

# **LIVI VB LIMITED**

(Incorporated in Hong Kong with limited liability)

## **Report of the Directors and Audited Financial Statements**

**For the period from 18 March 2019 (date of incorporation) to 31 December 2019**



# LIVI VB LIMITED

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# **LIVI VB LIMITED**

## **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements of Livi VB Limited (the “Bank”) for the period from 18 March 2019 (date of incorporation) to 31 December 2019.

### **Principal activities**

The Bank is developing a virtual banking business in Hong Kong after being granted the license by the Hong Kong Monetary Authority (the “HKMA”) on 27 March 2019. A “virtual bank” is a bank licensed under the Banking Ordinance which primarily delivers banking services through the internet or other forms of electronic channels.

### **Business review**

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

### **Incorporation and shares issued**

The Bank was incorporated in Hong Kong on 18 March 2019 with share capital of HK\$2,500,000,000 divided into 2,500,000,000 ordinary shares. Details of movements in the Bank’s share capital during the period are set out in note 18 to the financial statements.

### **Results and dividends**

The results of the Bank for the period ended 31 December 2019 are set out in the statement of comprehensive income on page 6.

The directors do not recommend the payment of any dividend in respect of the period.

# LIVI VB LIMITED

## REPORT OF THE DIRECTORS (CONTINUED)

### Directors

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

Zhong Xiangqun	(Appointed on 21 March 2019)
Wang Lan	(Appointed on 21 March 2019 and resigned on 8 February 2020)
Guo Wei Min	(Appointed on 21 March 2019)
Yao Cheng Chang	(Appointed on 21 March 2019)
Shen Jian Guang	(Appointed on 21 March 2019)
Mark Spencer Greenberg	(Appointed on 21 March 2019)
Nicholas Robert Sallnow Smith	(Appointed on 18 April 2019)
Liang Yi Ming	(Appointed on 10 October 2019)
Barbara Shiu	(Appointed on 10 October 2019)
Cheng Wing Choy	(Appointed on 18 March 2019 and resigned on 21 March 2019)
Sun Dawei	(Appointed on 6 March 2020)

There being no provision in the Bank's Articles of Association for retirement by rotation, all remaining directors continue in office.

### Directors' rights to acquire shares or debentures

At no time during the period was the Bank a party to any arrangements to enable the Bank's directors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

### Directors' interests in transactions, arrangements or contracts

Saved as disclosed in note 22, no director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Bank during the period.

### Management contracts

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

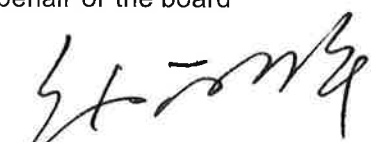
### Permitted indemnity provision

Pursuant to the Articles of Association, every director shall be indemnified out of funds of the Bank against all liabilities incurred by him/her to the extent permitted by the Hong Kong Companies Ordinance. The Bank has maintained insurance for the benefit of directors against liability which may lawfully be insured by the Bank.

### Auditors

Ernst & Young was appointed as auditors of the Bank for the period ended 31 December 2019.

On behalf of the board



Zhong Xiangqun  
Chairman  
Hong Kong  
26 March 2020



Ernst & Young  
22/F, CITIC Tower  
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Central, Hong Kong

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## **INDEPENDENT AUDITOR'S REPORT**

### **To the member of Livi VB Limited**

*(Incorporated in Hong Kong with limited liability)*

### **Opinion**

We have audited the financial statements of Livi VB Limited (the "Bank") set out on pages 6 to 32, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 18 March 2019 (date of incorporation) to 31 December 2019, 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 Bank as at 31 December 2019, and of its financial performance and its cash flows for the period 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 ("HKSAAs") 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 Bank in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 of the Bank are responsible for the other information. The other information comprises the information included in the report of the directors.

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.



## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**To the member of Livi VB Limited**

*(Incorporated in Hong Kong with limited liability)*

### **Responsibilities of the directors for the financial statements**

The directors of the Bank 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 of the Bank are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Bank 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. Our 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 HKSAAs 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 HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**To the member of Livi VB Limited**

*(Incorporated in Hong Kong with limited liability)*

**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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of 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.

