

**WELAB BANK LIMITED
(FORMERLY KNOWN AS WELAB DIGITAL LIMITED)**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of Welab Bank Limited (the "Bank") for the year ended 31 December 2019.

Principal activity

On 10 April 2019, the Bank was granted authorization by the Hong Kong Monetary Authority to carry on banking business as a virtual bank. During the year, the Bank has not yet commenced business.

Change of company name

By a special resolution passed by all members of the Bank on 9 September 2019, the name of the Bank has been changed from Welab Digital Limited to Welab Bank Limited with effect from 16 September 2019.

Results and appropriations

The results of the Bank for the year are set out in the statement of comprehensive income on page 8.

The directors do not recommend the payment of a dividend for the year.

Donations

During the year, there is no charitable and other donations made by the Bank. (2018: Nil).

Shares issued in the year

Details of the shares issued in the year ended 31 December 2019 are set out in Note 18 to the financial statements.

Equity linked agreements

Details of the share options granted in prior and current years are set out in Note 19 to the financial statements. For the share options granted during the year ended 31 December 2019, no shares were issued during the year and no share options were exercised during the year.

Directors

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

Non-executive directors:

Chan, Ka Keung Ceajer (*Chairman*)
Loong, Pui Chi Simon

Executive directors:

Leung, Wing Cheung William	(Appointed on 1 June 2019 and resigned on 31 December 2019)
Lee, Ka Tat	(Appointed on 1 June 2019)
Tse, Hok Hoi	(Appointed on 8 November 2019)

Independent non-executive directors:

Roberts, Donald Jeffrey	(Appointed on 1 June 2019)
Chang, Suk Ling Irene	(Appointed on 30 August 2019)
Lam, Lee G	(Appointed on 30 August 2019)

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

DIRECTORS' REPORT (CONTINUED)

Directors (Continued)

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

Directors' material interests

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

Under a share option scheme arranged by the ultimate holding company, Welab Holdings Limited, certain of the above mentioned directors have been granted options to acquire shares in Welab Holdings Limited for their services to the whole group of Welab Holdings Limited as follows:

Outstanding balance as at 1 January 2019	Share options held at the time of appointment	Number of share options			Outstanding balance as at 31 December 2019
		Granted during the year	Exercised during the year	Cancelled during the year	
304,732	149,950	768,000	-	-	1,222,682

Share options of 149,950 represented the share options held by a personnel in connection with his services performed for fellow subsidiaries of the Bank prior to his appointment as a director of the Bank during the year ended 31 December 2019.

Certain share options included above were granted to the relevant director in his capacity of providing services to the Bank with details as disclosed in Notes 8 and 19 to the financial statements.

Permitted indemnity provisions

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Bank is currently in force and was in force throughout the year.

Management contracts

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

Business review

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

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

DIRECTORS' REPORT (CONTINUED)

Subsequent event

In February 2020, the Bank issued 70,000,000 ordinary shares to Welab Capital Limited for a consideration of HK\$70,000,000.

Auditors

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



On behalf of the Board
Chairman
Hong Kong
30 MAR 2020

Independent Auditor's Report

To the Member of Welab Bank Limited (formerly known as Welab Digital Limited)
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Welab Bank Limited (formerly known as Welab Digital Limited) (the "Bank") set out on pages 8 to 37, which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.



Independent Auditor's Report

To the Member of Welab Bank Limited (formerly known as Welab Digital Limited)
(incorporated in Hong Kong with limited liability)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors and the Audit Committee for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report

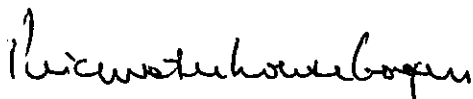
To the Member of Welab Bank Limited (formerly known as Welab Digital Limited)
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2020

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000 <i>(Re-presented)</i>
Interest income	5	6,624	-
Interest expense	5	(359)	-
Total operating income		<u>6,265</u>	<u>-</u>
Operating expenses	6	(100,785)	(493)
Loss before allowances for expected credit losses		<u>(94,520)</u>	<u>(493)</u>
Expected credit losses	7	(69)	-
Loss before income tax		<u>(94,589)</u>	<u>(493)</u>
Income tax expense	9	-	-
Total loss and comprehensive loss for the year / period		<u><u>(94,589)</u></u>	<u><u>(493)</u></u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes on pages 13 to 37.

