



興證國際金融集團有限公司

China Industrial Securities International Financial Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 6058



2022  
Annual Report



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Non-executive Directors

Mr. Hu Pingsheng (*Chairman*) (Appointed on 29 July 2022)

Mr. Huang Yilin (*Chairman*) (Resigned on 29 July 2022)

### Executive Directors

Mr. Cai Junzheng (*Chief Executive Officer*)  
(Appointed on 6 December 2022)

Mr. Li Baochen (*Chief Executive Officer*)  
(Resigned on 6 December 2022)

Mr. Wang Xiang (Resigned on 11 March 2022)

Ms. Zeng Yanxia

Ms. Zhang Chunjuan

### Independent Non-executive Directors

Ms. Hong Ying

Mr. Tian Li

Mr. Qin Shuo

## BOARD COMMITTEES

### Audit Committee

Ms. Hong Ying (*Chairlady*)

Mr. Hu Pingsheng (Appointed on 29 July 2022)

Mr. Huang Yilin (Resigned on 29 July 2022)

Mr. Tian Li

### Remuneration Committee

Mr. Tian Li (*Chairman*)

Mr. Hu Pingsheng (Appointed on 29 July 2022)

Mr. Huang Yilin (Resigned on 29 July 2022)

Mr. Qin Shuo

### Nomination Committee

Mr. Hu Pingsheng (*Chairman*) (Appointed on 29 July 2022)

Mr. Huang Yilin (*Chairman*) (Resigned on 29 July 2022)

Mr. Tian Li

Mr. Qin Shuo

## COMPANY SECRETARY

Ms. Tsang Wing Man

## AUTHORISED REPRESENTATIVES

Ms. Zhang Chunjuan

Ms. Tsang Wing Man

## AUDITOR

KPMG

*Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance*

## REGISTERED OFFICE

PO Box 1350

Windward 3, Regatta Office Park

Grand Cayman KY1-1108

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F, Infinitus Plaza

199 Des Voeux Road Central

Hong Kong

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

17/F, Far East Finance Centre

16 Harcourt Road

Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited

Third Floor

Century Yard

Cricket Square, P.O. Box 902

Grand Cayman KY1-1103

Cayman Islands

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Industrial Bank Co., Ltd., Hong Kong Branch

CMB Wing Lung Bank Limited

Shanghai Pudong Development Bank Co., Ltd.,

Hong Kong Branch

China Everbright Bank Co., Ltd., Hong Kong Branch

Chiyu Banking Corporation Limited

China Minsheng Bank Corp., Ltd., Hong Kong Branch

## WEBSITE

[www.xyzq.com.hk](http://www.xyzq.com.hk)

## STOCK CODE

6058

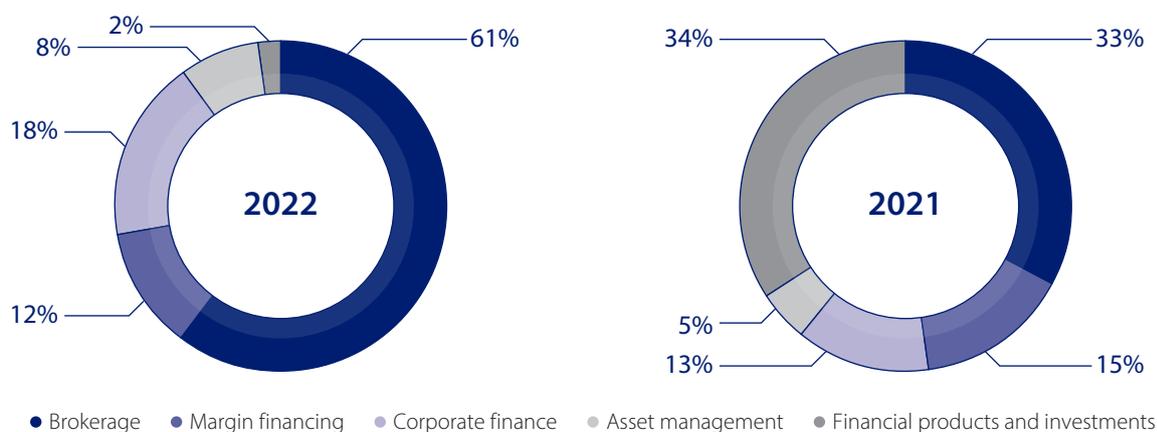
# FINANCIAL HIGHLIGHTS

## RESULTS

	For the year ended 31 December		
	2022 HK\$	2021 HK\$	Change %
Commission and fee income from brokerage services (note a)	<b>157,800,167</b>	210,818,267	-25.1%
Commission and advisory fee income from corporate finance services	<b>45,709,535</b>	82,620,681	-44.7%
Management fee and advisory fee income from asset management services	<b>19,700,817</b>	33,101,782	-40.5%
Interest income from margin financing services	<b>30,097,837</b>	95,611,566	-68.5%
Income from financial products and investments	<b>4,695,832</b>	214,218,413	-97.8%
Revenue	<b>258,004,188</b>	636,370,709	-59.5%
(Loss)/profit for the year	<b>(297,402,416)</b>	40,093,639	-841.8%
Basic (loss)/earnings per share (note b)	<b>(0.0744)</b>	0.0100	-841.8%
Dividend per share	–	–	N/A
Net assets per share (note c)	<b>1.00</b>	1.10	-8.9%

### Notes:

- Such services include securities, futures and options and insurance brokerage services.
- Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares.
- Net assets per share is calculated by dividing the net assets at the end of the year by the number of shares in issue as at the end of the year.



# FINANCIAL HIGHLIGHTS

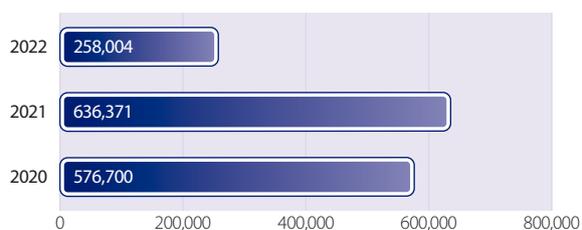
## FINANCIAL CONDITIONS

	As at 31 December 2022 HK\$	As at 31 December 2021 HK\$	Change %
Total assets	<b>12,472,181,491</b>	16,794,803,131	-25.7%
Equity attributable to holders of the ordinary shares	<b>2,994,877,702</b>	3,387,197,972	-11.6%
Equity attributable to holders of other equity instrument	<b>1,000,000,000</b>	1,000,000,000	0.0%
Number of issued shares	<b>4,000,000,000</b>	4,000,000,000	0.0%
Net profit margin	<b>-115.3%</b>	6.3%	-121.6%
Return on equity (note a)	<b>-9.4%</b>	1.2%	-10.6%
Return on total assets	<b>-2.4%</b>	0.2%	-2.6%
Gearing ratio (note b)	<b>126.1%</b>	163.1%	-37.0%
Net debt to equity ratio (note c)	<b>58.5%</b>	38.6%	19.9%

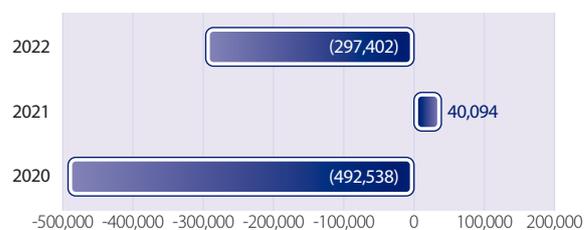
Notes:

- Return on equity is calculated by dividing the (loss)/profit for the year by the weighted average equity attributable to ordinary equity holders of the Company. The weighted average equity attributable to ordinary equity holders of the Company for 2022 was HK\$3,159,882,702 (2021: HK\$3,393,065,837).
- Gearing ratio is calculated by dividing the total of the repurchase agreements, bank borrowings, bonds and loan from the immediate holding company as at the end of the year by the total equity as at the end of the year.
- Net debt to equity ratio is calculated by dividing the total of the repurchase agreements, bank borrowings, bonds and loan from the immediate holding company less cash and cash equivalents as at the end of the year by the total equity as at the end of the year.

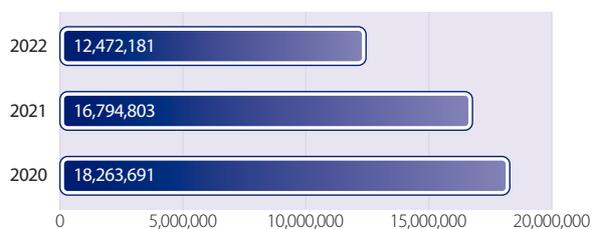
**Revenue**  
(HK\$'000)



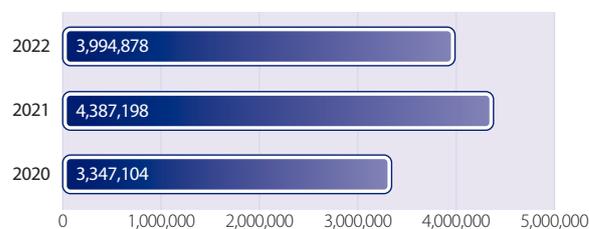
**(Loss) / profit for the year**  
(HK\$'000)



**Total assets**  
(HK\$'000)



**Total equity**  
(HK\$'000)



# CHAIRMAN'S STATEMENT

I hereby would like to report to all shareholders that for the year ended 31 December 2022, the Group achieved an operating revenue of HK\$258.00 million (2021: HK\$636.37 million), representing a year-on-year decrease of 59.46%; for the year ended 31 December 2022, the Group recorded a net loss after tax of HK\$297.40 million (2021: profit of HK\$40.09 million), representing a year-on-year decrease of 841.83%.

In 2022, due to the combined effects of unfavorable factors such as the resurgence of the COVID-19 pandemic, the Fed's continued interest rate hikes and the geopolitical tension, the Hong Kong's capital market has suffered a heavy blow, Hong Kong's economy has continued to be in a recession and the capital market was in a downward trend with fluctuations. In 2022, Hong Kong's GDP contracted by 3.5% year-on-year. The Hang Seng Index and the Hang Seng China Enterprises Index fell by 15.5% and 18.59%, respectively, while the Barclays High Yield and Investment Grade Chinese-issued US Dollar Bond Index fell by 22.47% and 10.11%, respectively. It was encouraging that, in 2022, Mainland China's GDP grew by 3% year-on-year. It did not reach the level as expected, however, the economy generally remained stable and grew faster than most major economies. The total scale of domestic demand has continued to expand, and the total retail sales of consumer goods throughout the year has stabilized at around RMB44 trillion, and the advantages of the ultra-large-scale market are still obvious.