Certified Public Accountants

Hong Kong

26 March 2020



# LIVI VB LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

PERIOD FROM 18 MARCH 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

	Notes	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
<b>Operating income</b>		
Interest income		24,678
Interest expense		(1,104)
<b>Net interest income</b>	<b>4</b>	<b>23,574</b>
<b>Operating expenses</b>		
Staff costs	5	(70,952)
Legal and professional fees		(71,599)
Depreciation of equipment, furniture and fixtures	13	(4,822)
Amortisation of intangible assets	14	(6,815)
Depreciation of right-of-use assets	15	(4,884)
Other operating expenses	7	(65,317)
<b>TOTAL OPERATING EXPENSES</b>		<b>(224,389)</b>
<b>Net operating loss before net charges of expected credit losses</b>		<b>(200,815)</b>
Net charges of expected credit losses	8	(598)
<b>Loss for the Period</b>		<b>(201,413)</b>
<b>Other comprehensive income</b>		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Financial assets at fair value through other comprehensive income ("FVOCI"):		
– Fair value gain		7
– Expected credit losses recognised		73
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>80</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(201,333)</b>

# LIVI VB LIMITED

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Notes	2019 HK\$'000
<b>Assets</b>		
Cash and balances with banks	10	26,719
Placements with banks	11	867,478
Financial assets at FVOCI	12	1,299,886
Equipment, furniture and fixtures	13	76,375
Intangible assets	14	144,047
Right-of-use assets	15	84,997
Prepayments, accrued interest and other assets		16,912
<b>TOTAL ASSETS</b>		<b>2,516,414</b>
<b>Liabilities</b>		
Customer deposits		407
Lease liabilities		80,562
Other liabilities and provisions		136,778
<b>TOTAL LIABILITIES</b>		<b>217,747</b>
<b>NET ASSETS</b>		<b>2,298,667</b>
<b>Equity</b>		
Share capital	18	2,500,000
Reserves		(201,333)
<b>TOTAL EQUITY</b>		<b>2,298,667</b>

  
Zhong Xiangqun  
Chairman

Sun Dawei   
Director

# LIVI VB LIMITED

## STATEMENT OF CHANGES IN EQUITY

PERIOD FROM 18 MARCH 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

	Share capital HK\$'000	Accumulated losses HK\$'000	Financial assets at FVOCI reserve HK\$'000	Total HK\$'000
At 18 March 2019 (date of incorporation)	-	-	-	-
Loss for the period	-	(201,413)	-	(201,413)
Change in fair value on financial assets at FVOCI	-	-	7	7
Expected credit losses recognised	-	-	73	73
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive loss for the period	-	(201,413)	80	(201,333)
Issue of share capital	2,500,000	-	-	2,500,000
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2019</b>	<b>2,500,000</b>	<b>(201,413)</b>	<b>80</b>	<b>(2,298,667)</b>
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# LIVI VB LIMITED

## STATEMENT OF CASH FLOWS

PERIOD FROM 18 MARCH 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

Period from  
18 March  
2019 (date of  
incorporation)  
to 31 December  
2019  
HK\$'000

### Cash flows from operating activities

<b>Loss for the period</b>	<b>(201,413)</b>
<b>Adjustments for non-cash items:</b>	
Depreciation of right-of-use assets and equipment, furniture and fixtures	9,706
Amortisation of intangible assets	6,815
Net charges of expected credit losses	598
Interest expenses on lease liabilities	1,104
	<u>(183,190)</u>

### Changes in operating assets and liabilities

Increase in prepayments, accrued interest and other assets	(16,912)
Increase in customer deposits	407
Increase in other liabilities and provisions	130,275
	<u>(69,420)</u>

### Net cash flows used in operating activities

### Cash flows from investing activities

Purchase of equipment, furniture and fixtures	(81,197)
Purchase of intangible assets	(150,862)
Acquisition costs of right-of-use assets	(767)
	<u>(232,826)</u>

### Net cash flows used in investing activities

### Cash flows from financing activities

Proceeds from issue of shares	2,500,000
Payment of lease liabilities	(3,153)
	<u>2,496,847</u>

