ORIX Asia Limited

Announcement of 2019/20
Final Results

By Order of the Board:
ORIX ASIA LIMITED

PANG Hau Shu
MANAGING DIRECTOR

Statement of profit or loss for the year ended 31 March 2020

(Expressed in United States dollars)

	Note	*2020*	*2019* (Note)
		US$	US$
Interest income calculated using the effective interest method	3(a)	28,451,229	30,206,760
Other interest income	3(a)	6,695	15,527
Interest expense	3(b)	(9,864,808)	(11,156,675)
Net interest income		18,593,116	19,065,612
Fee and commission income	4(a)	8,316,994	4,080,697
Fee and commission expense	4(b)	(2,575,169)	(2,660,665)
Net fee and commission income		5,741,825	1,420,032
Net trading (loss)/gain	5	(2,835,694)	1,881,145
Other operating income	6	6,720,830	2,252,470
		3,885,136	4,133,615
Operating income		28,220,077	24,619,259
Operating expenses	7	(18,566,639)	(17,045,276)
		9,653,438	7,573,983
Net charge for impairment losses on loans and advances	8	(7,587,539)	(4,251,646)
Net gain/(loss) on sales of fixed assets		7,705	(50,862)
Profit before taxation		2,073,604	3,271,475
Income tax	10(a)	(150,056)	(516,036)
Profit for the year		1,923,548	2,755,439

The notes on pages 8 to 67 form part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 March 2020

(Expressed in United States dollars)

	Note	*2020*	*2019* (Note)
		US$	US$
Profit for the year		1,923,548	2,755,439
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		38,225	91,591
Total comprehensive income for the year		1,961,773	2,847,030

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 8 to 67 form part of these financial statements.

Statement of financial position at 31 March 2020

(Expressed in United States dollars)

	Note	*2020*	*2019*
			(Note)
		US$	US$
Assets			
Cash and balances with banks and other financial institutions	12	11,806,911	22,999,272
Trading assets	13/27(b)	-	314,475
Loans and advances to customers	14(a)	560,029,290	667,563,145
Investment securities	15	24,717,527	31,906,697
Property and equipment	16	13,508,531	1,869,260
Deferred tax assets	17(b)	1,230,977	529,818
Tax recoverable	17(a)	-	757,645
Other assets	18	9,461,964	10,451,300
Total assets		620,755,200	736,391,612
Equity and liabilities			
Deposits and balances from banks and other financial institutions		119,779,192	191,578,509
Deposits from customers	19	96,708,525	112,767,628
Deposits from fellow subsidiaries		51,895,683	93,508,986
Loans from ultimate holding company	20	50,647,922	49,932,249
Trading liabilities	21/27(b)	867,858	33,127
Lease liabilities	23	12,685,247	-
Tax payable	17(a)	347,584	-
Other liabilities	22	9,408,812	12,119,613
Total liabilities		342,340,823	459,940,112

Statement of financial position at 31 March 2020 (continued)

(Expressed in United States dollars)

	Note	*2020*	*2019*
			(Note)
		US$	US$
Equity			
Share capital	24	32,000,000	32,000,000
Reserves	25	246,414,377	244,451,500
Total equity		278,414,377	276,451,500
Total equity and liabilities		620,755,200	736,391,612

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

Approved and authorised for issue by the board of directors on 24 July 2020

PANG Hau Shu	)
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	) Directors
LIU Guoping	)
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The notes on pages 8 to 67 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2020

(Expressed in United States dollars)

	Note	*Share capital*	*Revaluation reserve/ (deficit)*	*Translation reserve*	*Retained profits* (Note)	*Total*
		US$	US$	US$	US$	US$
Balance at 1 April 2018		32,000,000	(44,575)	-	241,649,045	273,604,470
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 (Note)		32,000,000	13,747	33,269	244,404,484	276,451,500
Change in initial application of HKFRS 16	2(c)	-	-	-	1,104	1,104
Restated balance at 1 April 2019		32,000,000	13,747	33,269	244,405,588	276,452,604
Change in equity for 2020						
Profit for the year		-	-	-	1,923,548	1,923,548
Other comprehensive income	11	-	8,013	30,212	-	38,225
Total comprehensive income for the year		-	8,013	30,212	1,923,548	1,961,773
Balance at 31 March 2020		32,000,000	21,760	63,481	246,329,136	278,414,377

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 8 to 67 form part of these financial statements.

Cash flow statement for the year ended 31 March 2020

(Expressed in United States dollars)

	Note	*2020*	*2019* (Note)
		US$	US$
Operating activities			
Operating profit		2,073,604	3,271,475
Adjustments for:			
Interest income on unlisted debt securities	3(a)	(458,346)	(359,290)
Charges for impairment losses on loans and advances	8	7,587,539	4,251,646
Depreciation	16	3,380,494	875,047
Amortisation of discounts on purchased lease and loan contracts	3(a)	(6,659)	(15,527)
Dividend income	6	(578,540)	-
Net (profit)/loss on sales of fixed assets		(7,705)	50,862
Unrealised exchange (gain)/loss		(3,880,608)	425,077
Operating profit before changes in working capital		8,109,779	8,499,290
(Increase)/decrease in operating assets:			
Trading assets		314,475	450,413
Gross loans and advances to customers		107,460,147	76,092,768
Other assets		1,076,951	5,377,125
(Decrease)/increase in operating liabilities:			
Trading liabilities		834,731	33,127
Deposits and balances from banks and other financial institutions		(73,600,769)	(77,883,089)
Deposits from customers		(17,265,640)	10,329,806
Amounts due to fellow subsidiaries		(42,022,449)	(27,943,880)
Other liabilities		(2,142,705)	(10,883,914)
Cash used in operations		(17,235,480)	(15,928,354)
Hong Kong Profits Tax refund/(paid)		264,045	(2,251,199)
Net cash flows generated from/(used) operating activities		(16,971,435)	(18,179,553)