## BUSINESS REVIEW

In 2022, due to the impact of a number of unfavorable market factors, the securities industry in Hong Kong experienced unprecedented difficulties in its operating environment and the overall profitability of the industry was impacted, which also brought pressure and challenges to the Group's operations. In the face of these pressures and challenges, the Group has been solidly pursuing the Group's strategical planning for "14th Five-Year Plan" and the construction of the "two-wheel linkage" business system, further building up an international professional platform, maintaining a neutral and prudent risk appetite, strengthening the system construction, reinforcing the compliance and risk control system, enhancing financial technology capabilities, effectively improving capability of operational services, comprehensively optimizing the talent structure, and effectively controlling various risks while promoting the stable development of business.

In 2022, the Group continued to cultivate the Hong Kong market, explored its professional advantages and promoted business development. Through integrating internal resources and using financial technology, the wealth management business vigorously developed the internet securities model, and the segment of US shares transaction realized an increase exceeding the market level. Overseas research has still maintained the leading position in the industry, continued to win the first place of the best research in mainstream selections such as New Fortune (新財富) and the Crystal Ball Award (水晶球獎), and continued to strengthen business empowerment. The market competitiveness of bond investment banking business has been steadily improved, and the implementation of a number of innovative businesses have been realized, and the issuance of the first prefecture-level municipal investment-grade free trade zone bond, the first central and western region free trade zone bond and the first financial enterprise and central enterprise free trade zone bond have been completed. Fixed income proprietary investment business and CISI Stable Growth Bond Fund SP, the flagship fixed income product under the asset management business, significantly outperformed the market index yield.

In 2022, the Group also paid high attention to the environment, social and corporate governance, actively responded to the national "dual-carbon" action, actively devoted into the exploration and development of green finance and continuously improved the Company's ESG management capability. During the reporting period, the Group assisted 19 enterprises in issuing green bonds with a breakthrough in the financing scale of HK\$50 billion and proactively participated in many activities organized by charity organizations in Hong Kong to fulfill its corporate social responsibilities and promote the inclusive development of Hong Kong society.

## CHAIRMAN'S STATEMENT

### PROSPECTS

Looking forward to 2023, both difficulties and opportunities will co-exist. The capital market will still face challenges due to certain factors, including the Fed's high interest rate policy environment may continue throughout the year and geopolitical risks may persist for a long time. However, with the relaxation of the pandemic prevention and control policy and the full resumption of normal travel between Hong Kong and Mainland China, the economy may usher in a recovery and the capital market is expected to recover, and investor confidence will be recast, providing momentum for the development of the securities industry in Hong Kong.

In 2023, the Group will adhere to the development concept of innovation, coordination, green, open and sharing, continue to deepen the construction of the "two-wheel linkage" business system, deeply build an international professional platform, strengthen the grand synergy mechanism, and build up the two major fee-based business pillars of big wealth management and big institutional business. The Group will integrate internal sales resources and promote the upgrading of development model of big institution business, steadily develop capital-consuming business, enrich investment product line and build a cross-border derivatives business segment; under the premise of keeping the bottom line of compliance and strict risk control, the Group will achieve the improvement and optimization of total revenue and profit as well as internal structure, firmly give full play to the role of the international professional platform of overseas business, form a stable profitability for sustainable growth, and bring stable returns of sustainable growth to shareholders.

### APPRECIATIONS

On behalf of the Board, I would like to express my heartfelt gratitude to all employees for their hard work in the past year. And, taking this opportunity, I would also like to thank all shareholders, business partners and customers of the Company for their long-term support.

**Hu Pingsheng**

*Chairman of the Board*

24 March 2023

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS AND OVERVIEW

For the year ended 31 December 2022, the Group achieved an operating revenue of HK\$258.00 million (2021: HK\$636.37 million), representing a year-on-year decrease of 59.46%. For the year ended 31 December 2022, the net loss after tax of the Group amounted to HK\$297.40 million (2021: net profit of HK\$40.09 million). The turnaround from profit to loss is mainly due to (i) tightening global monetary policies, geopolitics and the COVID-19 pandemic leading to the net loss resulting from fair value changes of equity and debt investments held by the Group; and (ii) recession of Hong Kong capital market, leading to increase in expected credit loss on accounts receivables arising from margin loans. The expected credit loss is not a realized loss. The Group's business development is normal and the overall financial position and business condition of the Group remain sound.

For the year ended 31 December 2022, the operating revenue of the Group from brokerage services, corporate finance services, asset management services, margin financing services, financial products and investments recorded a year-on-year decrease of 25.15%, 44.67%, 40.48%, 68.52% and 97.81%, respectively.

## ANALYSIS OF PRINCIPAL BUSINESS

### (I) POLICY REVIEW

The Year 2022 is a crucial year for implementing "14th Five-Year Plan", and also marks the 25th anniversary of Hong Kong's reunification with the motherland. Under the great practice of "One country, Two systems (一國兩制)", Hong Kong has taken its distinctive advantage of "enjoying strong support of the motherland and being closely connected to the world (背靠祖國、聯通世界)" to serve as a bridge linking the Mainland China and the rest of the world. Hong Kong has seized the opportunity of the construction of Guangdong-Hong Kong-Macao Greater Bay Area to integrate into the national development, actively cooperated with the role and important functional position of Hong Kong in the overall development of the country in the national 14th Five-Year Plan, further deepened the mutual market access programmes, and continuously strengthened Hong Kong's advantages as an international financial center to comprehensively enhance its competitiveness in financial services.

In 2022, the Hong Kong Stock Exchange implemented certain measures to facilitate the significant upgrades of mutual market access programmes for long term development, including the inclusion of the Exchange Traded Funds (ETFs) in the Shanghai, Shenzhen and Hong Kong Stock Connect; the launch of the "Swap Connect (互換通)" to carry out a new mutual access programmes between Hong Kong and Mainland China's interbank interest rate swap market; and the inclusion of international companies in the Hong Kong Stock Connect for the first time, the creation of RMB counters in the Shanghai, Shenzhen and Hong Kong Stock Connect and the issuance of China treasury bond futures in Hong Kong, of which the measures have laid an important foundation for the future development of Hong Kong as an international financial center, an international leading place of listing, a risk management center and an offshore RMB center.

### (II) HONG KONG CAPITAL MARKET REVIEW

In 2022, due to the combined effects of unfavorable factors such as the resurgence of the COVID-19 pandemic, the Fed's continued interest rate hikes and the geopolitical tension, the Hong Kong's capital market has suffered a heavy blow. Enterprises have delayed their equity financing projects, and the proceeds significantly decreased by 67.43% to HK\$251.9 billion in the year, of which the proceeds from initial public offering amounted to HK\$104.6 billion, representing a decrease of 68.44%. More than half of new shares' price fell below the initial issue price. Since the investor confidence was frustrated and market activity has declined, the average daily trading volume of H shares fell by 25.08% to HK\$124.9 billion, and the trading volume of Shanghai and Shenzhen Stock Connect fell by 15.62% and 15.82% respectively. The stock and bond markets fell simultaneously, and market conditions have shown weakness. At the end of 2022, the Hang Seng Index closed at 19,781 points, representing a decrease of 15.5% as compared to the beginning of the year; and the Barclays High Yield and Investment Grade Chinese-issued US Dollar Bond Index fell by 22.47% and 10.11%, respectively. The events of default in the real estate industry occurred frequently.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (III) BUSINESS REVIEW

### Result Review of the Company:

The Group's operating revenue derives from (i) brokerage; (ii) corporate finance; (iii) asset management; (iv) margin financing; and (v) financial products and investments.

#### Brokerage

For the year ended 31 December 2022, the Group recorded commission and fee income from brokerage services of HK\$157.80 million (2021: HK\$210.82 million), representing a year-on-year decrease of 25.15%. Through integrating internal resources and using financial technology, the wealth management business vigorously developed the Internet securities model with an increase of 99% in security brokerage customers who open accounts online. At the end of 2022, the customers' assets under custody amounted to HK\$47.551 billion, representing a decrease of 12.47% as compared to the beginning of the year, which was lower than the decrease of Heng Seng Index. The segment of US shares transaction realized a breakthrough, representing a year-on-year increase of 157%, which significantly outperformed the market. During the year, the Company was awarded "Distinguished Awards" in Wealth Management for 2022 by Bloomberg Businessweek (彭博商業週刊二零二二年財富管理「傑出大獎」) and "Best Wealth Management Awards" at the 4th Golden Central Awards by zhitongcaijing.com (智通財經第四屆金中環「最佳財富管理獎」).

#### Corporate finance

For the year ended 31 December 2022, the Group recorded income from corporate finance business of HK\$45.71 million (2021: HK\$82.62 million), representing a year-on-year decrease of 44.67%. For the year ended 31 December 2022, the Group's commission income from placing, underwriting and sub-underwriting of debt securities amounted to HK\$33.80 million (2021: HK\$50.78 million), representing a year-on-year decrease of 33.44%. The Group completed 116 bond underwriting services in the whole year, representing an increase of 33% year-on-year, with the total underwriting amount of US\$1,944.29 million, jumping 1 place to 6th in the ranking of the Chinese-funded securities firms according to the Bloomberg. The Group has successfully promoted the implementation of several innovative businesses, completed the issuance of the country's first prefecture-level municipal investment-grade free trade zone bond, the country's first central and western region free trade zone bond, the country's first financial enterprise and central enterprise free trade zone bond, and assisted 19 enterprises in issuing green bonds with a breakthrough in the financing scale of HK\$50 billion. During the year, the Company was awarded "Annual Development Contribution Institution (Pearl Bond Business)" under the category of comprehensive services of 2022 Annual Evaluation of the Business Development Quality of CCDC Members (中債成員業務發展質量評價綜合業務類「年度開拓貢獻機構(明珠債業務)」獎項). Due to the impact of a number of unfavorable market factors, the commission income from placing, underwriting and sub-underwriting of equity securities amounted to HK\$3.25 million (2021: HK\$4.62 million), representing a year-on-year decrease of 29.65%. The total amount of equity financing projects of the Group in the whole year amounted to US\$58.25 million, ranking 14th among Chinese-funded securities firms according to Bloomberg.

#### Asset management

For the year ended 31 December 2022, the Group recorded income from asset management business of HK\$19.70 million (2021: HK\$33.10 million), representing a year-on-year decrease of 40.48%. As of the end of 2022, the Group had 28 asset management products and the scale of assets under management was HK\$6,360 million. Among them, the annual yield of CISI Stable Growth Bond Fund SP, the flagship fixed income product, significantly outperformed the market index yield. During the year, the Company was awarded Top Investment House in Asian G3 Bonds for 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Margin financing

In 2022, the Group continued to optimize the customer structure and reduced the financing scale of low-quality secured margin financing. For the year ended 31 December 2022, the Group's revenue from margin financing business was HK\$30.10 million (2021: HK\$95.61 million), representing a year-on-year decrease of 68.52%.