### Net cash flows from financing activities

# LIVI VB LIMITED

## STATEMENT OF CASH FLOWS (CONTINUED)

PERIOD FROM 18 MARCH 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

Period from  
18 March  
2019 (date of  
incorporation)  
to 31 December  
2019  
HK\$'000

**Net increase in cash and cash equivalents** 2,194,601

Cash and cash equivalents at beginning of period —

**Cash and cash equivalents at end of period** 2,194,601

### Analysis of balances of cash and cash equivalents

Cash and balances with banks 26,722

Placements with banks with an original maturity within three months 868,000

Exchange Fund Bills with an original maturity within three months 1,299,879

2,194,601

Cash flows from operating activities included

– Interest received 22,139

There were no cash and cash equivalents pledged at the end of the period.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS 31 DECEMBER 2019

### 1. GENERAL INFORMATION

Livi VB Limited (the “Bank”) operates a virtual banking business in Hong Kong after being granted the license by the HKMA on 27 March 2019. The address of the Bank’s registered office is 26th floor, Oxford House, 979 King’s Road, Quarry Bay, Hong Kong.

Information on the Bank’s structure is provided in note 19. Information on other related party relationships of the Bank is provided in note 22.

### 2.1 BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at FVOCI which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand unless otherwise stated.

The Bank has adopted for the first time all the applicable and effective HKFRSs.

### 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Bank has not applied any new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*<sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

Further information about those HKFRSs that are expected to be applicable to the Bank is as follows:

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring, it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Bank expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Bank’s financial statements.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Equipment, furniture and fixtures and depreciation

Equipment, furniture and fixtures are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to write off the cost of items of equipment, furniture and fixtures to their residual values, if any, over their estimated useful lives as follows:

Leasehold improvements	Over the shorter of the lease terms or 5 years
Computer equipment	3 - 5 years
Office equipment and furniture and fixtures	2 - 3 years

Residual values, useful lives and the depreciation method are reviewed annually.

An item of equipment, furniture and fixtures including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the disposal or retirement of an item of equipment, furniture and fixtures are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

#### (b) Intangible assets

Intangible assets include both purchased and internally generated software and are stated at cost less accumulated amortisation and impairment losses.

Software is recognised when it is separable or arise from contractual or other legal rights, and it is probable that future economic benefits will flow to the Bank, the cost of which can be measured reliably. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets with finite lives are amortised over the shorter of the license period or 5 years and are subject to impairment testing (see impairment of non-financial assets).

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### (d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash, balances with banks and Exchange Fund Bills which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

#### (e) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as placements with banks, are measured at amortised cost. In addition, all financial liabilities are measured at amortised cost. The Bank accounts for regular way purchased or acquired amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. They are normally derecognised when the rights to receive cash flows from the asset have expired.



# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Financial assets measured at FVOCI

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprises debt instruments. They are recognised on the trade date, that is, the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. They are subsequently remeasured at fair value and recognised in other comprehensive income until the assets are sold. They are normally derecognised when they are either sold or redeemed. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

#### (g) Impairment of financial assets

The Bank recognises an allowance for Expected Credit Losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

##### ***General approach***

Financial instruments are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### (h) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the 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.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date.

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 differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

#### (k) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### ***Bank as a lessee***

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### *Right-of-use assets*

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Leases (continued)

##### *Right-of-use assets (continued)*

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section "Impairment of non-financial assets".

##### *Lease liabilities*

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. The lease payments also include the penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

The Bank uses its incremental borrowing rate at the lease commencement date to calculate the present value of lease payments as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

##### *Short-term leases and leases of low-value assets*

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

#### (l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Bank and the revenue and costs, if applicable, can be measured reliably.

#### (m) Interest income and expense

Interest income and expense for all financial instruments are recognised in "Interest income" and "interest expense" in profit or loss using the effective interest method.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Bank's functional currency. Transactions in foreign currency are recorded at the rate of exchange on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary assets and liabilities are measured at historical cost that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in profit or loss depending on where the gain or loss on the underlying item is recognised.

#### (o) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

#### (p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period 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.