Cash flow statement
for the year ended 31 March 2020 (continued)
(Expressed in United States dollars)

	Note	2020	2019 (Note)
		US$	US$
Investing activities			
Dividend received	6	578,540	-
Payment for purchase of property and equipment	16	(508,631)	(421,238)
Payment for purchase of investment securities		(27,794,806)	(36,779,653)
Proceeds from disposal of investment securities		35,819,517	35,718,330
Net cash flows generated from/(used in) investing activities		8,094,620	(1,482,561)
Financing activities			
Capital element of lease rentals paid		(2,003,171)	-
Interest element of lease rentals paid	23	(435,255)	-
Proceeds from loans from parent company		-	11,760,449
Net cash flows (used in)/generated from financing activities		(2,438,426)	11,760,449
Net decrease in cash and cash equivalents		(11,315,241)	(7,901,665)
Cash and cash equivalents at 1 April		22,999,272	31,007,670
Effect of foreign exchange rate changes		122,880	(106,733)
Cash and cash equivalents at 31 March	26	11,806,911	22,999,272
Cash flows from operating activities include:			
Interest received		27,773,011	29,677,945
Interest paid		(9,341,309)	(11,836,063)

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

The notes on pages 8 to 67 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 2(c) 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 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 33.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases - incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Company has initially applied HKFRS 16 as from 1 April 2019. The Company has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 Significant accounting policies (continued)

The Company applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Company has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Company is concerned, these newly capitalised leases are primarily in relation to property and equipment as disclosed in note 16. For an explanation of how the Company applies lessee accounting, see note 2(f).

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Company determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.13%.

To ease the transition to HKFRS 16, the Company applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Company elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Company applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Company relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

2 Significant accounting policies (continued)

The following table reconciles the operating lease commitments as disclosed in note 28(b) as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 $
Operating lease commitments at 31 March 2019 (note 28(b))	16,355,798
Less: commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(17,199)
Add: lease payments for the additional periods where the Company considers it reasonably certain that it will exercise the extension options	39,558
	16,378,157
Less: total future interest expenses	(1,360,004)
Total lease liabilities recognised at 1 April 2019	15,018,153

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 March 2019.

The following table summarises the impacts of the adoption of HKFRS 16 on the Company's consolidated statement of financial position:

	Carrying amount at 31 March 2019 $	*Capitalisation of operating lease contracts* $	*Carrying amount at 1 April 2019* $
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property and equipment (note 16)	1,869,260	14,351,436	16,220,696
Total assets	736,391,612	14,351,436	750,743,048
Lease liabilities (note 23)	-	(15,018,153)	(15,018,153)
Other liabilities (note 22)	(12,119,613)	667,821	(11,451,792)
Total liabilities	(459,940,112)	(14,350,332)	(474,290,444)
Net assets	276,451,500	1,104	276,452,604

2 Significant accounting policies (continued)

c. Impact on the financial result, segment results and cash flows of the Company

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Company as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Company's statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Company as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17.

d. Lessor accounting

The Company leases out a part of office as the lessor of operating leases. The accounting policies applicable to the Company as a lessor remain unchanged from those under HKAS 17.

(d) Financial assets and liabilities

(1) Financial assets

(i) Classification and subsequent measurement

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.

2 Significant accounting policies (continued)

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.

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.

2 Significant accounting policies (continued)

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).

(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;

2 Significant accounting policies (continued)

- 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).

(e) Right-of-use assets, property and equipment

The following items of right-of-use (RoU), property and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)(iii)):

- RoU assets arising from leases over freehold or leasehold properties where the Company is not the registered owner of the property interest; and

- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(f)).

Gains or losses arising from the retirement or disposal of RoU asset or item of property or equipment 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.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, 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 RoU asset or 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

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 Significant accounting policies (continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases. At the lease commencement date, the Company recognises a RoU asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Company are primarily office furniture. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The RoU asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the RoU assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The RoU asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(e) and 2(h)(iii)), except for the following types of RoU asset:

- RoU assets that meet the definition of investment property are carried at fair value in accordance;

- RoU assets related to leasehold land and buildings where the Company is the registered owner of the leasehold interest are carried at fair value; and

- RoU assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

2 Significant accounting policies (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the RoU asset, or is recorded in profit or loss if the carrying amount of the RoU asset has been reduced to zero.

(ii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with note 2(m)(iii).

(B) Policy applicable prior to 1 April 2019

(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).

(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

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.

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).

2 Significant accounting policies (continued)

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.

(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.

2 Significant accounting policies (continued)

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.

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.

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.

(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, including RoU assets (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 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.

2 Significant accounting policies (continued)

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

(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

	2020 US$	*2019* US$
Interest income calculated using the effective interest method:		
- Interest income on deposits to banks and financial institutions	256,505	207,056
- Interest income on loans and advances	27,571,462	29,534,169
- Interest income on unlisted debt securities	458,346	359,290
- Interest income on loans and advances to fellow subsidiaries	144,595	105,928
- Others	20,321	317
	28,451,229	30,206,760
Other interest income:		
- Amortisation of discounts on purchased lease and loan contracts	6,695	15,527
Total interest income on all financial assets	28,457,924	30,222,287

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$222,658 (2019: US$135,451) for the year ended 31 March 2020.