### Financial products and investments

The financial market fluctuated in 2022. The Group has always adhered to the robust and prudent investment principles, strictly selected the investment pools and strictly complied with the Group's various risk limit. The annual yield outperformed the market index yield. For the year ended 31 December 2022, the Group's revenue from financial products and investments amounted to HK\$4.70 million (2021: HK\$214.22 million), representing a year-on-year decrease of 97.81%.

## FINANCIAL POSITION

As at 31 December 2022, the total assets of the Group decreased by 25.74% to HK\$12,472.18 million (31 December 2021: HK\$16,794.80 million). As at 31 December 2022, the total liabilities of the Group decreased by 31.68% to HK\$8,477.30 million (31 December 2021: HK\$12,407.61 million).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2022, the net current assets of the Group decreased by 13.48% to HK\$5,531.35 million (31 December 2021: HK\$6,393.16 million). As at 31 December 2022, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year) increased to 1.9 times (31 December 2021: 1.6 times).

For the year ended 31 December 2022, the net cash outflow of the Group amounted to HK\$2,755.01 million (31 December 2021: inflow of HK\$3,172.73 million). As at 31 December 2022, the bank balance of the Group amounted to HK\$2,703.95 million (31 December 2021: HK\$5,458.96 million).

As at 31 December 2022, the total bank borrowings of the Group increased by 88.80% to HK\$1,000.91 million (31 December 2021: HK\$530.15 million).

As at 31 December 2022, the Group had outstanding bonds of HK\$2,079.99 million (31 December 2021: HK\$2,352.32 million) and shareholder loans of nil (31 December 2021: HK\$2,300.85 million). As at 31 December 2022, the gearing ratio of the Group (defined as the sum of repurchase agreements, bank borrowings, outstanding bonds and shareholder loan divided by total equity) decreased by approximately 37.0% to 126.1% (31 December 2021: 163.1%).

Between 5 September 2022 and 28 September 2022, the Company repurchased the 2% guaranteed bonds due February 2024 (the "2024 Bonds") in the open market in an aggregate principal amount of US\$35,000,000 (2021: Nil) (the "Repurchased Bonds"), representing approximately 11.67% of the aggregate principal amount of the 2024 Bonds originally issued. The Repurchased Bonds have been cancelled in accordance with the terms and conditions of the 2024 Bonds. For details, please refer to the Company's announcement dated 19 October 2022.

As at 31 December 2022, the total equity attributable to holders of ordinary shares amounted to HK\$2,994.88 million (31 December 2021: HK\$3,387.20 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FUTURE PLAN

The Group will deepen the construction of the “two-wheel linkage” business system, deepen the building of an international professional platform, consolidate the two major fee-based business pillars of big wealth management and big institutional business, integrate the internal sales resource, promote the upgrading of development model of big institutional business, and promote the market competitiveness of major businesses to a new level; We will steadily develop proprietary investment business, margin loans business and other capital-consuming business; We will continue to promote the construction of cross-border derivatives business; Under the premise of keeping the bottom line of compliance and strict risk control, we will realize an increase in total revenue and profit and optimize the internal structure. The Group will continue to improve the compliance risk control system, adhere to the neutral and prudent risk appetite, optimize the allocation of human, financial and material resources, form a high-quality and stable talent echelon structure, continue to promote the construction of information systems, rely on technology empowerment to comprehensively improve the Company's operation and management capabilities.

Looking forward, we will continue to be united and dedicated to strive for the stable and sustainable development of the Company, endeavouring to bring higher return to all shareholders.

### SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

As at 31 December 2022, the significant investment held by the Group is as follows:

As at 31 December 2022, the Group held a significant investment of secured note issued by Wuyi Mountains Limited which is a special purpose entity incorporated with limited liability in the Cayman Islands. The company was formed for the purpose of issuing debt securities to repay existing credit facilities, refinance indebtedness, and for acquisition purposes. The investment cost of the secured note was USD90 million (equivalent to HK\$701.8 million). The fair value of secured note was USD91 million (equivalent to HK\$710 million) as at 31 December 2022 which represented 5.69% of the Group's total assets.

During the current year, this investment has contributed to a net gain of HK\$8.2 million which included accrued interest income of HK\$126.3 million and unrealised loss of HK\$118.1 million. The Group aims to sustain stable and secured return from the investment and considered the risk of investment as controllable under robust and prudent risk management policy.

Saves as disclosed above, there were no other significant investments nor material acquisitions or disposals of subsidiaries and affiliated companies by the Group for the year ended 31 December 2022.

### PLEDGE OF ASSETS BY THE GROUP

For the year ended 31 December 2022, the Group's assets pledged were mainly debt securities pledged as collaterals for repurchase agreements.

### EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2022, the Group has employed 193 full-time employees (31 December 2021: 210 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2022 amounted to HK\$160.10 million (2021: HK\$159.93 million). The remuneration policy will be reviewed by the Group from time to time in accordance with market practice, and the bonus will be distributed with reference to individual performance appraisal, prevailing market condition and the financial performance of the Group. Other employee benefits include contributions to the mandatory provident fund scheme and medical care insurance etc.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the year ended 31 December 2022 and up to the date of this report.

## EVENTS AFTER THE REPORTING PERIOD

As of the date of this report, the Directors were not aware of any significant events related to the business or financial performance of the Group after the reporting period.

## RISK MANAGEMENT

### Risk management framework and mechanism

The Group has established a comprehensive risk management organizational structure consisting of the Board, management, the risk management committee, risk management department, and functional departments. The Board shall undertake the ultimate responsibility for comprehensive risk management, be responsible for the supervision and guidance of the risk management of the Group, approve the risk appetite of the Group, and control the overall risk of the Group within a reasonable range to ensure that the Group can effectively manage the risk control in business activities. The management shall lead and manage various risks in the course of business of the Group and promote the planning, construction and implementation of the comprehensive risk management system of the Group. The risk management committee under the management shall carry out the risk management work of the Group with the authorization of the management, be responsible for guiding, supervising and coordinating the implementation of the work related to risk management of the Group, provide advices on the improvement and updating of the organizational system, and promote the comprehensive risk management construction of the Group. Under the leadership of the chief risk officer, the risk management department shall organize and promote the comprehensive risk management work of the Group, organize to conduct identification, evaluation, monitoring, analysis and tests on the overall risk, aggregate risk faced in the course of operation and management of the Group and its changing trend, and put forward corresponding control measures and solutions.

The Group has built three lines of defence for risk management, of which the first line of defence is effective self-control by functional departments, the second line of defence is professional risk management by the risk management department before and during business operations, and the third line of defence is post-supervision and evaluation by the audit department. The design of the “three lines of defence (三道防線)” of risk management governance structure has effectively provided guarantees for the efficiency and effectiveness of risk management.

The Group has implemented the risk appetite, quota management and authorization management system, kept the business philosophy of “stable operation for sustainable development (穩健經營、長遠發展)” based on the neutral and prudent risk appetite determined by the Board, and adhered to the development idea of seeking progress while keeping performance stable, conducted precise identification, careful evaluation, dynamical monitoring and overall management on various risks, such as liquidity risk, market risk, credit risk, operational risk, reputation risk, and compliance and legal risk in a timely manner in the course of business of the Group to ensure that various risks exposed to the Group were controlled within a reasonable range that is measurable, controllable, acceptable and without spillover. The Group has endeavored to build a sound organizational structure, operational management system, quantifiable risk indicator system, reliable information system and professional talent team, so as to realize the detectability, measurability, analysis and risk-response in risk management, facilitating the healthy development of the business of the Group in the long run and the achievement of strategic goals.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Credit risk

The credit risk exposed to the Group refers to the risk of losses to the Group due to non-performance by the debtor or counterparty. The Group has established a risk management committee to review and monitor the implementation of credit risk management policies, and to update relevant risk management policies to adapt to changes. The Group has also set up an investment and financing business review committee, which is responsible for reviewing and re-examining the policies relating to credit approval, transaction limits and credit limits. The Group has regularly re-examined the implementation of existing investment and financing projects and margin loans to assess the credit risk exposure, and has taken appropriate measures to mitigate risks.

The Group has closely monitored the risk limit indicators of credit business, adopted measures such as daily mark-to-market and timely warning, and established a public opinion information monitoring mechanism for debtors, collaterals and counterparties to effectively respond to sudden public events to formulate response plans in advance. It has conducted regular stress tests, taken appropriate measures to make up for or minimize losses to properly resolve risks if the possibility of non-performance of customers was foreseen, and earnestly conducted post-investment management.

### Liquidity risk

The liquidity risk exposed to the Group refers to the risk of failure to obtain sufficient capital at reasonable cost in time to repay debts which are falling due, fulfill other payment obligations and meet the liquidity requirement for ordinary business operation.

The Group has formulated liquidity risk management system and process to identify, address, monitor and mitigate potential liquidity risks, and maintained liquidity and financial resource requirements in accordance with applicable laws and regulations (such as the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)).

The Group has formulated a multi-level authorization mechanism and internal policies for managing and approving the use and allocation of capital. It has set up restrictions on authorization in respect of any commitments or capital outflows (such as procurement, investment and loans), and evaluated the impact of such transactions on capital adequacy.

The Group has met its financing needs primarily through obtaining bank loans from certain banks and issuing bonds, and constantly explored and expanded financing channels and methods. The Group has also adopted strict liquidity management measures, including but not limited to daily monitoring reports, future cash flow forecasts and liquidity stress tests, to ensure that the planning and management of liquidity is prepared in advance and that the Group satisfies the capital requirements stipulated by applicable laws.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market risk

The market risk exposed to the Group refers to the risk of potential losses incurred to the Group due to adverse changes in exchange rates, interest rates and prices of financial assets and financial liabilities.

The Group has formulated policies and procedures to monitor and control market risks arising from carrying out business. Prior to engaging in any new transaction or launching any new business, each business segment of the Group will arrange persons with professional qualifications and industry experience to discuss and evaluate the relevant market risks, and formulate management and mitigation measures for such market risk.

The Group has set up market risk limit indicators, and regularly reviewed and adjusted market strategies to adapt to changes in operating results, risk tolerance and market conditions. In terms of financial products and investment business, the Group has formulated selection criteria for different bonds and other fixed-income products, prudently selected industries and enterprises, and followed-up and monitored macro-economic trends to optimize investment strategies.

### Operational risk

The operational risk exposed to the Group refers to the risk of losses to the Group caused by imperfect or defective internal procedures, employees, information systems or external events. The main goal of the operational risk management of the Group is to promote a good operational risk management culture according to the regulatory requirements and the development strategy of the Company, establish and improve the operational risk management framework and system in line with the actual situation of the Company, and reduce the frequency and impact of operational risk events.

The Group has established an operational risk management structure consisting of the Board, management, the risk management committee, the risk management department and each functional department. The management of operational risk involves all departments and all employees, with penetration into various business activities, business processes and operational procedures.