#### *Pension scheme*

The Bank operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance ("MPFSO") for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Bank in an independently administered fund. The employees are entitled to receive 100% of the Bank's employer contributions upon retirement, early retirement or termination of employment after completing 10 years of service. In addition to the Bank's employer mandatory contributions, employees with 3 to 9 years of service are entitled to receive the Bank's employer voluntary contributions at a scale ranging from 30% to 90% upon termination of employment for reasons other than summary of dismissal. All the Bank's employer contributions received by employees are subject to the MPFSO.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Related parties

A party is considered to be related to the Bank if:

- (I) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Bank;
  - (ii) has significant influence over the Bank; or
  - (iii) is a member of the key management personnel of the Bank or of a parent of the Bank;

Or

- (II) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Bank are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Bank 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 Bank or an entity related to the Bank;
  - (vi) the entity is controlled or jointly controlled by a person identified in (I);
  - (vii) a person identified in (I) (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); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Leases – Estimating the incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in its leases and therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for a subsidiary that does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

### 4. NET INTEREST INCOME

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Interest income from placements with banks	23,297
Interest income from Exchange Fund Bills	1,381
Interest expense on lease liabilities	(1,104)
Net interest income	<u><u>23,574</u></u>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 5. STAFF COSTS

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Salaries and bonuses	61,719
Pension costs – defined contribution plans	2,112
Others*	7,121
	<hr/>
Total staff costs (including directors' remuneration (note 6))	70,952
	<hr/> <hr/>

\* Includes shareholders' recharges for secondment staff

### 6. DIRECTORS' REMUNERATION

Directors are also the key management personnel of the Bank. Directors' remuneration disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Directors' fees	601
Other emoluments	
– Salaries and short-term employee benefits	490
– Pension scheme contributions	24
	<hr/>
	1,115
	<hr/> <hr/>



# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 7. OTHER OPERATING EXPENSES

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Information technology expenses*	42,782
Marketing expenses	10,404
Auditor's remuneration	470
Others	11,661
	<hr/>
Other operating expenses	65,317
	<hr/> <hr/>

\* Includes the expenses incurred for user acceptance testing not qualified for capitalisation.

### 8. NET CHARGES OF EXPECTED CREDIT LOSSES

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Cash and balances with banks and Placement with banks – Stage 1	525
Financial assets at FVOCI – Stage 1	73
	<hr/>
Net charges of expected credit losses	598
	<hr/> <hr/>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 9. INCOME TAX

No provision for Hong Kong profits tax has been made in current period as the Bank did not generate any assessable profits arising in Hong Kong during the period.

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate, is as follows:

	Period from 18 March 2019 (date of incorporation) to 31 December 2019	
	HK\$'000	%
Loss before tax	(201,413)	
Tax loss at the statutory tax rate	(33,233)	(16.5)
Estimated tax effect of non-deductible expenses	374	0.2
Estimated tax effect of unrecognised temporary differences	(35,530)	(17.6)
Estimated tax effect of tax losses not recognised	68,389	34.0
Tax charge at the effective rate	<u>          </u>	<u>          </u>

The Bank had tax losses arising in Hong Kong of approximately HK\$414,485,000 at 31 December 2019, that are available indefinitely for offset against future taxable profits of the Bank. Deferred tax assets have not been recognised in respect of these losses as there is no sufficient evidence that taxable profits will be available against which the tax losses can be utilised.

### 10. CASH AND BALANCES WITH BANKS

	2019 HK\$'000
Cash and balances with banks – Stage 1	26,722
Less: Allowances for expected credit losses – Stage 1	<u>          </u> (3)
	<u>          </u> <u>26,719</u>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 11. PLACEMENT WITH BANKS

	2019 HK\$'000
Placements with banks – Stage 1	868,000
Less: Allowances for expected credit losses – Stage 1	(522)
	<u>867,478</u>