(b) Interest expense

	2020 US$	*2019* US$
Interest expense on borrowings and deposits from fellow subsidiaries and borrowings from ultimate holding company	3,300,318	4,033,518
Interest expense on deposits from customers, banks and other financial institutions	6,129,235	7,123,157
Interest expense on lease liabilities	435,255	-
Total interest expense on all financial liabilities	9,864,808	11,156,675

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

	2020 US$	*2019* US$
Revenue from contracts with customers within the scope of HKFRS 15:		
Credit-related fees and commissions	1,516,425	1,659,448
Management fee	6,800,569	2,421,249
	8,316,994	4,080,697

(b) Fee and commission expense

	2020 US$	*2019* US$
Brokerage fee expenses	2,371,169	2,444,665
Management fee expenses	204,000	216,000
	2,575,169	2,660,665

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 (loss)/gain

	2020 US$	*2019* US$
Net (loss)/gain from currency derivatives	(2,835,694)	1,881,145

6 Other operating income

	2020 US$	*2019* US$
Net exchange gain/(loss)	3,913,025	(339,329)
Penalty income from early termination loans	986,192	1,307,408
Rental income	976,097	973,961
Others	266,976	310,430
Dividend income from equity investment securities	578,540	-
	6,720,830	2,252,470

7 Operating expenses

	2020	*2019*
	US$	US$
Staff costs		
Salaries and other benefits	9,480,270	8,405,582
Contributions to the Mandatory Provident Funds	445,053	364,432
Depreciation	3,380,494	875,047
Property rentals	101,718	3,022,807
Other premises and equipment expenses	374,062	401,001
Advertising expenses	74,759	120,397
Auditor's remuneration	332,035	331,402
General and administrative expenses	1,824,593	1,748,320
Debt collection expenses	186,680	69,313
Consultancy fee	520,189	592,166
Travelling and transportation	88,174	76,187
Others	1,758,612	1,038,622
	18,566,639	17,045,276

8 Impairment losses on loans and advances

	2020	*2019*
	US$	US$
Stage 3 ECL		
New provisions	5,533,320	4,858,011
Releases	(1,192,585)	(452,141)
Recoveries	(67,769)	(450,310)
	4,272,966	3,955,560
Stage 1 and 2 ECL		
New provisions (note)	3,314,573	296,086
Releases	-	-
	3,314,573	296,086
Net charge to the statement of profit or loss	7,587,539	4,251,646

Note: the stage 1 and 2 ECL on loans and advances includes the stage 1 ECL on off-balance sheet exposures of US$464 (2019: US$341).

9 Directors' emoluments

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

	2020 US$	*2019* US$
Directors' fees	38,703	38,219
Salaries, allowances and benefits in kind	68,535	86,246
Discretionary bonuses	150,148	140,271
Retirement scheme contributions	-	-
	257,386	264,736

10 Income tax

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

	2020 US$	*2019* US$
Current tax - Hong Kong Profits Tax		
Provision for the year (note 17 (a))	882,840	560,015
Over provision in respect of prior years	(31,625)	(9,188)
	851,215	550,827
Deferred tax		
Origination and reversal of temporary differences (note 17(b))	(701,159)	(34,791)
Income tax charge	150,056	516,036

The first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax was calculated at the same basis in 2019. The provision for Hong Kong Profits Tax for 2020 is taken in account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK$20,000 (2019: a maximum reduction of HK$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2019).

10 Income tax (continued)

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

	2020 US$	*2019* US$
Profit before tax	2,073,604	3,271,475
Notional tax on profit before tax, calculated under Hong Kong Profits Tax two-tiered rate regime	320,856	539,793
Tax effect of non-deductible expenses	116,192	44,089
Tax effect of non-taxable revenue	(222,188)	(59,283)
Tax effect of other adjustments	(33,179)	625
Over provision in respect of prior years	(31,625)	(9,188)
Actual tax charge	150,056	516,036

11 Other comprehensive income

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

	2020			*2019*		
	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	38,225	-	38,225	91,591	-	91,591
Other comprehensive income	38,225	-	38,225	91,591	-	91,591

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

	2020 US$	*2019* US$
Investment securities:		
Changes in fair value recognised during the year	38,225	91,591
Net deferred tax (charged)/credited to other comprehensive income (note 17(b))	-	-
Net movement in the revaluation reserve and translation reserve during the year recognised in other comprehensive income	38,225	91,591

12 Cash and balances with banks and other financial institutions

	2020 US$	*2019* US$
Cash in hand	645	637
Balances with banks and authorised institutions with remaining maturity of:		
within one month	11,806,266	22,998,635
	11,806,911	22,999,272

13 Trading assets

	2020 US$	*2019* US$
Positive fair values of derivatives (note 27(b))	-	314,475

14 Loans and advances to customers

(a) Loans and advances to customers

	2020 US$	*2019* US$
Loans and advances to customers at amortised cost	140,695,569	120,141,973
Finance leases(note 14(e))	433,297,099	556,685,407
Gross loans and advances to customers	573,992,668	676,827,380
Less: Impairment allowances (note 14(b))		
- stage 3 ECL	(8,987,057)	(7,637,907)
- stage 1 and 2 ECL	(4,973,413)	(1,619,851)
Unearned discount on purchased lease and loan contracts	(2,908)	(6,477)
	560,029,290	667,563,145

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.