The Group has established a sound management mechanism and effective internal control procedures. Through operational risk policies, risk reporting mechanisms, operational risk limit indicators, risk control matrices, operational risk systems and risk warnings, the operational risk events will be identified, evaluated, monitored and followed up before, during and after events. At the same time, through sharing the cases of operational risk and training, the overall operational risk awareness of the Group has been improved, the operational risk management has been strengthened, and the ability to respond on operational risk has been improved. The risk management department has regularly analyzed and evaluated operational risk events, continuously monitored the operational risk conditions and its changing trend of the Group, and regularly reported the implementation of relevant indicators, and also followed up operational risk events to ensure that the operational risk losses of the Group are under control, and improved operational risk monitoring and management.

The Group has set up a business continuity management mechanism, in place with contingency plans and business continuity plans combined with risk scenarios, business models, system settings and other important risk factors, and retained sufficient disaster recovery office facilities, regularly carried out business continuity exercises, comprehensively improved the Group's ability to respond to emergencies and operational interruptions to ensure smooth and orderly operation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Compliance and legal risks

The Group has proactively promoted the establishment of a stable and sound compliance and legal risk management framework, formulated relevant policies, processes and templates, kept a close eye on the prevailing laws and regulations relating to business operations, and made timely adjustments and improvements to the internal compliance and legal risk management policies and processes based on the changes of external laws and regulations to ensure that the Group's business and operations comply with the laws and regulations as amended from time to time.

The Group has set up a compliance management structure and established three lines of defense for compliance management, of which the compliance management department takes the lead in formulating the compliance management policies and procedures of the Group, providing compliance advice for various business plans and affairs, closely monitoring the compliance operation of the licensed businesses of the Group, and supervising all business segments to strictly implement relevant regulatory requirements. Meanwhile, in order to foster a sound compliance culture atmosphere and strengthen compliance awareness, the compliance management department has taken the lead in organizing legal and compliance trainings for employees from time to time and provided internal guidance for the latest regulatory updates.

The legal and compliance department of the Group is assisted by full-time legal personnel. Meanwhile, the Group has engaged four legal consultants who have cooperated with the Group throughout the years and maintained close relationships with other external law firms. Through closely cooperation with full-time legal personnel and external legal consultants or law firms, it is ensured that the Group can prevent and address various legal risks in a timely manner.

### Reputation risk

The reputation risk exposed to the Group refers to the risk of public negative views on the Group from shareholders, employees, customers, third-party cooperation institutions and regulatory agencies caused by the operations, management and other behaviors or external events.

The Group has proactively promoted the construction of reputation risk management mechanism, effectively prevented reputation risk and addressed reputation risk events, and conducted all-rounded and whole-process management over classification, identification, assessment, reporting, handling and evaluation of reputation risk occurred in the course of the operation and management, so as to minimize losses and negative impacts on the reputation and brand image of the Group. During the reporting period, the Group has further improved its reputation risk management system, maintained an overall stable public views, and has not experienced major reputation risk.

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTOR

**Mr. Hu Pingsheng (“Mr. Hu”)**, aged 58, was appointed as a non-executive Director and the chairman of the Board, the chairman of nomination committee, and a member of each of the audit committee and the remuneration committee under the Board on 29 July 2022. Mr. Hu was also appointed as a director of Industrial Securities (Hong Kong) Financial Holdings Limited on 27 June 2022, which is the controlling shareholder of the Company (as defined in the Listing Rules). Mr. Hu has over 24 years of experience in the financial services industry.

Mr. Hu joined Industrial Securities Co., Ltd. (“Industrial Securities”) (stock code: 601377.SH), the parent of the Company, in 1998. He was the deputy general manager of research and development center, the deputy general manager of investment banking headquarter, the officer of board secretariat, the office manager and the board secretary of Industrial Securities. Mr. Hu is currently a member of the party committee and a vice president of Industrial Securities.

Mr. Hu obtained a doctorate degree in political economy from Fudan University, the PRC in June 1998.

## EXECUTIVE DIRECTORS

**Mr. Cai Junzheng (“Mr. Cai”)**, aged 48, was appointed as an executive Director and Chief Executive Officer of the Company on 6 December 2022. Mr. Cai is also a director of various subsidiaries of the Group. Mr. Cai was appointed as a director and chief executive officer of Industrial Securities (Hong Kong) Financial Holdings Limited, the controlling shareholder of the Company (as defined in the Listing Rules) on 13 October 2022, Mr. Cai was also appointed as an executive director, general manager and legal representative of Industrial Securities Consultancy Service (Shenzhen) Company Limited, and the director of IS (Hong Kong) Investment Limited on 13 October 2022, which are the subsidiaries of Industrial Securities (Hong Kong) Financial Holdings Limited. Mr. Cai has over 25 years of experience in the financial services industry.

Mr. Cai joined Industrial Securities, the parent of the Company, in 2020. He was the general manager of the investment and financing business approval department of Industrial Securities. Before joining Industrial Securities, he served as teller, sales counter officer, loan officer, customer manager and deputy head of credit of China Construction Bank, Weinan High-tech Development Zone branch; the customer manager, product planning manager and assessor and member of loan review committee of corporate banking management department of China Minsheng Bank, Xi’an branch; the general manager of credit approval department and secretary of branch risk management committee of China Minsheng Bank, Xi’an branch; the president and secretary of the party committee of China Minsheng Bank, Baoji branch; the general manager of credit approval department of Chengdu Bank Xi’an branch; and the general manager of the headquarter of northwest business of Industrial International Trust.

Mr. Cai obtained a bachelor degree in Economics from Shanxi Institute of Finance and Economics (currently known as Xi’an Jiaotong University), the PRC in July 1997.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Zeng Yanxia (“Ms. Zeng”)**, aged 46, was appointed as an executive Director on 1 June 2016 and a deputy Chief Executive Officer on 8 June 2016 and was the chief financial officer of the Company from 8 June 2016 to 17 July 2019. Ms. Zeng is also a chief risk officer of the Company and a director of various subsidiaries of the Group. Ms. Zeng has over 16 years of experience in the financial services industry.

Ms. Zeng joined the accounting and finance department of Industrial Securities in October 2006, following which she served successively as a manager of its internal division, assistant to the general manager, deputy director and deputy general manager. From August 2013 to March 2016, Ms. Zeng served as a deputy general manager of the strategy development department of Industrial Securities, and from March 2016 to September 2016, Ms. Zeng was the deputy chief executive officer and chief financial officer of Industrial Securities (Hong Kong) Financial Holdings Limited.

Ms. Zeng graduated from the Zhongnan University of Finance and Economics (as it was then known as), the PRC, with a bachelor degree in accountancy in June 1998. She further obtained a master degree in finance from Wuhan University, the PRC, in June 2003, and a doctorate degree in accounting from Xiamen University, the PRC, in July 2006. She is also a senior accountant and non-practising certified public accountant of the PRC.

**Ms. Zhang Chunjuan (“Ms. Zhang”)**, aged 39, was appointed as a deputy Chief Executive Officer, chief financial officer and chief compliance officer of the Company on 17 July 2019 and an executive Director on 2 August 2019. Ms. Zhang is also a director of various subsidiaries of the Group. Ms. Zhang was appointed as a deputy chief executive officer and chief financial officer of Industrial Securities (Hong Kong) Financial Holdings Limited, the controlling shareholder of the Company (as defined in the Listing Rules), and a supervisor of Industrial Securities Consultancy Service (Shenzhen) Company Limited\*, the subsidiary of Industrial Securities (Hong Kong) Financial Holdings Limited on 19 March 2019 and 23 October 2020, respectively. Currently, she is a director of Intelligent Capital Company Limited and manager of Artland International Company Limited LLC and 118 East 59th Street Realty LLC. Ms. Zhang has over 14 years of experience in financial services industry.

From July 2008 to September 2013, Ms. Zhang served as the manager of information management and analysis department of the integrated business planning department of planning and finance department of Industrial Securities. From October 2013 to April 2015, Ms. Zhang served as the manager and senior manager of tax planning and accounting internal control department of finance department of Industrial Securities. From May 2015 to May 2017, Ms. Zhang served as the manager and senior manager of financial management and analysis department financial management division of finance department of Industrial Securities. From May 2017 to December 2017, Ms. Zhang served as the assistant general manager of finance department and manager of financial management analysis department. From January 2018 to October 2018, Ms. Zhang served as the director of planning and analysis department of planning and finance department of Industrial Securities. From October 2018 to March 2019, Ms. Zhang served as the assistant general manager of planning and finance department and the director of planning and analysis department of Industrial Securities.

Ms. Zhang obtained a master degree in accounting from Shanghai University of Finance and Economics in July 2008. She is also a certified public accountant and intermediate accountant of the PRC.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Hong Ying (“Ms. Hong”)**, aged 72, was appointed as an independent non-executive Director on 27 July 2016 and the chairlady of audit committee under the Board on 30 September 2016. Ms. Hong has over 44 years of experience in the accounting industry. Ms. Hong is also qualified as a fellow certified public accountant and senior accountant in the PRC and a fellow certified public accountant of CPA Australia, and international associate member of Hong Kong CPA. Currently, Ms. Hong is the chairlady and shareholder of Beijing Fortune C.P.A Limited, a firm engaged in enterprise audit and accounting and consulting services, which is based in the PRC. Ms. Hong is also the chairlady and legal representative of Beijing Fortune International Enterprise Management Consulting Limited, and the chairlady of Fortune International (Asia) Limited and a director and council member of The Hong Kong Independent Non-Executive Director Association. Ms. Hong is also an independent director of Hangzhou Wanshili Silk Culture Co., Ltd. (杭州萬事利絲綢文化股份有限公司), and a director of The Hong Kong Chinese Enterprises Association.

Ms. Hong completed the Finance CEO programme jointly offered by the Cheung Kong Graduate School of Business, Columbia Business School and London Business School in January 2009, and obtained a certificate in Executive Management from the Golden Gate University, the United States in August 1993.

**Mr. Tian Li (“Mr. Tian”)**, aged 54, was appointed as an independent non-executive Director on 27 July 2016 and the chairman of remuneration committee and a member of audit committee and nomination committee under the Board on 30 September 2016. Mr. Tian has over 22 years of experience in the financial services industry. Currently, Mr. Tian is a director of Shanghai Tuhong Investment Management Company Limited (上海圖鴻投資管理有限公司), a company primarily engages in strategic investment, asset management, and the provision of corporate advisory services. He is also the chairman of Windsor School Holding LLC (US), an executive director of New York Institute of Finance Inc., an executive director and chief executive officer of NYIF International Holding LLC, a legal representative of NYIF Information Technology Development Co., Ltd. and a managing director of Shanghai Li Ding Information Technology Development Limited (上海力鼎信息科技發展有限公司) and Shanghai Hui Sheng Equity Investment Management Limited (上海惠盛股權投資管理有限公司) respectively. Mr. Tian’s previous experiences include employment with Bank of China International Limited as group executive director and head of financial institutions from January 2002 to October 2004.