WELAB BANK LIMITED
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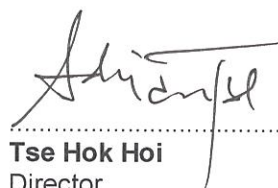
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		2019 HK\$'000	2018 HK\$'000 (Re-presented)
	Note		
Assets			
Held-to-collect debt securities at amortized cost	11	338,275	-
Due from banks	12	94,124	-
Other assets	13	82,988	487
Due from ultimate holding company	10	1,500	-
Due from a fellow subsidiary	10	204	-
Property and equipment	14	2,207	-
Right-of-use assets	15	54,833	-
Intangible assets	16	12,980	-
Total assets		<u>587,111</u>	<u>487</u>
Liabilities			
Other liabilities	15, 17	76,074	183
Due to ultimate holding company	10	-	301
Due to an immediate holding company	10	2,499	-
Due to fellow subsidiaries	10	804	496
		<u>79,377</u>	<u>980</u>
Equity			
Share capital	18	600,000	-
Reserves		(92,266)	(493)
		<u>507,734</u>	<u>(493)</u>
Total equity and liabilities		<u>587,111</u>	<u>487</u>

The financial statements on pages 8 to 37 were approved by the Board of Directors on **30 MAR 2020** and were signed on its behalf:



Chan, Ka Keung Ceajer
Chairman



Tse Hok Hoi
Director

The above statement of financial position should be read in conjunction with the accompanying notes on pages 13 to 37.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share Capital	Employee share-based payment reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 21 August 2018 (date of incorporation)				
Issuance of share upon incorporation of the Bank (Note 18)	-	-	-	-
Loss and total comprehensive loss for the period	-	-	(493)	(493)
Balance as at 31 December 2018	-	-	(493)	(493)
Balance as at 1 January 2019	-	-	(493)	(493)
Issuance of shares (Note 18)	600,000	-	-	600,000
Loss and total comprehensive loss for the year	-	-	(94,589)	(94,589)
Recognition of equity-settled share-based payment (Note 19)	-	2,816	-	2,816
Balance as at 31 December 2019	600,000	2,816	(95,082)	507,734

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 13 to 37.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000 (Re-presented)
Cash flows from operating activities		
Loss before income tax	(94,589)	(493)
Adjustments:		
Interest income	(6,624)	-
Depreciation on property and other equipment	245	-
Increase in expected credit losses for held-to-collect debt securities at amortized cost and balances with banks	69	-
Depreciation of right-of-use assets	929	-
Interest expense on lease liability	359	-
Non-cash share-based expenses	2,816	-
Operating cash flow before changes in working capital	(96,795)	(493)
Increase in other assets	(82,391)	(486)
Increase in other liabilities	19,770	182
Increase in due from ultimate holding company	(1,500)	-
Increase in due from a fellow subsidiary	(204)	-
(Decrease)/ increase in due to ultimate holding company	(301)	301
Increase in due to fellow subsidiaries	308	496
Net cash used in operating activities	(161,113)	-
Cash flows from investing activities		
Interest received	6,514	-
Purchase of property and equipment	(2,452)	-
Purchase of intangible assets	(12,980)	-
Net cash used in investing activities	(8,918)	-
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	600,000	-
Increase in due to an immediate holding company	2,499	-
Net cash generated from financing activities	602,499	-
Net change in cash and cash equivalents	432,468	-
Cash and cash equivalent at the beginning of the year / period	-	-
Cash and cash equivalent at the end of the year / period	432,468	-

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000 <i>(Re-presented)</i>
Analysis of balances of cash and cash equivalents		
Balances with central bank	1,716	-
Balances with banks	92,469	-
Held-to-collect debt securities at amortized cost	338,283	-
	<u>432,468</u>	<u>-</u>

The above statement of cash flows should be read in conjunction with the accompanying notes on pages 13 to 37.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Welab Bank Limited (the "Bank"), previously known as Welab Digital Limited, is a limited liability company incorporated in Hong Kong. The Bank's registered office is Unit 301-6, OfficePlus @ Sheung Wan, 93-103 Wing Lok Street, Sheung Wan, Hong Kong.