	2020			
	Stage 1 ECL US$	*Stage 2 ECL* US$	*Stage 3 ECL* US$	*Total* US$
At 1 April 2019	525,805	1,094,046	7,637,907	9,257,758
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(18,412)	18,412	-	-
Transfer to Stage 3	(16,282)	(356,735)	373,017	-
Net remeasurement of loss allowance (including exchange adjustments)	1,018,280	1,654,209	3,544,304	6,216,793
New financial assets originated or purchased	1,119,934	315,929	537,613	1,973,476
Financial assets that have been derecognised and repayment	(118,070)	(263,703)	-	(381,773)
Write-offs	-	-	(3,105,784)	(3,105,784)
At 31 March 2020	2,511,255	2,462,158	8,987,057	13,960,470

	2019			
	Stage 1 ECL US$	*Stage 2 ECL* US$	*Stage 3 ECL* US$	*Total* US$
At 1 April 2018	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

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").

	2020		*2019*	
	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
Financial concerns	3,569,137	100	4,327,955	100
Wholesale and retail trade	1,832,813	36	1,666,725	37
Manufacturing	14,650,647	39	23,315,381	51
Transport and transport equipment	357,786,359	96	464,392,447	96
Others	71,294,826	77	69,626,170	77
Individuals				
Loans and advances for the purchase of other residential properties	49,307	100	130,631	100
Others	28,588,824	66	30,499,341	71
	477,771,913	89	594,186,674	91
Gross loans and advances for use outside Hong Kong	96,220,755	84	82,640,706	89
Gross loans and advances to customers	573,992,668	88	676,827,380	91

14 Loans and advances to customers (continued)

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

	2020 US$	*2019* US$
Gross impaired (stage 3) loans and advances to customers	12,332,553	11,761,119
Impairment allowance - stage 3 ECL (note 14(b))	(8,987,057)	(7,637,907)
	3,345,496	4,123,212
As a percentage of total loans and advances to customers		
Gross impaired (stage 3) loans and advances	2.15%	1.74%

Stage 3 ECL impairment allowance were made after taking into account the realisable value of collateral in respect of such loans and advances of US$3,426,026 (2019: US$4,253,668) 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:

	2020		
	Present value of the minimum lease payments US$	*Interest income relating to future periods* US$	*Total minimum lease payments* US$
Within one year	179,051,619	16,117,180	195,168,799
After one year but within five years	248,020,546	16,105,836	264,126,382
After five years	6,224,934	399,184	6,624,118
	433,297,099	32,622,200	465,919,299
Impairment allowances	(12,614,418)		
Net investment in finance leases and hire purchase contracts	420,682,681		

14 Loans and advances to customers (continued)

	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		

15 Investment securities

	2020 US$	*2019* US$
Investment securities measured at fair value through other comprehensive income-debt instruments (note 15(a))	23,165,106	30,384,488
Investment securities designated as at fair value through other comprehensive income-equity instruments (note 15(b))	1,552,421	1,522,209
	24,717,527	31,906,697

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

	2020 US$	*2019* US$
Debt investment securities measured at fair value through other comprehensive income		
Unlisted debt securities	23,165,106	30,384,488
Issued by		
- Sovereigns	23,165,106	30,384,488

15 Investment securities (continued)

(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 2020 US$	*Dividend income recognised 2020* US$
Equity investment securities designated as at fair value through other comprehensive income		
Equity security		
- Unlisted	1,552,421	578,540

	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	-

During the year ended 31 March 2020, there was no transfer of any cumulative gain or loss within equity relating to this investment.

16 Property and equipment

	Leasehold improvements US$	*Furniture and equipment* US$	*Motor vehicles* US$	*Other properties and office equipments leased for own use* US$	*Total* US$
Cost:					
At 31 March 2019	1,561,197	2,934,782	97,290	-	4,593,269
Impact on initial application of HKFRS 16 (Note)	-	-	-	14,351,436	14,351,436
At 1 April 2019	1,561,197	2,934,782	97,290	14,351,436	18,944,705
Additions	-	320,357	113,776	74,498	508,631
Disposals	-	(213,220)	(97,290)	-	(310,510)
Exchange adjustment	-	-	-	181,601	181,601
At 31 March 2020	1,561,197	3,041,919	113,776	14,607,535	19,324,427
Accumulated depreciation:					
At 1 April 2019	423,493	2,203,226	97,290	-	2,724,009
Charge for the year	203,768	526,389	5,689	2,644,648	3,380,494
Disposals	-	(213,220)	(97,290)	-	(310,510)
Exchange adjustment	-	-	-	21,903	21,903
At 31 March 2020	627,261	2,516,395	5,689	2,666,551	5,815,896
Net book value:					
At 31 March 2020	933,936	525,524	108,087	11,940,984	13,508,531
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

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

17 Income tax in the statement of financial position

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

	2020 US$	*2019* US$
Provision for Hong Kong Profits Tax (note 10(a))	882,840	560,015
Provisional Profits Tax paid	(535,256)	(1,317,660)
Tax payable/(recoverable)	347,584	(757,645)

(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$	*Depreciation charge of right-of-use assets* US$	*Bonus provision* US$	*Credit loss allowance* US$	*Total* US$
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 and 1 April 2019	41,600	-	220,859	267,359	529,818
Charged to statement of profit or loss (note 10(a))	16,122	122,803	8,971	553,263	701,159
At 31 March 2020	57,722	122,803	229,830	820,622	1,230,977

18 Other assets

	2020 US$	*2019* US$
Interest receivable	930,730	710,822
Amounts due from fellow subsidiaries	3,083,403	3,214,992
Deposits, prepayment and other receivables	5,447,831	6,525,486
	9,461,964	10,451,300

19 Deposits from customers

	2020 US$	*2019* US$
Time, call and notice deposits	96,708,525	112,767,628

20 Loans from ultimate holding company

The balance represents loans from the ultimate holding company bear interest at 2.64% per annum (2019: 2.29%), amounting to 2020: US$50,647,922 (2019: US$49,932,249). The loans are unsecured and repayable after two years (2019: after three year).