Mr. Tian graduated with a bachelor degree in engineering from the People’s Liberation Army University of Science and Technology (previously known as the People’s Liberation Army Institute of Engineering Corps), the PRC, in July 1990. He then obtained a master degree in civil engineering from Cleveland State University, the United States, in August 1996, and a further master degree in business administration from Duke University, the United States, in May 1999.

**Mr. Qin Shuo (“Mr. Qin”)**, aged 54, was appointed as an independent non-executive Director on 27 July 2016 and a member of remuneration committee and nomination committee under the Board on 30 September 2016. Mr. Qin was the chief editor of China Business News (第一財經日報), from June 2004 to October 2015 and was an independent director of Shenzhen Bosun Institute of Management Science Co. Ltd (深圳市博商管理科學研究院股份有限公司), a consulting company trading on the National Equities Exchange and Quotations system in the PRC. Currently, Mr. Qin is a director of Guangzhou Microdream Media Co., Ltd. (廣州市匯志文化傳播股份有限公司), and an independent director of Oppein Home Group Inc. (歐派家居集團股份有限公司), whose shares are listed on The Shanghai Stock Exchange (stock code: 603833.SS).

Mr. Qin graduated with a bachelor degree in journalism from Fudan University, the PRC in July 1990, a master degree in public administration from California State University (Northridge), the United States, in June 2001 and further obtained his doctorate degree in business administration from Sun Yat-sen University, the PRC, in June 2009.

\* For identification purpose only

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Ms. Zhang Chunjuan**

*Chief Financial Officer*

*Chief Compliance Officer*

Biographies of Ms. Zhang Chunjuan are set out on page 16 of this annual report.

**Ms. Zeng Yanxia**

*Chief Risk Officer*

Biographies of Ms. Zeng Yanxia are set out on page 16 of this annual report.

# REPORT OF THE BOARD OF DIRECTORS

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2022 (the "Year").

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the provision of brokerage services, margin financing services, corporate finance services, asset management services and financial products and investments.

## BUSINESS REVIEW

The business review of the Group for the Year is set out in the sections of Management Discussion and Analysis on pages 7 to 14 of this report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year and the state of affairs of the Group as at that date are set out in the consolidated statement of profit or loss and other comprehensive income on page 47 of this report.

The Board did not recommend any payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

## SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 34 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 50 and note 49 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2022, the distributable reserves of the Company amounted to approximately HK\$2,575,203,370 (2021: HK\$2,923,755,960) under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

## PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

Details of major customers are set out in note 6 to the consolidated financial statements.

Due to the nature of our business activities, the Group has no major suppliers and thus the percentage of purchases attributable to the largest supplier and the percentage of purchases attributable to the 5 largest suppliers combined are not applicable.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any shareholders of the Company (the "Shareholders") (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers.

# REPORT OF THE BOARD OF DIRECTORS

## FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for each of the last five financial years is set out on page 160 of this report.

## DIRECTORS

The directors of the Company during the Year and up to the date of this report are as follows:

### NON-EXECUTIVE DIRECTORS:

Mr. Hu Pingsheng (*Chairman*) (Appointed on 29 July 2022)

Mr. Huang Yilin (*Chairman*) (Resigned on 29 July 2022)

### EXECUTIVE DIRECTORS:

Mr. Cai Junzheng (*Chief Executive Officer*) (Appointed on 6 December 2022)

Mr. Li Baochen (*Chief Executive Officer*) (Resigned on 6 December 2022)

Mr. Wang Xiang (Resigned on 11 March 2022)

Ms. Zeng Yanxia

Ms. Zhang Chunjuan

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Ms. Hong Ying

Mr. Tian Li

Mr. Qin Shuo

Pursuant to articles 108(a) and (b) of articles of association of the Company (the "Articles Association"), Ms. Zeng Yanxia and Mr. Tian Li shall retire from office at the annual general meeting. Ms. Zeng Yanxia will not offer herself for re-election due to her work arrangement, and Mr. Tian Li, being eligible, will offer himself for re-election.

Pursuant to articles 111 of the Articles Association, Mr. Hu Pingsheng was appointed to be a non-executive director at the extraordinary general meeting of the Company on 29 July 2022, therefore, he shall retire from office, and being eligible, will offer himself for re-election at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to the requirement of Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2022 interim report of the Company are set out below:

Director	Detail of change
Tian Li	Resigned as an independent director of China Industrial International Trust Limited on 30 January 2023

## REPORT OF THE BOARD OF DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

Executive Directors have entered into service contracts with the Company for a term of three years and be thereafter continuous unless and until the termination by either party thereto giving no less than three months' prior written notice.

The non-executive Directors and independent non-executive Directors are appointed for a term of three years and either party may terminate such appointment at any time by giving at least three months' notice in writing to the other.

### DIRECTORS' EMOLUMENTS

The Directors' fees are subject to Shareholders' approval at general meeting. Other emoluments are determined by the Board with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group. Details of the emoluments of Directors are set out in note 11 to the consolidated financial statements of this report.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2022, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

#### Long position in ordinary shares of HK\$0.1 each of the Company

Name of Director	Capacity/Nature	No. of Shares held	Approximate percentage
Hu Pingsheng	Beneficial owner	7,204,858	0.18%
Zeng Yanxia	Beneficial owner	7,204,858	0.18%

Save as disclosed above, as at 31 December 2022, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Group and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## REPORT OF THE BOARD OF DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors and the Chief Executives are aware, as at 31 December 2022, the following persons/corporations (other than a Director or the Chief Executives of the Company) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name	Nature of Interest	No. of Shares held	Approximate percentage of Shareholding
Industrial Securities (Hong Kong) Financial Holdings Limited	Beneficial owner	2,090,281,644	52.26%
Industrial Securities ( <i>Note 1</i> )	Interest of controlled corporation	2,090,281,644	52.26%
Harvest Capital Management Co., Ltd ( <i>Note 2</i> )	Investment manager	293,232,000	7.33%
Harvest Fund Management Co., Ltd. ( <i>Note 2</i> )	Interest of controlled corporation	293,232,000	7.33%
China Credit Trust Co., Ltd ( <i>Note 2</i> )	Interest of controlled corporation	293,232,000	7.33%
Hao Kang Financial Holdings (Group) Limited ( <i>Note 3</i> )	Beneficial owner	205,853,089	5.15%
Apex Trade Holdings Limited ( <i>Note 3</i> )	Interest of controlled corporation	205,853,089	5.15%
Chen Jiaquan ( <i>Note 3</i> )	Interest of controlled corporation	205,853,089	5.15%
Yang Zhiying ( <i>Note 4</i> )	Interest of spouse	205,853,089	5.15%

Notes:

- Industrial Securities holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.
- China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.

## REPORT OF THE BOARD OF DIRECTORS

3. Chen Jiaquan holds 70% of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.
4. Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested.

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any persons, other than the Directors and the Chief Executives who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

To the best knowledge of the Board, at no time during the Year was the Company, its subsidiaries or its other associated corporations a party to any arrangement to enable the Directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the Year or at the end of the Year.

### COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016 (the "Prospectus"), none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the Listing Rules had any interest in business that competed or might compete with business of the Group during the Year.

### MANAGEMENT CONTRACTS

The Board is not aware of any contract entered into with the management and administration of the whole or any substantial part of the business of the Company during the Year.

### EMOLUMENT POLICY

The Directors of the Company receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the Directors, as well as the performance of the Group.

The Group regularly reviews and determines the remuneration and compensation packages of the Directors by reference to, among other things, market level of remuneration and compensation paid by comparable companies, respective responsibilities of the Directors and performance of the Group.

The remuneration committee of the Company will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group.

## REPORT OF THE BOARD OF DIRECTORS

### CONTINUING DISCLOSURE OBLIGATION UNDER RULE 13.21 OF THE LISTING RULES

On 27 October 2020, the Company as borrower entered into a supplemental facility letter (the “Supplemental Facility Letter”) with a bank as lender to renew an uncommitted revolving loan facility in an aggregate amount of up to HK\$500,000,000 (or its equivalent in USD). As a condition of the Supplemental Facility Letter, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company.

On 31 December 2020, the Company as borrower entered into a facility letter (the “Facility Letter”) with a bank as lender to renew an uncommitted revolving loan facility in an aggregate amount of up to HK\$800,000,000. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to remain as the single largest shareholder of the Company.

On 31 December 2020, the Company as borrower entered into a facility letter (the “Facility Letter”) with a bank as lender to renew an uncommitted revolving loan facility in an aggregate amount of up to HK\$200,000,000. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to beneficially own (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the absolute management control over the Company.

On 22 October 2021, the Company as borrower entered into a facility letter (the “Facility Letter”) with a bank as lender to renew an uncommitted revolving loan facility in an aggregate amount of up to HK\$2,000,000,000. As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to own and maintain (directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain control over the Company.

On 28 December 2021, the Company and China Industrial Securities International Brokerage Limited (“CISI Brokerage”), a direct wholly-owned subsidiary of the Company, as borrower, entered into a facility letter (the Facility Letter A”) with a bank as lender, pursuant to which the lender has agreed to make available an uncommitted short-term loan facility in an aggregate amount of up to HK\$900,000,000 to the Company and CISI Brokerage. As a condition of the Facility Letter A, it shall be an event of default if Industrial Securities ceases to beneficially own (either directly or indirectly) at least 51% of the issued share capital of the Company and CISI Brokerage.

On 28 December 2021, CISI Brokerage as borrower entered into a short-term loan for initial public offering financing facility letter (the “Facility Letter B”) with a bank as lender, pursuant to which the maximum amount will be determined by the lender at sole absolute discretion on or before each loan advance to the Company. As a condition of the Facility Letter B, it shall be an event of default if Industrial Securities ceases to beneficially own (either directly or indirectly) at least 51% of the issued share capital of the Company and CISI Brokerage.

On 28 December 2021, the Company as borrower entered into a facility letter (the “Facility Letter C”) with a bank as lender, pursuant to which the lender has agreed to make available an uncommitted revolving loan facility in an aggregate amount of up to US\$50,000,000 (or its equivalent in HKD) to the Company. As a condition of the Facility Letter C, it shall be an event of default if Industrial Securities ceases to legally and beneficially own (either directly or indirectly) at least 51% of the issued share capital of the Company and ceases to maintain the management control over the Company.

On 1 April 2022, the Company as borrower entered into a facility letter (the “Facility Letter A”) with a bank as lender, pursuant to which the lender has agreed to make available an uncommitted revolving loan facility in an aggregate amount of up to US\$20,000,000 (or its equivalent in HKD or RMB) to the Company. As a condition of the Facility Letter A, it shall be an event of default if Industrial Securities ceases to own (either directly or indirectly) at least 51% of the issued share capital of the Company.