On 10 April 2019, the Bank was granted authorization by the Hong Kong Monetary Authority to carry on banking business as a licensed bank in accordance with the Banking Ordinance. The Bank has not commenced business as a virtual bank during the year.

The immediate holding company is Welab Capital Limited, which is incorporated in Hong Kong. The intermediate holding company is Welab Venture Business Limited, which is incorporated in Cayman Islands. The ultimate holding company is Welab Holdings Limited, which is incorporated in British Virgin Islands.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

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

The financial statements are presented in Hong Kong dollars and rounded to nearest thousand, unless otherwise stated. The Bank has reconsidered the presentation of the financial statements to match with common banking practice in general. Comparative figures in the financial statements are re-presented to conform with current year's presentation. There has been no impact on the amounts of total assets, total liabilities and total equity as at 31 December 2018 and the total loss for the period from 21 August 2018 to 31 December 2018 after the re-presentation.

The financial statements have been prepared on a historical cost convention.

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

New and amended standards adopted by the Bank

On 1 January 2019, the Bank adopted the following new or revised HKFRS that are issued by HKICPA and relevant to the Bank:

- HKFRS 16 Leases

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

New standards and interpretation not yet adopted

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

Change in accounting policies

During the year, the Bank has adopted HKFRS 16 Leases, which replaced the leases accounting guidance under HKAS 17 and requires an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments, unless the underlying asset is for short-term leases and of low-value lease. Accordingly, a lessee should now recognize depreciation of the right-of-use asset for virtually all lease contracts, unless the underlying lease is of low value or with short-term.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the respective lessee's incremental borrowing rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in expected future lease payments arising from a change in an index or rate, or if the Bank changes its assessment of whether it will exercise an extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets are initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the date of the lease term. The right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

After the Bank's adoption of HKFRS 16 on 1 January 2019, no reclassifications and adjustments arising from the new accounting standard are required to be recognized in the opening balances of the statement of financial position on 1 January 2019, as there was no lease arrangement entered by the Bank since its date of incorporation to 31 December 2018.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Practical expedients applied

In applying HKFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard and excluded the short-term leases and leases of low-value assets from the requirement of HKFRS 16:

- For contracts entered into before 1 January 2019, the Bank had relied on its assessments under HKAS 17 and Hong Kong (IFRIC) Interpretation 4 "Determining whether an Arrangement contains a Lease" to identify and determine its lease contracts. The Bank has not reassessed whether a contract is, or contains a lease at the date of transition;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

(b) Functional currency and foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the primary economic environment in which the entity operates (the "functional currency"). The Bank's financial statements are presented in thousands of units of Hong Kong dollars ("HK\$"), which is the Bank's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in statement of comprehensive income.

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

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(c) Interest income and interest expenses

Interest income and expense for all financial instruments are recognized in "Interest income" and "Interest expense" respectively in the statement of comprehensive income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but exclude expected credit losses. The calculation includes all amounts paid or received by the Bank that are an integral of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(d) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, and the cost of non-monetary benefits are accrued in the year in which the associated service are rendered by employees.

(ii) Pension obligations

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognized as an expense as it is incurred in the statement of comprehensive income.

(iii) Annual leave

Employee entitlement to annual leave is recognized when they are accrued to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the end of the reporting period.

(e) Share-based payments

The ultimate holding company of the Bank, Welab Holdings Limited, operates an equity-settled, share-based compensation plan, under which the Bank receives services from employees as consideration for equity instruments (options) of Welab Holdings Limited. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

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

When the options are exercised, Welab Holdings Limited issues new ordinary shares.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(f) Current and deferred tax

Current income tax is calculated based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income and retained earnings because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in the statement of comprehensive income, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

WELAB BANK LIMITED
(formerly known as Welab Digital Limited)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(g) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(h) Intangible assets

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(i) Software

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognized as intangible assets where the following criteria are met:

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

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

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

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(h) Intangible assets (Continued)

(ii) Research and development

Research expenditure and development expenditure that do not meet the criteria in (i) above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

(iii) Amortization methods and periods

Intangible assets with finite useful life, are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is measured as the shorter of the period of the contractual or other legal rights and expected economic life. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

(i) Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements, are depreciated over the shorter of the lease term of the leased properties or 5 years;
- Office and computer equipment, are depreciated over 3 years.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 14).