21 Trading liabilities

	2020 US$	*2019* US$
Negative fair value of derivatives (note 27(b))	867,858	33,127

22 Other liabilities

	31 March 2020 US$	*1 April 2019* US$	*31 March 2019* US$
Interest payable	869,741	781,497	781,497
Amounts due to fellow subsidiaries	3,022,386	3,787,882	3,787,882
Other liabilities and accrued charges (note)	5,516,685	6,882,413	7,550,234
	9,408,812	11,451,792	12,119,613

Note: On the date of transition to HKFRS 16, accrued lease payments of US$667,821 previously included in “Other liabilities and accrued charges” were adjusted to right-of-use assets recognised at 1 April 2019. See note 2(c).

23 Lease liabilities

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 March 2020		*1 April 2019*	
	Present value of the minimum lease payments	*Total minimum lease payments*	*Present value of the minimum lease payments*	*Total minimum lease payments*
	$	$	$	$
Within 1 year	2,966,626	3,016,782	2,940,984	2,990,774
After 1 year but within 2 years	2,866,575	3,006,138	2,804,213	2,942,426
After 2 years but within 5 years	6,853,046	7,601,812	7,855,553	8,770,410
After 5 years	-	-	1,417,403	1,674,524
	9,719,621	10,607,950	12,077,169	13,387,360
	12,686,247	13,624,732	15,018,153	16,378,134
Less: total future interest expenses		(939,485)		(1,359,981)
Present value of lease liabilities		12,685,247		15,018,153

Note: The Company has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 March 2019 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020
	$
Depreciation charge of right-of-use assets by class of underlying asset:	
Plant and equipment	2,644,648
	2,644,648
Interest on lease liabilities	435,255
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020	108,652

24 Share capital

	2020		2019	
	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 2019 and 2020, 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 2019 and 2020 and is well above the minimum required ratio set by the HKMA.

25 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 comprises the cumulative net change in the fair value of investment securities measured at fair value through other comprehensive income until the financial assets are derecognised and is dealt with in accordance with the accounting policies in note 2(d).

25 Reserves (continued)

(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 2020, a regulatory reserve of US$2.20 million (2019: US$6.84 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.

26 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement

	2020 US$	*2019* US$
Cash and balances with banks and other financial institutions	8,293,576	12,872,703
Placements with banks with original maturity less than three months	3,513,335	10,126,569
	11,806,911	22,999,272

27 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.

	2020 US$	*2019* US$
Currency derivatives		
Forwards and futures	257,500,000	257,683,859

27 Derivatives (continued)

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

	2020			*2019*		
	Fair value			*Fair value*		
	Assets US$	*Liabilities* US$	*Credit risk weighted* amount US$	*Assets* US$	*Liabilities* US$	*Credit risk weighted* amount US$
Currency derivatives	-	(867,858)	515,000	314,475	(33,127)	579,386

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.

	2020 US$	*2019* US$
Currency derivatives		
Notional amounts with remaining life of one year or less	257,500,000	257,683,859

28 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:

	2020 US$	*2019* US$
Trade-related contingencies (note 29(a)(i))	165,947	2,481,077
Other commitments		
- with an original maturity of under one year or which are unconditionally cancellable	16,175,593	25,302,129
	16,341,540	27,783,206

28 Contingent liabilities and commitments (continued)

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 lease contracts are as follows:

	2019
	US$
Leases expiring:	
Within one year	2,972,814
After one year but within five years	11,708,458
Over five years	1,674,526
	16,355,798

The Company is the lessee in respect of a number of properties and items of office equipment held under leases which were previously classified as operating leases under HKAS 17. The Company has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Company adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(f). The operating lease commitments as at 31 March 2019 have been restated to conform with the current year's presentation.

29 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.

29 Financial risk management (continued)

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 2020 and 2019 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.

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.

29 Financial risk management (continued)

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.

(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:

	2020	*2019*
	US$	US$
Cash and balances with banks and other financial institutions	11,806,911	22,999,272
Trading assets	-	314,475
Loans and advances to customers	560,029,290	667,563,145
Investment securities	24,717,527	31,906,697
Other assets	9,461,964	10,451,300
Credit-related contingent liabilities (note 28(a))	165,947	2,481,077
	606,181,639	735,715,966

29 Financial risk management (continued)

(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:

	2020				*2019*
	Stage 1 US$	*Stage 2* US$	*Stage 3* US$	*Total* US$	*Total* US$
Current	524,881,303	3,679,118	1,482,821	530,043,242	652,089,805
Overdue 30 days or less	8,827,772	1,526,756	222,202	10,576,730	8,349,142
Overdue over 30 days	-	12,201,299	21,171,397	33,372,696	16,388,433
	533,709,075	17,407,173	22,876,420	573,992,668	676,827,380

Of which:

	2020				*2019*
	Stage 1 US$	*Stage 2* US$	*Stage 3* US$	*Total* US$	*Total* US$
- Grade A: Pass	530,842,706	306,307	-	531,149,013	652,147,208
- Grade B: Special mention	2,866,369	17,100,866	4,447,091	24,414,326	12,184,563
- Grade C: Substandard	-	-	9,295,448	9,295,448	5,875,691
- Grade D: Doubtful	-	-	8,663,487	8,663,487	5,376,602
- Grade E: Loss	-	-	470,394	470,394	1,243,316
	533,709,075	17,407,173	22,876,420	573,992,668	676,827,380

(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.