## REPORT OF THE BOARD OF DIRECTORS

On 1 April 2022, the Company as borrower entered into a facility letter (the “Facility Letter B”) with a bank as lender to supersede the previous facility letter dated 20 January 2021 and its supplementary facility letter, pursuant to which the lender has agreed to make available an uncommitted revolving loan facility in an aggregate amount of up to US\$50,000,000 (or its equivalent in HKD or RMB or other currencies acceptable to the lender) to the Company. As a condition of the Facility Letter B, it shall be an event of default if Industrial Securities ceases to own (either directly or indirectly) not less than 51% of the issued share capital of the Company.

On 12 May 2022, the Company as borrower entered into a facility letter (the “Facility Letter”) with a bank as lender (the “Lender”), pursuant to which the Lender has agreed to make available an offshore revolving loan facility in an aggregate amount of up to US\$50,000,000 (or its equivalent in HKD). As a condition of the Facility Letter, it shall be an event of default if Industrial Securities ceases to maintain (directly or indirectly) control over the Company.

On 21 October 2022, the Company as borrower entered into a facility letter (the “Facility Letter C”) with a bank as lender (the “Lender”) to renew the facility, pursuant to which the Lender has agreed to make available an uncommitted revolving loan facility in an aggregate amount of up to HK\$300,000,000. As a condition of the Facility Letter C, it shall be an event of default if Industrial Securities ceases to maintain directly or indirectly not less than 51% of the issued share capital of the Company and maintain the absolute management control over the Company.

On 21 October 2022, the Company as borrower entered into a facility letter (the “Facility Letter D”) with a bank as lender (the Lender”), pursuant to which the Lender has agreed to make available an uncommitted revolving loan facility in an aggregate amount of up to US\$20,000,000. As a condition of the Facility Letter D, it shall be an event of default if Industrial Securities ceases to maintain directly or indirectly not less than 51% of the issued share capital of the Company and maintain the absolute management control over the Company.

As at the date of this report, the above specific performance obligations imposed on Industrial Securities under the aforesaid facility letters continued to exist.

### CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group conducted the following transactions which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules:

On 3 April 2018, the Company and Industrial Securities Consultancy Service (Shenzhen) Company Limited (“Industrial Securities (Shenzhen)”) entered a service agreement (the “Service Agreement”), pursuant to which Industrial Securities (Shenzhen) agreed to provide consultancy services to the Group, include, among others, (i) the consultancy services including the consulting services on economic information, and assisting the Group in collecting and analysing information on macroeconomics, industry news and market information in the PRC; (ii) the services and support to the Group’s clients in core regions in the PRC (non-regulated activities); and (iii) provision of cross-border information technology support. The term of the Service Agreement is for three years from 1 January 2019 to 31 December 2021. The proposed cap amounts for the provision of the abovementioned services by Industrial Securities (Shenzhen) to the Company was HK\$68 million, HK\$105 million and HK\$153 million for each of the three years ended 31 December 2021, respectively.

## REPORT OF THE BOARD OF DIRECTORS

On 3 November 2021, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which, Industrial Securities (Shenzhen) will provide the new services to the Group: (i) logistics management services to the Group, including but not limited to provision of client visits, answering customer service calls, and financial settlement services; (ii) information consultancy services (excluding licensing information consultancy services), including but not limited to the provision of consultancy services on economic information and delivery and consultancy services on business information; (iii) corporate management services, including but not limited to personnel training services; (iv) software development services; and (v) information technology consultancy services, including but not limited to the provision of cross-border information technology support.

On 3 November 2021, the Company and Industrial Securities (Shenzhen) renewed the Service Agreement (as amended by the Supplemental Service Agreement) (the "Renewal Service Agreement") for a further term of three years from 1 January 2022 to 31 December 2024. The proposed cap amounts for the provision of the abovementioned services by Industrial Securities (Shenzhen) to the Company are HK\$59 million, HK\$94 million and HK\$145 million for each of the three years ending 31 December 2024, respectively.

For the year ended 31 December 2022, the Group incurred a consultancy service fee of HK\$25,193,659 to Industrial Securities (Shenzhen).

The relevant pricing policy and guideline stated in the circular of the Company dated 30 November 2021 have been complied with when determining the transaction price and terms. For the year ended 31 December 2022, Industrial Securities (Hong Kong) Financial Holdings Limited, as the controlling shareholder of the Company, holds 52.26% interest of the Company. Industrial Securities (Hong Kong) Financial Holdings Limited holds 100% interest of Industrial Securities (Shenzhen). Therefore, Industrial Securities (Hong Kong) Financial Holdings Limited is a connected person to the Company and transactions between the Company and the subsidiaries and/or associates of Industrial Securities (Hong Kong) Financial Holdings Limited constitute connected transactions of the Company under the Listing Rules.

On 3 November 2021, the Company and Industrial Securities entered into the master agreement, pursuant to which the Group conditionally agreed that it will provide the investment management: (i) establishment of funds in Hong Kong for the Industrial Securities Group; and (ii) investment management services in relation to such funds, including but not limited to the provision of financial analysis, asset allocation, and various kinds of ancillary consultancy and investment management services, and investment advisory services in relation to the funds established and/or managed by the Industrial Securities Group in the PRC. Such services include but not limited to the provision of financial analysis, asset allocation, and various kinds of ancillary consultancy services to the Industrial Securities Group, for a term of three years from 1 January 2022 to 31 December 2024. The proposed cap amounts for the provision of the abovementioned investment management service by the Company to the Industrial Securities Group are HK\$37 million, HK\$75 million and HK\$112 million for each of the three years ending 31 December 2024, respectively. The proposed cap amounts for the provision of the abovementioned investment advisory services by the Company to the Industrial Securities Group are HK\$20 million, HK\$26 million and HK\$30 million for each of the three years ending 31 December 2024, respectively.

For the year ended 31 December 2022, Industrial Securities did not incur any investment management services fee and investment advisory services fee.

The relevant pricing policy and guideline stated in the circular of the Company dated 30 November 2021 have been complied with when determining the transaction price and terms. Industrial Securities holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities is a controlling shareholder of the Company. As such, Industrial Securities is a connected person of the Company and the transactions contemplated under the aforesaid master agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

## REPORT OF THE BOARD OF DIRECTORS

The independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2022 and confirmed that they were entered into in the ordinary and usual course of business of the Group on normal commercial terms and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company has engaged the Company's auditor to perform certain procedures in order to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### RELATED PARTY TRANSACTIONS

Save as disclosed above under Continuing Connected Transactions, the Company confirms that the signing and execution of the specific agreements under the Continuing Connected Transactions for the Year have been subject to the pricing principles of such continuing connected transactions.

The Company confirms that the related party transactions are not classified as defined in Chapter 14A of the Listing Rules in relation to the Connected Transactions or the Continuing Connected Transactions or are fully exempt, as the case may be, and have complied with Chapter 14A of the Listing Rules Disclosure requirements.

Details of the related party transactions during the Year are set out in note 44 to the consolidated financial statements.

### DEED OF NON-COMPETITION

On 28 September 2016, Industrial Securities, Industrial Securities (Hong Kong) Financial Holdings Limited and China Industrial Securities International Holdings Limited (the "Controlling Shareholders") entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company (for itself and for the benefit of each member of the Group). Pursuant to the Deed of Non-Competition, during the period that the Deed of Non-Competition remains effective, each of the Controlling Shareholders irrevocably and unconditionally undertakes with the Company (for itself and for the benefit of each member of the Group) that it shall not, and shall procure its associates or companies controlled by it (other than members of the Group) not to, directly or indirectly engage, participate in or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group in Hong Kong or any other area in which the Group carries on business, save for the holding of not more than 5% shareholding interests (individually or with its associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with its associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with its associates).

On 8 May 2019, China Industrial Securities International Holdings Limited transferred all its interests in the Company to Industrial Securities (Hong Kong) Financial Holdings Limited. China Industrial Securities International Holdings Limited is no longer the Controlling Shareholder of the Company while Industrial Securities and Industrial Securities (Hong Kong) Financial Holdings Limited are still the Controlling Shareholders of the Company.

## REPORT OF THE BOARD OF DIRECTORS

During the Year, Industrial Securities and Industrial Securities (Hong Kong) Financial Holdings Limited have confirmed in writing to the Company of their compliance with the Deed of Non-Competition, and the independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders.

### DONATIONS

During the Year, the Group made charitable donations of approximately HK\$19,600 (2021: HK\$219,740).

### CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Friday, 5 May 2023 to Wednesday, 10 May 2023, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 May 2023.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Between 5 September 2022 and 28 September 2022, the Company repurchased the 2% guaranteed bonds due February 2024 (the "2024 Bonds") in the open market in an aggregate principal amount of US\$35,000,000 (the "Repurchased Bonds"), representing approximately 11.67% of the aggregate principal amount of the 2024 Bonds originally issued. The Repurchased Bonds have been cancelled in accordance with the terms and conditions of the 2024 Bonds. For details, please refer to the Company's announcement dated 19 October 2022.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

### PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association and subject to the provisions of the Companies Law of the Cayman Islands, each Director, or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all actions, costs, charges, losses, damages and expenses incurred or sustained by him/her as a Director, or other officer of the Company. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the Year in respect of any legal liabilities which may be assumed by the Directors and officers in the execution and discharge of their duties or in relation thereto.

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

## REPORT OF THE BOARD OF DIRECTORS

### ENVIRONMENTAL POLICY

The Group emphasizes the importance of energy conservation and environmental protection as part of its corporate culture and encourages its employees to minimise the use of paper by promoting digitalisation of documents and better use of waste paper. The Group has also participated in a carbon reduction program by replacing all traditional fluorescent lamps with energy-saving lamps within the working area. Details of the relevant policies are set out in the Environment, Social and Governance Report to be issued by the Company.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the best knowledge of the Directors, there has been a sufficient public float of the issued Shares as required under the Listing Rules (i.e. at 25% of the issued Shares in public hands) throughout the year ended 31 December 2022 and up to the date of this report.

### REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Group for the year ended 31 December 2022 have been reviewed by the audit committee of the Company.

### AUDITOR

KPMG were first appointed as auditors of the Company in 2019 upon the retirement of Deloitte Touche Tohmatsu.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

The financial statements for the Year of the Group have been audited by KPMG.

On behalf of the Board

**Hu Pingsheng**

*Chairman*

Hong Kong, 24 March 2023

\* *For identification purposes only*

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance in the best interest of the shareholders of the Company (the "Shareholders"). The Company has been making an effort to enhance the corporate governance standard of the Company by reference to the code provisions and recommended best practices set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. During the Year, the Company has complied with the code provisions of the CG Code.