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

WELAB BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(j) Leased assets

At inception of a contract, the Bank 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. The Bank applies the accounting treatment as dictated by HKFRS 16 Leases.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Bank 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 Bank recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term or 12 months or less and leases of low-value assets. When the Bank enters into a lease in respect of a low-value asset, the Bank decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term. Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interested 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 amortized 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 statement of comprehensive income in the accounting period in which they are incurred.

The right-of-use asset recognized when a lease is capitalized 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 right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to rest of the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment loss.

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 Bank'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 Bank 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 right-of-use asset, or is recorded in the statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an 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 Bank allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(k) Impairment

The Bank applied the impairment requirements under HKFRS 9.

All financial assets, except for financial assets classified or designated as FVPL and equity securities, are subject to impairment and recognition of Expected Credit Losses ("ECL"). Off-balance sheet items that are also subject to ECL include financial guarantees and undrawn loan commitments.

Under HKFRS 9, ECL will be assessed using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile. A financial asset is classified under:

- **Stage 1**, if it was not credit-impaired upon origination, and there has not been a significant increase in its credit risk. Stage 1 ECLs are measured as the credit loss that is expected to result from a default occurring within the next 12 months;
- **Stage 2**, if it was not credit-impaired upon origination but has since experienced a significant increase in credit risk. Stage 2 ECLs are measured as the lifetime expected credit loss from a default from the expected remaining life of the financial instrument;
- **Stage 3**, if it has been credit-impaired with objective evidence of default. Stage 3 ECLs are also measured as lifetime expected credit loss from the expected remaining life of the financial instrument.

The impairment requirements of HKFRS 9 are subject to management judgements, estimates and assumptions.

(l) Financial assets

Classification and measurement

The Bank has applied HKFRS 9 and classified its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortized cost.

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

For assets measured at fair value, gains and losses will either be recorded in statement of comprehensive income or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(I) Financial assets (Continued)

Recognition and measurement

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

Debt instruments

Business model assessment:

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank'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 fair value through profit or loss. Factors considered by the Bank 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.

SPPI test:

The Bank assesses the contractual terms of financial instruments to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In a "basic lending arrangement", consideration for the time value of money and credit risk are typically the most significant elements of interest. It may also include consideration for other basic lending risks such as liquidity risks, costs associated with holding the financial assets for a period of time (e.g., servicing or administrative costs) and a profit margin.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in loan interest income or finance income using the effective interest method.

Equity instruments

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets measured at fair value through profit or loss are recognized in the statement of comprehensive income.

WELAB BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(l) Financial assets (Continued)

De-recognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

(m) Financial liabilities

All financial liabilities are initially measured at fair value, net of transaction costs incurred. The subsequent measurement of financial liabilities depends on their classification.

(i) Financial liabilities

Financial liabilities are subsequently stated at amortized cost. Any difference between proceeds net of transaction costs and the redemption value is recognized in the statement of comprehensive income over the period of the other financial liabilities using the effective interest method.

(ii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position where the Bank currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Arrangements do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

(n) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash and balances with central bank, balances with banks and held-to-collect debt securities at amortized cost with original maturities of three months or less that are convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(o) Share capital

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

WELAB BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management

(a) Financial risk factors

The Bank is exposed to various kinds of financial risks including market risk, credit risk and liquidity risk. The Bank's risk management objectives and policies seek to minimize the potential adverse effects on its financial performance.

Market risk

Foreign currency risk

The Bank mainly operates with most of the transactions settled in HK\$ and United States dollars ("US\$"). In respect of transactions settled in US\$, the Bank did not have significant exposure to foreign exchange risk during the year as HK\$ is pegged against US\$.

The Bank manages its foreign exchange risks by performing regular reviews. Details of the Bank's cash and cash equivalents is disclosed in the statement of cash flows.

