* US$	*JCCyB ratio*	*2018 Total risk-weighted amount* US$	*JCCyB ratio*
Hong Kong SAR	650,354,937	2.5000%	741,297,891	1.875%
China	11,841,078	0%	13,617,230	0%
Curacao	19,594	0%	19,594	0%
Japan	1,559,790	0%	155,937	0%
Macau SAR	62,950	0%	51,639	0%
New Zealand	-	0%	21,939	0%
Samoa	149,134	0%	348,763	0%
Singapore	-	0%	69,577	0%
West Indies UK	414,081	0%	692,681	0%
Total across countries	664,401,564		756,275,251	

To comply with the BDR, information in relation to the Company's regulatory CCyB ratio disclosures will be published by using the standard disclosure templates as specified by the HKMA under "Regulatory Disclosures" section on the Company's website (http://www.orix.com.hk).

Compliance with the Banking (Disclosure) Rules

The Company is required to comply with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority which set out the minimum standards for public disclosure which authorised institutions must make in respect of the statement of profit or loss, state of affairs and capital adequacy. The financial statements for the financial year ended 31 March 2019 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules

Independent auditor's report to the members of ORIX Asia Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of ORIX Asia Limited ("the Company") set out on pages 1 to 71, which comprise the statement of financial position as at 31 March 2019, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Information other than the financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

Certified Public Accountants

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

12 July 2019

Should there be any inconsistencies between the English and Chinese versions, the English version shall prevail.