## BOARD OF DIRECTORS

### Responsibilities

The Board is collectively responsible for the long-term success of the Company. Its key responsibilities include providing leadership and supervision to the Management with a view to protecting the Shareholders' interests and enhancing Shareholders' long-term value. The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit committee of the Company (the "Audit Committee"), the remuneration committee of the Company (the "Remuneration Committee") and the nomination committee of the Company (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

The Board has established the Group's purpose, values and strategies and was satisfied that they are aligned with the Group's culture. All Directors must act with integrity, lead by example, and promote the desired culture. The Board should instil and continually reinforce across the Company's values of "acting lawfully, ethically and responsibly".

The Group strives to maintain high standards of business ethics and corporate governance across its business activities and operations. All the employees are required to act lawfully, ethically and responsibly, and the required standards and norms are explicitly set out in the training materials for all new staff and embedded in the Group's Staff Handbook. Staff trainings are conducted from time to time to reinforce the required standards in respect of ethics and integrity.

The Group is devoted to nurturing harmonious, healthy, warm and positive corporate culture through various activities such as team building in order to improve the employee's sense of commitment and emotional engagement with the Group's mission. This sets the tone for building a strong and productive workforce that attracts, develops, and retains the best talent and produces the highest quality work.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

### Composition

As at the date of this report, the Board comprises of seven Directors including one non-executive Director, three executive Directors, and three independent non-executive Directors.

#### Non-executive Director

Mr. Hu Pingsheng (*Chairman*)

#### Executive Directors

Mr. Cai Junzheng (*Chief Executive Officer*)

Ms. Zeng Yanxia

Ms. Zhang Chunjuan

## Independent non-executive Directors

Ms. Hong Ying  
Mr. Tian Li  
Mr. Qin Shuo

There was no financial, business, family or other material relationship among the Directors. The biographical details of each of the Directors are set out in the section headed “biographies of directors and senior management” of this report.

## BOARD MEETINGS

The Board meets regularly at least four times each year, and more frequently as the needs of the business demand, to formulate overall strategy, monitor business development as well as the financial performance of the Group. The Board has delegated certain duties and authorities to the management for the day-to-day management of the Group’s operation.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For all other Board meetings, reasonable notices are given. The agenda together with all relevant meeting materials are sent to all Directors at least 3 days before each regular board meetings and at agreed periods for other meetings to enable them to make informed decisions with adequate information. The Board and each Director also have direct and independent access to the management whenever necessary.

All minutes of Board meetings and general meetings are kept by the company secretary and are open for inspection at reasonable time on reasonable notice by any Director. Every Director is entitled to have access to Board papers and related materials and access to the advice and services of the company secretary. In addition, the Company enables the Directors, in discharge of their duties, to seek independent professional advice in appropriate circumstances.

During the Year, the Directors’ attendance at the Board meetings and general meetings is set out as follows:

Name	Number of meetings attended/held		
	Board Meetings <sup>1</sup>	Annual General Meeting <sup>1</sup>	Extraordinary General Meeting <sup>1</sup>
<b>Non-executive Directors:</b>			
Mr. Hu Pingsheng ( <i>Chairman</i> ) (appointed on 29 July 2022) <sup>2</sup>	3/3	0/0	1/1
Mr. Huang Yilin ( <i>Chairman</i> ) (Resigned on 29 July 2022) <sup>2</sup>	4/4	1/1	1/1
<b>Executive Directors:</b>			
Mr. Cai Junzheng ( <i>Chief Executive Officer</i> ) (Appointed on 6 December 2022) <sup>3</sup>	0/0	0/0	0/0
Mr. Li Baochen ( <i>Chief Executive Officer</i> ) (Resigned on 6 December 2022) <sup>3</sup>	6/7	1/1	2/2
Mr. Wang Xiang (Resigned on 11 March 2022) <sup>4</sup>	0/0	0/0	0/0
Ms. Zeng Yanxia	7/7	1/1	2/2
Ms. Zhang Chunjuan	7/7	1/1	2/2

## CORPORATE GOVERNANCE REPORT

Name	Number of meetings attended/held		
	Board Meetings <sup>1</sup>	Annual General Meeting <sup>1</sup>	Extraordinary General Meeting <sup>1</sup>
<b>Independent Non-executive Directors:</b>			
Ms. Hong Ying	7/7	1/1	2/2
Mr. Tian Li	7/7	1/1	2/2
Mr. Qin Shuo	7/7	1/1	2/2

Notes:

- (1) The denominator represents the number of Board meetings and general meetings held during the tenure of each Director in the financial year ended 31 December 2022.
- (2) Mr. Hu Pingsheng was appointed as non-executive Director and Chairman on 29 July 2022. Mr. Huang Yilin resigned as non-executive Director and Chairman on 29 July 2022.
- (3) Mr. Cai Junzheng was appointed as executive Director and Chief Executive Officer on 6 December 2022. Mr. Li Baochen resigned as executive Director and Chief Executive Officer on 6 December 2022.
- (4) Mr. Wang Xiang resigned as executive Director on 11 March 2022.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision A.2.1 of the CG Code including:

- develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service. The Board will review such objectives from time to time to ensure their appropriateness and the progress made towards achieving those objectives. The Company will also take into consideration its own specific needs from time to time in determining the optimum composition of the Board.

The Board recognizes the importance and benefits of gender diversity at the Board level. As at the date of this report, the Board comprises seven Directors, three of which are female.

During the Year, the diversity philosophy including the gender diversity was generally followed in the workforce throughout the Group. 57.1% of Directors and 57% of total workforce of the Group were male. 42.9% of Directors and 43% of total workforce of the Group were female.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Huang Yilin resigned as the Chairman on 29 July 2022 and Mr. Li Baochen resigned as the Chief Executive Officer on 6 December 2022. Currently, Mr. Hu Pingsheng is the Chairman and Mr. Cai Junzheng is the Chief Executive Officer. There is a clear division of responsibilities between the chairman and the chief executive officer in that the chairman bears primary responsibility for the effective functioning of the Board, ensuring the establishment of business strategies and sound corporate governance practices of the Group, while the chief executive officer bears executive responsibility for implementing the Board's approved strategies and policies and supervising the Group's day-to-day business operations.

### DIRECTORS' TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills.

During the Year, a record of the training attended/received by each of the Directors, is set out as follows:

Name	Type of training
<b>Non-executive Directors:</b>	
Mr. Hu Pingsheng (Appointed on 29 July 2022)	A & B
Mr. Huang Yilin (Resigned on 29 July 2022)	A & B
<b>Executive Directors:</b>	
Mr. Cai Junzheng (Appointed on 6 December 2022)	A & B
Mr. Li Baochen (Resigned on 6 December 2022)	A & B
Mr. Wang Xiang (Resigned on 11 March 2022)	A & B
Ms. Zeng Yanxia	A & B
Ms. Zhang Chunjuan	A & B
<b>Independent Non-executive Directors:</b>	
Ms. Hong Ying	A & B
Mr. Tian Li	A & B
Mr. Qin Shuo	A & B

# CORPORATE GOVERNANCE REPORT

Notes:

- A: attending courses/seminars/conferences
- B: reading journals/written training materials/updates

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles, a person may be appointed as a Director by the shareholders in general meeting. In addition, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation and that each Director shall be subject to retirement at least once every three years. The non-executive Directors and each of the independent non-executive Directors were appointed for a term of three years and subject to retirement by rotation (at least once every three years) and re-election in accordance with the Articles.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the Year.

## REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emolument of the Directors, Chief Executive and five individuals with highest emoluments are set out in note 11 to the consolidated financial statements.

## AUDITOR'S REMUNERATION

The remuneration paid/payable to the external auditor is set out as follows:

<b>Services rendered</b>	<b>Fee paid/payable HK\$</b>
Audit services	1,800,000
Non-audit services	
– Tax consultation services	114,000

## AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Audit Committee currently comprises a non-executive Director, namely Mr. Hu Pingsheng, and two independent non-executive Directors, namely Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The primary duties of the Audit Committee include the following:

- to review and supervise financial reporting process;
- to nominate and monitor external auditor; and
- to oversee the risk management and internal control procedures of the Company.

## CORPORATE GOVERNANCE REPORT

During the Year, the major work performed by the Audit Committee included:

- (i) reviewed the Group's annual results and 2021 Annual Report and the Group's interim results and 2022 Interim Report and made recommendations to the Board for approval;
- (ii) reviewed and discussed with the auditor to ensure that the Group's financial statements had been prepared in accordance with the accounting principles; and
- (iii) reviewed the financial reporting system, risk management and the internal control system of the Group.

During the Year, the members' attendance of the meetings of the Audit Committee is set out as follows:

Name	Number of meetings of the Audit Committee attended/held*
Ms. Hong Ying ( <i>Chairlady</i> )	2/2
Mr. Hu Pingsheng (appointed on 29 July 2022)	1/1
Mr. Huang Yilin (resigned on 29 July 2022)	1/1
Mr. Tian Li	2/2

\* The denominator represents the number of the Audit Committee meetings held during the tenure of each Director in the financial year ended 31 December 2022.

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Remuneration Committee currently comprises one non-executive Director, namely Mr. Hu Pingsheng, and two independent non-executive Directors, namely Mr. Tian Li and Mr. Qin Shuo. Mr. Tian Li is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include the following:

- to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company; and
- to ensure that none of the Directors determine their own remuneration.

During the Year, the major work performed by the Remuneration Committee included:

- (i) reviewed the remuneration packages of the Directors;
- (ii) made recommendation to the Board on the renewal of independent non-executive Directors' service contracts;
- (iii) made recommendation to the Board on the service contract of new non-executive Director; and
- (iv) made recommendation to the Board on the service contract of new executive Director.

## CORPORATE GOVERNANCE REPORT

During the Year, the member's attendance of the meetings of the Remuneration Committee is set out as follows:

Name	Number of meetings of the Remuneration Committee attended/held*
Mr. Tian Li ( <i>Chairman</i> )	4/4
Mr. Hu Pingsheng (appointed on 29 July 2022)	1/1
Mr. Huang Yilin (resigned on 29 July 2022)	2/2
Mr. Qin Shuo	4/4

\* The denominator represents the number of the Remuneration Committee meetings held during the tenure of each Director in the financial year ended 31 December 2022.

### NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference in compliance with the Listing Rules and the code provisions under the CG Code. The Nomination Committee currently comprises one non-executive Director, namely Mr. Hu Pingsheng, and two independent non-executive Directors, namely Mr. Tian Li and Mr. Qin Shuo. Mr. Hu Pingsheng is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include the following:

- to review the structure, size and composition of the Board annually;
- to formulate nomination policy and implement nomination policy;
- to identify individuals suitably qualified to become members of the Board;
- to assess the independence of the independent non-executive Directors; and
- to make recommendations to the Board on relevant matters relating to appointments of Directors.