Interest rate risk

The Bank's interest rate risk arises from its balances with banks. The Bank manages its interest rate risk by performing regular review and continually monitoring its interest its interest rate exposure.

Sensitivity analysis

As at 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Bank's loss and comprehensive loss by HK\$924,000 (2018: minimal).

The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until next annual balance sheet date.

Credit risk

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Bank. The Bank's credit risk mainly arises from cash and cash equivalents and other receivables.

WELAB BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Credit risk (Continued)

Upon adoption of HKFRS 9, the Bank applies the general approach and makes expected credit losses on cash and cash equivalents and other receivables. As at 31 December 2019, the financial assets including held-to-collect debt securities at amortized cost, due from banks, other assets, due from ultimate holding company and due from a fellow subsidiary are all categorized as "Stage 1" based on the "three-stage" model for impairment under HKFRS 9 as described in the Note 2(k) above.

As at 31 December 2019, all exposures attributed to the held-to-collect debt securities at amortized cost were rated with a grading of Aa2 based on the credit rating of Moody's.

To manage this risk arising from cash and cash equivalents, the Bank primarily transacts with reputable financial institutions. There has been no recent history of default in relation to these financial institutions.

The balances relating to other receivables are treated as receivables in the normal course of business and management of the Bank considered the credit risk for such is minimal.

The maximum credit risk exposure of the Bank in relation to its financial assets without taking account of any collateral and other credit enhancements is presented below.

	2019	2018
	HK\$'000	HK\$'000
Held-to-collect debt securities at amortized cost	338,275	-
Due from banks	94,124	-
Rental and other deposits	28,909	312
Due from ultimate holding company	1,500	-
Due from a fellow subsidiary	204	-
	<hr/>	<hr/>
Total maximum credit risk exposure	463,012	312
	<hr/> <hr/>	<hr/> <hr/>

Liquidity risk

The Bank regularly monitors its liquidity requirements to ensure that it always maintains sufficient funding from its operations and from its ultimate holding company as and when required to meet its liquidity requirements in the short and longer term.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Liquidity risk (Continued)

(i) *Maturity analysis*

The table below presents the assets and liabilities held by maturity profile for managing liquidity risk at the reporting date.

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
At 31 December 2019							
Held-to-collect debt							
securities at amortized cost	-	99,858	238,417	-	-	-	338,275
Due from banks	94,124	-	-	-	-	-	94,124
Other assets	-	21	89	21,709	7,200	-	29,019
Due from ultimate holding company	1,500	-	-	-	-	-	1,500
Due from a fellow subsidiary	204	-	-	-	-	-	204
Total financial assets	95,828	99,879	238,506	21,709	7,200	-	463,122
Non-financial assets	-	-	-	-	-	123,989	123,989
Total assets	95,828	99,879	238,506	21,709	7,200	123,989	587,111
At 31 December 2018							
Other assets	-	-	-	312	-	-	312
Total financial assets	-	-	-	312	-	-	312
Non-financial assets	-	-	-	-	-	175	175
Total assets	-	-	-	312	-	175	487
At 31 December 2019							
	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
Other liabilities	-	1,659	9,883	18,993	45,539	-	76,074
Due to an immediate holding company	2,499	-	-	-	-	-	2,499
Due to fellow subsidiaries	804	-	-	-	-	-	804
Total liabilities	3,303	1,659	9,883	18,993	45,539	-	79,377
At 31 December 2018							
Due to ultimate holding company	301	-	-	-	-	-	301
Due to fellow subsidiaries	496	-	-	-	-	-	496
Other liabilities	-	-	64	119	-	-	183
Total liabilities	797	-	64	119	-	-	980

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

Liquidity risk (Continued)

(ii) Non-derivative financial liabilities held for managing liquidity risk

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

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Total HK\$'000
At 31 December 2019						
Other liabilities	-	1,301	9,906	19,438	58,206	88,851
Due to an immediate holding company	2,499	-	-	-	-	2,499
Due to fellow subsidiaries	804	-	-	-	-	804
Total financial liabilities	3,303	1,301	9,906	19,438	58,206	92,154
At 31 December 2018						
Due to ultimate holding company	301	-	-	-	-	301
Due to fellow subsidiaries	496	-	-	-	-	496
Other liabilities	-	-	64	119	-	183
Total financial liabilities	797	-	64	119	-	980

(b) Fair value estimation

As at 31 December 2019 and 2018, the Bank's financial assets and liabilities are recognized at amortized cost. Based on the estimate of the management, the carrying value of these financial assets and liabilities are approximate to their fair values.