29 Financial risk management (continued)

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

	2020 US$	*2019* US$
Fair value of collaterals and other credit enhancements held against financial assets that are:		
Loans and advances to customers at amortised cost	135,711,057	126,736,700
Finance leases	568,260,866	753,354,708
	703,971,923	880,091,408

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.

29 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.

	2020		
	USD equivalents		
	HK dollars	*Japanese Yen*	*Total*
Spot assets	550,586,782	74,101,974	624,688,756
Spot liabilities	(249,973,235)	(67,177,825)	(317,151,060)
Forward purchases	-	-	-
Forward sales	(258,501,890)	-	(258,501,890)
Net long non-structural position	42,111,657	6,924,149	49,035,806

	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

The Company does not have any structural position as at 31 March 2020 (2019: Nil).

29 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.

	2020		*2019*	
	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%	351,632	1%	336,930
	(1%)	(351,632)	(1%)	(336,930)
Japanese Yen	3%	173,450	3%	132,529
	(3%)	(173,450)	(3%)	(132,529)

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 2019.

29 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:

	2020						
	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	0.98%	11,806,911	4,966,204	-	-	-	6,840,707
Loans and advances to customers	4.52%	560,029,290	248,509,567	104,302,785	207,112,610	104,283	45
Investment securities	1.39%	24,717,527	15,460,949	7,704,157	-	-	1,552,421
Other assets	2.08%	24,201,472	3,033,310	-	-	-	21,168,162
Total assets		620,755,200	271,970,030	112,006,942	207,112,610	104,283	29,561,335
Liabilities							
Deposits and balances of banks and other financial institutions	1.98%	119,779,192	52,243,005	-	67,536,187	-	-
Deposits from customers	2.18%	96,708,525	79,656,382	10,140,886	-	-	6,911,257
Deposits from fellow subsidiaries	2.05%	51,895,683	51,895,683	-	-	-	-
Loans from ultimate holding company	2.64%	50,647,922	50,647,922	-	-	-	-
Current taxation		347,584	-	-	-	-	347,584
Lease liabilities (note)	3.46%	12,685,247	753,639	2,212,987	9,718,621	-	-
Other liabilities	3.87%	10,276,670	3,019,154	-	-	-	7,257,516
Total liabilities		342,340,823	238,215,785	12,353,873	77,254,808	-	14,516,357
Interest rate sensitivity gap			33,754,245	99,653,069	129,857,802	104,283	15,044,978

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

29 Financial risk management (continued)

	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

29 Financial risk management (continued)

Sensitivity analysis

At 31 March 2020, 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$823,000 (2019: increase of US$298,000).

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 (2019: 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 2019.

(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.

29 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.

29 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.

	2020							
	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	11,806,911	8,293,576	3,513,335	-	-	-	-	-
Loans and advances to customers	560,029,290	-	21,340,682	41,702,240	139,035,284	296,251,864	51,638,935	10,060,285
Investment securities	24,717,527	-	5,158,810	10,302,139	7,704,157	-	-	1,552,421
Property and equipment	13,508,531	-	224,805	660,963	1,982,888	9,072,328	-	1,567,547
Other assets	9,461,964	3,083,403	325,459	11,440	6,227	-	-	6,035,435
Undated assets	1,230,977	-	-	-	-	-	-	1,230,977
Total assets	620,755,200	11,376,979	30,563,091	52,676,782	148,728,556	305,324,192	51,638,935	20,446,665
Liabilities								
Deposits and balances of banks and other financial institutions	119,779,192	-	27,690,931	24,552,074	-	67,536,187	-	-
Deposits from customers	96,708,525	-	10,054,983	70,132,780	12,700,614	3,820,148	-	-
Deposits from fellow subsidiaries	51,895,683	-	-	51,895,683	-	-	-	-
Lease liabilities (note)	12,685,247	-	254,822	498,817	2,212,987	9,718,621	-	-
Loans from ultimate holding company	50,647,922	-	-	-	38,702,686	11,945,236	-	-
Current taxation	347,584	-	-	-	347,584	-	-	-
Other liabilities	10,276,670	3,022,386	6,311,663	203,951	244,019	494,651	-	-
Total liabilities	342,340,823	3,022,386	44,312,399	147,283,305	54,207,890	93,514,843	-	-
Asset-liability gap		8,354,593	(13,749,308)	(94,606,523)	94,520,666	211,809,349	51,638,935	20,446,665

Note: The Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

29 Financial risk management (continued)

	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
Property and equipment	1,869,260	-	-	-	-	-	-	1,869,260
Other assets	10,451,300	3,214,992	371,982	37,165	9,129	-	-	6,818,032
Undated assets	1,601,938	-	-	-	-	-	-	1,601,938
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

29 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:

	2020								
	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	119,779,192	122,862,528	-	28,064,866	24,732,483	1,049,569	69,015,610	-	-
Deposits from customers (note 1)	96,708,525	90,433,027	-	9,688,100	70,454,064	10,290,863	-	-	-
Deposits from fellow subsidiaries	51,895,683	51,987,003	-	91,320	51,895,683	-	-	-	-
Lease liabilities (note 3)	12,685,247	13,624,732	-	255,479	502,055	2,259,248	10,607,950	-	-
Loans from ultimate holding company	50,647,922	51,687,164	-	335,135	-	39,382,006	11,970,023	-	-
Current taxation	347,584	347,584	-	-	-	347,584	-	-	-
Other liabilities (note 2)	10,276,670	6,969,584	2,814,246	4,155,338	-	-	-	-	-
Total liabilities	342,340,823	337,911,622	2,814,246	42,590,238	147,584,285	53,329,270	91,593,583	-	-
Commitments									
Guarantees, acceptances and other financial facilities	165,947	165,947	-	-	-	165,947	-	-	-

	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	-	-	-

Note 1: the amount of gross nominal outflow excludes receipt in advance from lessees of US$6,911,257 (2019: US$9,263,423).

Note 2: the amount of gross nominal outflow excludes bonus provision of US$1,392,910 (2019: US$1,338,537).

Note 3: the Company has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

29 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.

30 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

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.

30 Fair values of financial instruments (continued)

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.

- 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.

30 Fair values of financial instruments (continued)

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:

	2020			
	Level 1 US$	*Level 2* US$	*Level 3* US$	*Total* US$
Assets				
Financial assets at fair value through other comprehensive income:				
- Debt securities	23,165,106	-	-	23,165,106
- Equity securities	-	-	1,552,421	1,552,421
	23,165,106	-	1,552,421	24,717,527
Liabilities				
Trading liabilities	-	867,858	-	867,858

	2019			
	Level 1 US$	*Level 2* US$	*Level 3* US$	*Total* 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

During the year ended 31 March 2020 and 2019, 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.

30 Fair values of financial instruments (continued)

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	
	2020	*2019*
	US$	US$
Assets		
At 1 April	1,522,209	-
Additions	-	1,488,940
Translation reserve recognised in the other comprehensive income	30,212	33,269
At 31 March	1,552,421	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	63,481	33,269

Any gain or loss arising from the remeasurement of the unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

(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

31 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.

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

	2020	*2019*
	US$	US$
Fellow subsidiaries		
Interest income	144,595	105,928
Interest expense	(2,001,148)	(2,929,716)
Fee and commission income	6,942,375	2,874,449
Fee and commission expense	(204,000)	(216,000)
Other operating expense	(26,824)	(27,367)
Other operating income	976,097	973,961
Ultimate holding company		
Interest expense	(1,299,170)	(1,103,802)
Other operating expense	(200,654)	(267,535)

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

	2020	*2019*
	US$	US$
Fellow subsidiaries		
Loans and advances to customers	-	20,760
Other assets	1,928,112	3,888,186
Deposits from fellow subsidiaries	(70,436,265)	(112,854,702)
Other liabilities	(5,615,170)	(6,130,941)
Ultimate holding company		
Other assets	36,623	37,679
Loans from ultimate holding company	(50,322,686)	(47,002,979)
Other liabilities	(241,240)	(228,231)

31 Material related party transactions (continued)

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$120 million (2019: US$192million) 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.

(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:

	2020 US$	*2019* US$
Aggregate amount of relevant loans by the Company outstanding at 31 March	-	-
Maximum aggregate amount of relevant loans by the Company outstanding during the year	-	-

There were no interest due but unpaid nor any provision made against these loans at 31 March 2020 and 2019.

32 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.

33 Key sources of estimation uncertainty

Expected credit losses for loans and advances

Policies on credit losses and impairment of loans and advances are set out in note 2(h).

34 Events after reporting period

The coronavirus outbreak has started since January 2020. This rapidly evolving situation has adversely impacted global commercial activities. The rapid development and fluidity of this situation precludes any prediction as its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The management has been continuingly monitoring developments relating to coronavirus and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, relevant governments, and general pandemic response best practices.

The Directors believe they have incorporated reasonable measures in the Company and adjustments on impairment as at 31 March 2020 as a result of this subsequent event.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 March 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

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.

	2020	*2019*
Capital ratio:		
Common Equity Tier 1 ("CET1") Capital Ratio	44.17%	37.35%
Tier 1 Capital Ratio	44.17%	37.35%
Total Capital Ratio	45.32%	38.52%

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 2020, 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:

	2020 US$	*2019* US$
CET1 Capital:		
CET1 Capital instruments	32,000,000	32,000,000
Retained earnings	246,329,136	244,404,484
Disclosed reserves	85,241	47,016
CET1 Capital before deductions	278,414,377	276,451,500
Regulatory deductions to CET1 capital:		
Regulatory reserve for general banking risks	2,201,495	6,840,491
Net deferred tax assets	1,230,977	529,818
Total CET1 Capital	274,981,905	269,081,191
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	274,981,905	269,081,191

Unaudited supplementary financial information (continued)

(a) Capital and capital adequacy (continued)

	2020 US$	*2019* 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	7,146,973	8,407,733
Total T2 Capital	7,146,973	8,407,733
Total Capital	282,128,878	277,488,924

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

	2020 (Under LMR)	*2019 (Under LMR)*	*2018 (Under LMR)*
Average liquidity ratio	94.25%	58.93%	53.31%

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:

2020

	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	357,786,359	2,157,068	9,893,784	849,136	2,908,173	2,463,949	786,937
Others	71,294,826	409,007	930,528	226,365	1,143,053	1,137,790	63,127
Loans and advances for use outside HK							
Property investment	71,217,215	-	-	-	40,088	39,677	-

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	-

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets

(i) Overdue loans and advances to customers

	2020		*2019*	
	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	9,374,575	1.63%	3,334,092	0.49%
one year or less but over six months	1,471,929	0.26%	2,977,022	0.44%
Over one year	8,362,478	1.46%	4,154,678	0.61%
	19,208,982	3.35%	10,465,792	1.54%
Current market value of collateral held against the covered portion of overdue loans and advances	14,676,866		4,563,963	
Covered portion of overdue loans and advances	11,362,718		4,065,912	

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets (continued)

	2020		*2019*	
	Amount US$	*% of total advances to customers*	*Amount* US$	*% of total advances to customers*
Uncovered portion of overdue loans and advances	7,846,264		6,399,880	
Individual impairment allowances made on loans and advances overdue for more than three months	8,226,182		6,422,015	

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 2020 and 2019.

(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 2020 and 2019.

(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 2020 and 2019.

(v) Other overdue assets

There are no other assets which are overdue for more than three months as at 31 March 2020 and 2019.

Unaudited supplementary financial information (continued)

(d) Overdue and rescheduled assets (continued)

(vi) Geographical analysis of loans and advances to customers

	2020				
	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	567,205,391	18,950,353	12,073,923	8,835,727	4,895,597
Others	6,787,277	258,630	258,630	151,330	77,816
	573,992,668	19,208,983	12,332,553	8,987,057	4,973,413

	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

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 2020				
		Non-bank private sector			
	Banks US$	*Official sector* US$	*Non-bank financial institutions* US$	*Non-financial private sector* US$	*Total* US$
Developed countries	8,037,734	-	-	1,640,984	9,678,718
Offshore centres	43,081	-	2,083,133	705,718	2,831,932
of which: Hong Kong	43,081	-	2,083,133	195,684	2,321,898
Developing Asia Pacific	8,436	-	-	6,632,334	6,640,770
of which: China	-	-	-	6,632,334	6,632,334
	8,089,251	-	2,083,133	8,979,036	19,151,420

	31 March 2019				
		Non-bank private sector			
	Banks US$	*Official sector* US$	*Non-bank financial institutions* US$	*Non-financial private sector* US$	*Total* 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

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.

	2020		
	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	84,049	-	84,049
Other entities of local governments	4,015,911	-	4,015,911
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	24,622,699	645,045	25,267,744
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	4,627,487	-	4,627,487
	33,350,146	645,045	33,995,192
Total assets after provision	620,755,200		
On-balance sheet exposures as percentage of total assets	5.37%		

Unaudited supplementary financial information (continued)

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

	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%		

(g) Repossessed assets

	2020 US$	*2019* US$
Repossessed assets	748,450	11,972

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

	2020		*2019*	
	Profit before taxation US$	*Total assets* US$	*Profit before taxation* US$	*Total assets* US$
Commercial financing business	1,710,533	564,074,252	3,984,702	670,798,419
Investment	(2,517,550)	24,717,527	(2,247,749)	31,906,697
Others	-	-	1,255	-
	(807,017)	588,791,779	1,738,208	702,705,116
Unallocated income/assets	2,880,621	31,963,421	1,533,267	32,202,945
	2,073,604	620,755,200	3,271,475	734,908,061

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:

	2020 US$	*2019* US$
Total capital requirements for on-balance sheet exposures	571,209,649	671,543,056
Total capital requirements for off-balance sheet exposures	548,189	1,075,601
	571,757,838	672,618,657

(ii) Capital charge

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

	2020 US$	*2019* US$
Capital charge for operational risk	4,034,368	3,788,060

(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 is authorised by the Board of Directors to review all matters related to financial statements and disclosures, audit work performed by internal auditors, internal control systems, and the effectiveness of risk management and compliance for the Company. The Audit Committee comprises members of non-executive and independent directors, which meets three to four times a year with the Company's management, key personnel and head of internal audit. The Chairman of the Committee is an independent non-executive director.

(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*
1,558,131	569,040	16

(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

	2020	*2019*
Leverage ratio	44.24%	36.63%

As required by section 24A of 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 2020 was compiled in accordance with the CCyB ratio framework issued by the HKMA.

	2020	*2019*
CCyB ratio	0.9848%	2.4471%

As required by section 24B of BDR, the Company's risk-weighted amounts in relation to each jurisdiction in which the Company has private sector credit exposures and the applicable jurisdiction countercyclical capital buffer ("JCCyB") ratio for each jurisdiction that is relevant to the calculation of the Company's CCyB ratio are as follows:

Jurisdiction	*2020 Total risk-weighted amount* US$	*JCCyB ratio*	*2019 Total risk-weighted amount* US$	*JCCyB ratio*
Hong Kong SAR	557,932,915	1%	650,354,937	2.5000%
China	6,481,004	0%	11,841,078	0%
Curacao	19,594	0%	19,594	0%
Japan	1,640,984	0%	1,559,790	0%
Macau SAR	58,868	0%	62,950	0%
New Zealand	-	0%	-	0%
Samoa	36,841	0%	149,134	0%
Singapore	-	0%	-	0%
West Indies UK	394,731	0%	414,081	0%
Total across countries	566,564,937		664,401,564	

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 2020 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 67, which comprise the statement of financial position as at 31 March 2020, 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 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We 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.

- 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.

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

- 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

24 July 2020

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