### 12. FINANCIAL ASSETS AT FVOCI

	2019 HK\$'000
Exchange Fund Bills – Stage 1	1,299,879
Add: Revaluation gains	7
	<u>1,299,886</u>

### 13. EQUIPMENT, FURNITURE AND FIXTURES

	Leasehold improvements HK\$'000	Computer equipment HK\$'000	Office equipment and furniture and fixtures HK\$'000	Total HK\$'000
<b>31 December 2019</b>				
At 18 March 2019 (date of incorporation)	–	–	–	–
Additions	12,907	67,970	320	81,197
Depreciation provided during the period	(820)	(3,943)	(59)	(4,822)
At 31 December 2019, net of Accumulated depreciation	<u>12,087</u>	<u>64,027</u>	<u>261</u>	<u>76,375</u>
At 31 December 2019				
Cost	12,907	67,970	320	81,197
Accumulated depreciation	(820)	(3,943)	(59)	(4,822)
Net carrying amount	<u>12,087</u>	<u>64,027</u>	<u>261</u>	<u>76,375</u>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 14. INTANGIBLE ASSETS

	Software HK\$'000
31 December 2019	
At 18 March 2019 (date of incorporation)	—
Additions	150,862
Amortisation provided during the period	<u>(6,815)</u>
At 31 December 2019, net of accumulated amortisation	<u>144,047</u>
At 31 December 2019	
Cost	150,862
Accumulated amortisation	<u>(6,815)</u>
Net carrying amount	<u>144,047</u>

### 15. RIGHT-OF-USE ASSETS

The Bank has lease contracts for various items of properties used in its operations as lessee. Leases of properties have lease terms between 3 and 7 years. Generally, the Bank is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Properties HK\$'000
At 18 March 2019 (date of incorporation)	—
Additions	89,881
Depreciation provided during the period	<u>(4,884)</u>
At 31 December 2019, net of accumulated depreciation	<u>84,997</u>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 16. CURRENT ASSETS

Included within total assets, the following carrying amounts are considered as current assets:

	2019 HK\$'000
Cash and balances with banks	26,719
Placements with banks	867,478
Financial assets at FVOCI	1,299,886
Prepayments, accrued interest and other assets	12,221
Current assets	<u>2,206,304</u>

### 17. CURRENT LIABILITIES

Included within total liabilities, the following carrying amounts are considered as current liabilities:

	2019 HK\$'000
Customer deposits	407
Lease liabilities	12,593
Other liabilities and provisions	130,275
Current liabilities	<u>143,275</u>

### 18. SHARE CAPITAL

	2019 HK\$'000
Issued and fully paid:	
2,500,000,000 ordinary shares	<u>2,500,000</u>

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 18. SHARE CAPITAL (CONTINUED)

A summary of movements in the Bank's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000
At 18 March 2019 (date of incorporation)	—	—
Issuance of shares	2,500,000,000	2,500,000
At 31 December 2019	<u>2,500,000,000</u>	<u>2,500,000</u>

During the period ended 31 December 2019, the Bank has issued 2,500,000,000 ordinary shares of HK\$1 each to its shareholder.

### 19. GROUP INFORMATION

#### Holding company

The immediate and ultimate holding company of the Bank is Livi Holdings Limited which owns 100% of the Bank's ordinary shares.

#### Entities with significant influence over the Bank

The ordinary shares of the immediate holding company are owned by BOC Hong Kong (Holdings) Limited (44%), JD New Orbit Technology (Hong Kong) Limited (36%) and JSH Virtual Ventures Holdings Limited (20%). The shareholders of the immediate holding company of the Bank are considered as the entities with significant influence over the Bank.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 20. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the period are as follows:

#### Financial assets

	Financial assets at FVOCI HK\$'000	Financial assets at amortised cost HK\$'000	Total HK\$'000
Cash and bank balances	–	26,719	26,719
Placements with banks	–	867,478	867,478
Debt instruments at FVOCI	1,299,886	–	1,299,886
Accrued interest and other assets	–	6,241	6,241
	<u>1,299,886</u>	<u>900,438</u>	<u>2,200,324</u>

#### Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Customer deposits	407
Lease liabilities	80,562
Other liabilities	110,775
	<u>191,744</u>

### 21. FAIR VALUE OF ASSETS AND LIABILITIES

#### Financial instruments measured at fair value – fair value hierarchy

##### Financial assets

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Exchange Fund Bills at FVOCI	<u>1,299,886</u>	<u>–</u>	<u>–</u>	<u>1,299,886</u>

As at 31 December 2019, the Bank's financial assets and financial liabilities at amortised cost are primarily repayable within 12 months. The carrying amounts of these financial assets and financial liabilities approximate their fair values.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 22. RELATED PARTY TRANSACTIONS

- (a) The Bank had the following material transactions with entities of significant influence over the Bank during the period. These transactions were made on terms equivalent to normal commercial terms.