(c) Capital management

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern. The Bank manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Bank may adjust the dividend payment to shareholders or issue new shares.

The Bank is subject to the minimum capital requirements as set by the Hong Kong Monetary Authority and is complying with the requirements during the year ended 31 December 2019.

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NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements

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

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

(a) Capitalization of development costs

Costs incurred in developing the new platforms and systems are capitalized as intangible assets when recognition criteria as detailed in Note 2(h) are fulfilled. Management has exercised judgement in determining whether these costs fulfilled the recognition criteria and whether the platforms and systems could generate probable future economic benefits to the Bank. Any severe change in market performance or technology advancement will have an impact on the development costs capitalized.

(b) Share-based payment

Welab Holdings Limited, the ultimate holding company of the Bank, granted share options to the employees of the Bank as a common feature of employee remuneration. HKFRS 2 requires recognition of an expense for those shares options at the fair value on the grant date (equity-settled plans). For share options granted to employees, in many cases market prices are not available because the options granted are subject to terms and conditions that do not apply to traded options. If this is the case, the Bank estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies.

(c) Current and deferred income tax

The Bank is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the estimated amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

As at 31 December 2019, no deferred tax asset has been recognized on the estimated unused tax losses of approximately HK\$94,002,000 due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

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NOTES TO THE FINANCIAL STATEMENTS

5	Interest income and expense	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000
	Interest income from:		
	Balances with banks	6,514	-
	Held-to-collect debt securities at amortized cost	110	-
		6,624	-
	Interest expense from:		
	Lease liabilities	359	-
		359	-
6	Operating expenses	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000 <i>(Re-presented)</i>
	Employee benefits		
	- Salaries and other short-term employee benefits	38,167	325
	- Pension	651	-
	- Share-based compensation	2,816	-
	Premises and equipment expenses excluding depreciation		
	- Rental of other premises	2,200	-
	- Others	551	-
	Depreciation of property and equipment (Note 14)	245	-
	Depreciation of right-of-use assets	929	-
	Auditor's remuneration		
	- Statutory audit	230	8
	- Other services	2,455	-
	Software licensing and IT costs	35,466	-
	Legal and professional fees	11,306	120
	Administrative and general expenses	1,039	-
	Foreign exchange differences	(1,682)	-
	Other operating expenses	6,412	40
		100,785	493
7	Expected credit losses	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000
	Held-to-collect debt securities at amortized cost	8	-
	Due from banks	61	-
		69	-

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NOTES TO THE FINANCIAL STATEMENTS

8 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:

	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000
Directors' fees	2,133	-
Salaries, bonus, allowances and benefits in kind (Note)	5,531	-
Pension	21	-
	<u>7,685</u>	<u>-</u>

During the year, no termination benefits were paid by the Bank to any of the Bank's directors. During the year, the Bank did not incur any payment to third parties for making available directors' services.

There are no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and connected entities with such directors for the year.

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

Note: Certain share options were granted to the relevant director in his capacity of providing services to the Bank with details disclosed in Note 19 to the financial statements.

9 Income tax

The applicable Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax has been made in the financial statements for the year ended 31 December 2019 (2018: Nil) as the Bank had no estimated assessable profit for the year.

The taxation on the Bank's loss before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2019 HK\$'000	For the period from 21 August 2018 (date of incorporation) to 31 December 2018 HK\$'000
Loss before income tax	(94,589)	(493)
Tax calculated at tax rate of 16.5%	(15,607)	(81)
Tax effect of income not subject to tax	(18)	-
Tax effect of non-deductible expenses	115	81
Tax effect of tax losses not recognized	15,510	-
Income tax expense	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS

9 Income tax (Continued)

As at 31 December 2019, the Bank had estimated unused tax losses of approximately HK\$94,002,000 available for offset against future profits, subject to the approval of tax authority. No deferred tax assets have been recognized in respect of such losses due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

10 Amounts due from/(to) group companies

The amounts due from/(to) group companies are unsecured, interest free, have no fixed repayment terms and are denominated or settled in HK\$. In the opinion of the directors, the amounts due from/(to) group companies are expected to be repayable or repaid within the next 12 months.

11 Held-to-collect debt securities at amortized cost

	2019 HK\$'000	2018 HK\$'000
Exchange fund bills	338,283	-
Less: Expected credit losses	(8)	-
	<u>338,275</u>	<u>-</u>
Unlisted	<u>338,283</u>	<u>-</u>
Types of issuers: central bank	<u>338,283</u>	<u>-</u>

There were no overdue held-to-collect debt securities at amortized cost as at 31 December 2019 (2018: Nil).

12 Due from banks

	2019 HK\$'000	2018 HK\$'000
Balances with central bank	1,716	-
Balances with banks	92,469	-
Less: Expected credit losses	(61)	-
	<u>94,124</u>	<u>-</u>

There were no overdue placements with banks as at 31 December 2019 (2018: Nil).

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NOTES TO THE FINANCIAL STATEMENTS

13 Other assets

	2019 HK\$'000	2018 HK\$'000 <i>(Re-presented)</i>
Prepayments	53,969	175
Rental and other deposits	28,909	312
Other receivables	110	-
	<u>82,988</u>	<u>487</u>

14 Property and equipment

	Equipment HK\$'000
Cost	
As at 21 August 2018 (date of incorporation), 31 December 2018 and 1 January 2019	-
Additions during 2019	2,452
As at 31 December 2019	<u>2,452</u>
Accumulated depreciation	
As at 21 August 2018 (date of incorporation), 31 December 2018 and 1 January 2019	-
Depreciation during 2019	245
As at 31 December 2019	<u>245</u>
Carrying amounts	
As at 31 December 2019	<u>2,207</u>
As at 31 December 2018	<u>-</u>

WELAB BANK LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

15 Leases

(a) Amount recognized in the statement of financial position

	2019 HK\$'000
Right-of-use assets	54,833
Lease liabilities (Note 17)	56,121

(b) Amount recognized in the statement of comprehensive income

	2019 HK\$'000
Depreciation charge of right-of-use assets (Note 6)	929
Interest expense (Note 5)	359

The Bank's lease comprises of office premises, which is contracted for periods up to 5 years. Lease payments are agreed upfront except for renewal periods whereby the lease payments are subject to prevailing market rates. Extension options are currently not included in the lease term as it remains uncertain whether the lease will be extended.

The incremental borrowing rate used to determine the right-of-use asset and lease liability is 8%.

Payments associated with short-term leases with lease term of 12 months or less are recognized on a straight-line basis as an expense in profit or loss.

16 Intangible assets

The Bank recognizes intangible assets which include separately acquired software and IT systems developed with external third parties.

	2019 HK\$'000	2018 HK\$'000
As at 1 January 2019 and 21 August 2018 (date of incorporation)	-	-
Additions	12,980	-
As at 31 December 2019	12,980	-

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NOTES TO THE FINANCIAL STATEMENTS

17 Other liabilities

	2019 HK\$'000	2018 HK\$'000
Accruals	19,953	183
Lease liabilities	56,121	-
	<u>76,074</u>	<u>183</u>

18 Share capital

	Number of shares	Share capital HK\$'000
Ordinary shares, issued and fully paid:		
As at 21 August 2018 (date of incorporation)		
Issuance of share	1	-
	<u>1</u>	<u>-</u>
As at 31 December 2018 and 1 January 2019		
Issuance of shares (note)	600,000,000	600,000
	<u>600,000,001</u>	<u>600,000</u>
As at 31 December 2019	<u>600,000,001</u>	<u>600,000</u>

Note: During the year, a total of 600,000,000 ordinary shares have been issued for a total consideration of HK\$600,000,000.