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Interest income	17,729
Operating expenses	20,084
Purchase of intangible assets	100,266

Outstanding balances with entities of significant influence over the Bank:

	2019 HK\$'000
Balances with banks	22,842
Placements with banks	68,000
Other liabilities	23,035

- (b) Key management personnel remuneration

Key management personnel of the Bank are directors and senior management having authority and responsibility for planning, directing and controlling the activities of the Bank. Their remunerations are as follows:

	Period from 18 March 2019 (date of incorporation) to 31 December 2019 HK\$'000
Salaries and short-term employee benefits*	3,167
Pension scheme contributions	46
	<u>3,213</u>

\* Includes shareholders' recharges for secondment staff



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's principal financial instruments comprise cash and balances with banks, placement with banks and debt securities. The Bank has various other financial liabilities such as customer deposits, lease liabilities and other liabilities, which arise directly from its operations.

The main risks arising from the Bank's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### **Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rate.

Management considers the interest rate risk in respect of the Bank's financial instruments is not significant at the reporting date, because the investment strategy of the Bank is to invest in money market and debt securities of short tenor for liquidity and balance sheet management purpose.

#### **Foreign currency risk**

The Bank has no significant foreign currency risk because its business is principally conducted in Hong Kong and most of the transactions are denominated in the Bank's functional currency, i.e. HK\$.

#### **Credit risk**

Credit risk relates to the extent to which failures by counterparties to discharge their obligations could reduce the amount of future cash flows to the Bank from financial assets on hand as at the end of the reporting period. The maximum exposure of the Bank's financial assets equals to the amount disclosed in the statement of financial position.

For cash and balances with banks and placement with banks, credit risk also arises from potential default of the counterparty. The Bank's policy is to place such funds with financial institutions assigned with strong ratings by international credit-ratings agencies. As at the reporting date, the cash at bank is placed with a reputable financial institution in Hong Kong, which management believes are of high credit quality. The maximum exposure equals the carrying value disclosed in the statement of financial position.

For debt instruments, credit risk arises from the potential default of the issuer. As at the reporting date, the debts instruments held by the Bank are issued by the Hong Kong Monetary Authority and perceived to have very low default risk.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2019

### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank aims to maintain continuity of funding, increasing holding company loans or share capital where necessary. The Bank monitors its risk to a shortage of funds on a continuing basis, taking account of the maturity of its financial assets and liabilities and projected cash flows from operations.

The maturity profile of the financial liabilities of the Bank at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Repayable on demand HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	Over 12 months HK\$'000	Total HK\$'000
Customer deposits	407	–	–	–	407
Lease liabilities	–	3,438	12,145	74,801	90,384
Other liabilities	110,775	–	–	–	110,775
	<u>111,182</u>	<u>3,438</u>	<u>12,145</u>	<u>74,801</u>	<u>201,566</u>

### 24. CAPITAL MANAGEMENT

The Bank considers share capital and other reserves attributable to equity holders of the Bank as its capital. The Bank's primary objectives when managing its capital are to safeguard its ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders, and to secure access to finance at reasonable cost.

The HKMA sets capital requirements for the Bank. In implementing current capital requirements, the HKMA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted amounts. The Bank calculates its capital adequacy ratios in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Bank actively and regularly reviews and manages its capital structure to maintain a balance between maximising return on capital with higher borrowing level, and the advantages of a higher capital level, and adjusts the capital level and structure in light of changes in economic conditions and business opportunities. The capital management function is undertaken by the Asset and Liability Committee and is reviewed regularly by the board of directors.

# LIVI VB LIMITED

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) 31 DECEMBER 2019

### 25. CAPITAL COMMITMENTS

The Bank has the following outstanding capital commitments not provided for:

	2019 HK\$'000
Authorised and contracted for but not provided for	<u>20,725</u>

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the right-of-use asset.

### 26. EVENTS AFTER THE REPORTING PERIOD

There have been no events after the reporting date that would require disclosure in these financial statements.

### 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2020.