19 Share-based payments

Welab Holdings Limited, the ultimate holding company of the Bank, granted its share options to the relevant director and employees of the Bank. Options are generally vested to over a four years' service period (the vesting period). The share options are exercisable starting from 23 April 2014.

For the year ended 31 December 2019, the Bank recorded and recognized share-based compensation expenses of HK\$2,816,000 during the year (2018: Nil).

Movements in the number of share options granted to the director and employees of the Bank in respect of the services provided to the Bank and their related weighted average exercise prices are as follows:

	Weighted average exercise price US\$	Number of options
Outstanding as at 1 January 2019	-	-
Granted	13.0	127,000
Exercised	-	-
Lapsed	-	-
	<u>13.0</u>	<u>127,000</u>
Outstanding as at 31 December 2019	<u>13.0</u>	<u>127,000</u>
Exercisable as at 31 December 2019	<u>-</u>	<u>-</u>

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19 Share-based payments (Continued)

There is no lapse of share options during the year ended 31 December 2019.

The above options outstanding as at 31 December 2019 had a weighted average exercise price of US\$13.0, and a weighted average remaining contractual life of 9.6 years.

The above share options outstanding as at 31 December 2019 have the following expiry dates and exercise prices:

<i>Expiry date</i>	Weighted average exercise price US\$	Number of options
2nd quarter 2029	14.4	55,000
3rd quarter 2029	12.0	72,000
		<u>127,000</u>

The above options and related details do not include those options granted to the directors and employees of the Bank in their capacity of rendering services to the ultimate holding company.

Fair value of options and assumptions

As at 31 December 2019, the weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was US\$17.5 per option.

The significant inputs into the model for the year ended 31 December 2019 were as follows:

Weighted average share price at grant dates	US\$27.2
Expected volatility	45.0%
Expected dividend yield	0%
Risk-free interest rate	<u>1.4% to 2.3%</u>

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of monthly share prices of the comparable companies over the expected option life. Expense recognized in the statement of comprehensive income is disclosed in Note 6.

20 Commitments

(a) Operating commitments

Significant commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	2019 HK\$'000	2018 HK\$'000
Operating commitments contracted for, but not provided in the statement of financial position	<u>56,893</u>	<u>-</u>

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20 Commitments (Continued)

(b) Lease commitments

The Bank has entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases are less than 12 months. The operating lease payments represent rentals payable by the Bank for certain of its office properties.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are as follows:

	2019 HK\$'000	2018 HK\$'000
Short-term rental lease commitments	888	-

21 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management of the Bank and their close family members are also considered as related parties.

The following transactions were carried out between the Bank and its related party during the years ended 31 December 2019 and 2018. In the opinion of the directors of the Bank, the related party transactions were carried out in the ordinary course of business and at terms negotiated between the Bank and the respective parties.

(a) Balances with related parties

Amount due from the immediate holding company, amounts due to the ultimate holding company and a fellow subsidiary are set out in the statement of financial position. The terms are set out in Note 10.

	2019 HK\$'000	2018 HK\$'000
Other assets		
Due from ultimate holding company	1,500	-
Due from a fellow subsidiary	204	-
	<u> </u>	<u> </u>
Other liabilities		
Due to ultimate holding company	-	301
Due to an immediate holding company	2,499	-
Due to fellow subsidiaries	804	496
	<u> </u>	<u> </u>

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21 Related party transactions (Continued)

(b) Directors and key management personnel emoluments

Emoluments for directors and key management personnel, including amounts paid to the Bank's directors as disclosed in Note 8 as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, other short-term employee benefits and directors' fee	9,543	-
Post-employment benefits	-	-
Share-based compensation	1,152	-
	<u>10,695</u>	<u>-</u>

22 Subsequent event

In February 2020, the Bank issued 70,000,000 ordinary shares to Welab Capital Limited for a consideration of HK\$70,000,000.

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented locally and across the region. The Bank will continue to closely monitor the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Bank as a whole including managing the overall associated risks and taking all necessary and immediate actions. As at the date on which this set of financial statements were authorized for issue, the Bank has not commenced business as a virtual bank and was not aware of any material and adverse effects on its financial statements for the year ended 31 December 2019, as a result of the COVID-19 outbreak.

23 Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 30 March 2020.