During the Year, the major work performed by the Nomination Committee included:

- (i) reviewed the structure, size and composition of the Board;
- (ii) assessed the independence of the independent non-executive Directors;
- (iii) made recommendation to the Board on appointment of new non-executive Director; and
- (iv) made recommendation to the Board on appointment of new executive Director and Chief Executive Officer.

## CORPORATE GOVERNANCE REPORT

During the Year, the member's attendance of the meetings of the Nomination Committee is set out as follows:

Name	Number of meetings of the Nomination Committee attended/held*
Mr. Hu Pingsheng (appointed on 29 July 2022)	1/1
Mr. Huang Yilin ( <i>Chairman</i> ) (resigned on 29 July 2022)	2/2
Mr. Tian Li	3/3
Mr. Qin Shuo	3/3

\* The denominator represents the number of the Nomination Committee meetings held during the tenure of each Director in the financial year ended 31 December 2022.

### NOMINATION POLICY

#### Objective

The Nomination Committee shall endeavor to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Group and its shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Candidates also will be assessed in the context of the then-current composition of the Board, the operating requirements of the Group. In conducting this assessment, the Nomination Committee will, in connection with its assessment and recommendation of candidates for director, consider diversity (including, but not limited to, gender, race, ethnicity, age, experience and skills) and such other factors as it deems appropriate given the then current and anticipated future needs of the Board and the Company, and to maintain a balance of perspectives, qualifications, qualities and skills on the Board.

#### Selection criteria

The Nomination Committee shall recommend candidates with reference to the following factors:

- Candidate shall not breach any applicable laws or regulations; nor have any conflicts of interests affecting proper execution of duties of a director;
- Whether skills, experience, independence and knowledge of the candidate is balanced;
- Candidate must be willing and able to devote sufficient time to the affairs of the Company and be diligent in accomplishing duties as a director and/or member of Board committee (if applicable); and
- Board diversity in various aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc.

The above factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

# CORPORATE GOVERNANCE REPORT

## Nomination procedures

### ***Appointment of Directors***

- (i) The Nomination Committee shall identify candidates as Directors with reference to advice from the existing directors and senior management and/or recommendation from shareholders.
- (ii) The Nomination Committee shall review qualifications of candidates and determine candidates most relevant to requirement and expected criteria of the Board.
- (iii) The Nomination Committee shall report to the Board on assessment and selection process of candidates.
- (iv) The Nomination Committee shall recommend candidates to the Board.
- (v) The Board shall set out formal candidate list for election on general meetings to fill casual vacancies.

### **Re-election of Directors**

- (i) The Nomination Committee shall consider each retiring Director after due consideration of the nomination policy, board diversity policy and the CG Code and assess the independence of each retiring independent non-executive Director.
- (ii) The Nomination Committee shall make recommendation to the Board.
- (iii) The Board shall consider each retiring Director recommended by the Nomination Committee after due consideration of the nomination policy, board diversity policy and the CG Code.
- (iv) The Board shall recommend retiring directors to be re-elected on general meetings in accordance with the Articles of Association of the Company.
- (v) The shareholders shall approve re-election of directors on general meetings.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements, appropriate accounting policies and standards are selected and applied consistently. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for reviewing the effectiveness of risk management and internal control systems of the Group. The Board is committed to implementing an effective and sound risk management and internal control systems to safeguard the interest of the Shareholders and the Group's assets. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board is responsible for overseeing the risk appetite of the Group including determining the Group's acceptable level of risk, and review from time to time the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit, risk management, financial reporting functions, as well as environmental, social and governance performance and reporting. The Group discloses inside information to the public as soon as reasonably practicable in accordance with the requirements under the Listing Rules and the Securities and Futures Ordinance (Cap. 571). Before full disclosure of the inside information to the public, the Group will ensure that the information is kept strictly confidential. The Group also strives to present information in a clear and balanced way, which requires equal disclosure of both positive and negative facts, and to ensure that information contained in all corporate communications is not false or misleading as to a material fact, or false or misleading through the omission of a material fact.

During the Year, the Board reviewed the effectiveness of the risk management and internal control systems of the Group through the Audit Committee Meeting. The Board considered the Group's internal control system as adequate and effective and that the Company has complied with the code provisions of the CG Code.

### COMPANY SECRETARY

Ms. Tsang Wing Man ("Ms. Tsang"), a representative from an external secretarial services provider, as the company secretary of the Company. The primary contact person with the company secretary of the Company is Ms. Zhang Chunjuan, executive Director. Ms. Tsang is an associate member of The Chartered Governance Institute and The Hong Kong Chartered Governance Institute. She has experience in company secretarial matters. Ms. Tsang has confirmed that she has taken no less than 15 hours of relevant professional training pursuant to Rule 3.29 of the Listing Rules.

### INTERNAL AUDIT

The Company has an independent internal audit team, which is assigned with the task to perform regular reviews on an annual basis on internal control system of the Group in respect of operational, financial and compliance aspects and will alert management on the audit findings or irregularities, if any, and advise them on the implementation of necessary steps and actions to enhance the internal controls of the Group.

### INVESTOR RELATIONS

The Board recognises the importance of good communications with its shareholders and investors. The Company strives to ensure that all shareholders have ready, equal and timely access to all publicly available information of the Company that is accurate, comprehensible and informative. The shareholders' communication policy sets out the framework in place to promote effective communication with shareholders so as to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company updates its Shareholders on its latest business developments and financial performance through its annual, and interim reports. The Company's website ([www.xyzq.com.hk](http://www.xyzq.com.hk)) provides an effective communication platform to the public and the Shareholders.

# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to maintain an ongoing dialogue with the Shareholders and in particular, through annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM and EGM provide a useful forum for the Shareholders to exchange views with the Board. The Chairman as well as chairlady/chairman of the Audit Committee, Remuneration Committee and Nomination Committee are pleased to answer the enquires raised by the Shareholders. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors. All the announcements and circulars are published on the Company's website ([www.xyzq.com.hk](http://www.xyzq.com.hk)) and on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)).

## DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") on 27 December 2018. The Board endeavors to strike a balance between the interests of the Shareholders and prudent capital management with a sustainable Dividend Policy. Under the Dividend Policy, the total amount of dividend of the Company will be no less than 40% of the net profit attributable to owners of the Company during the year, subject to the following factors:

- the Group's current and future operations, liquidity position and capital requirements;
- restrictions under applicable laws and regulations;
- restrictions on payment of dividends that may be imposed by the Group's lenders;
- general economic conditions, business cycle of the Group's control business and other internal or external factors that may have an impact on the business, financial performance and position of the Company; and
- any other factors that the Board may consider relevant.

The Board will review the Dividend Policy as appropriate from time to time.

## CONSTITUTIONAL DOCUMENTS

A copy of the latest version of amended and restated memorandum and articles of association is posted on the websites of the Company and the Stock Exchange.

In order to (i) bring the existing amended and restated memorandum and articles of association of the Company in alignment with the Core Shareholder Protection Standards as set out in Appendix 3 to the Listing Rules; (ii) reflect certain updates in relation to the applicable laws of the Cayman Islands and the Listing Rules; and (iii) make other house-keeping amendments, a new set of amended and restated memorandum and articles of association has been approved and adopted by the extraordinary general meeting on 6 December 2022 and was posted on the websites of the Company and the Stock Exchange.

### SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue raised at a general meeting, including the election of individual Directors. All resolutions put forward at a general meeting will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

#### Procedures for the Shareholders to Convene Extraordinary General Meeting

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM is held each year and at the place as determined by the Board. Each general meeting, other than the AGM, shall be called an extraordinary general meeting (the "EGM").

Pursuant to the Articles, the Shareholders, holding at the date of deposit of the written requisition to the Board or the Company Secretary not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, may require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of such deposit, the requisitionists may do so themselves.

The requisition must state the purposes of the EGM and must be signed by the requisitionists and deposited to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

#### Procedures for Putting Forward Proposals at General Meetings by Shareholders

If a Shareholder wishes to put forward proposals at the AGM/EGM which is to be held, such Shareholder should submit a written notice of the proposal with his/her detailed contact information to the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

#### Procedures for the Shareholders to Put their Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or by email to [ir@xyzq.com.hk](mailto:ir@xyzq.com.hk).

#### Procedures for the Shareholders to Propose a Person for Election as a Director

Pursuant to the Articles, a written notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his intention to propose such person for election and also a written notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong provided that the minimum length of the period, during which such notices are given, shall be at least seven days and that the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting of the Company appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for Shareholders to propose a person for election as a Director are posted on the Company's website.

# INDEPENDENT AUDITOR'S REPORT



## To the shareholders of China Industrial Securities International Financial Group Limited

*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of China Industrial Securities International Financial Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 47 to 159, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated 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 disclosure requirements of 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT

### Impairment assessment for margin loans

Refer to note 23 to the consolidated financial statements and the accounting policies on page 65-69.

#### The Key Audit Matter

At 31 December 2022, the gross amount of margin loans and its related impairment allowance amounted to HK\$1,448 million (2021: HK\$1,641 million) and HK\$917 million (2021: HK\$835 million) respectively. The net carrying amount represented 4% (2021: 5%) of the Group's total assets.

Management exercises significant judgement in determining the expected credit loss ("ECL") of margin loans. The ECL is subject to a number of key parameters and assumptions, including the classification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

Margin loans is categorized as Stage 3 when it is credit-impaired. Management measures lifetime ECL of credit-impaired margin loans by considering various factors including realization value of collateral, historical loss rate and any other factors such as remedies available for recovery and the financial situation of the borrower.

We identified the impairment assessment for margin loans as a key audit matter due to its significance to the consolidated financial statements and the significant management estimates and judgement required in the measurement.

#### How the matter was addressed in our audit

Our audit procedures for the impairment assessment for margin loans included the following:

- understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the approval, recording and monitoring of margin loans and collateral shortfalls and the ECL assessment procedures. For the key underlying systems used for the processing of transactions in relation to margin loans, this included involving our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant key internal controls over access to these systems and controls over data and change management;
- understanding and assessing the established policies and procedures on impairment assessment including the staging criteria, application of assumptions and inputs into the model;
- evaluating, with the assistance of our internal valuation specialists, the reasonableness and appropriateness of the ECL model and the critical assumptions, inputs and parameters used in the model;
- assessing the valuation of collateral held for a sample of margin loan balances with publicly available market prices;
- assessing the existence of collateral by comparing a sample of securities held as collateral as extracted from the Group's records with independent confirmations or third party statements from brokers or clearing houses; and
- assessing the existence and quality of collateral, guarantees or other forms of credit support in evaluating the adequacy of impairment allowance made by the Group for material margin loans classified as Stage 3.

## **INDEPENDENT AUDITOR'S REPORT**

### **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

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

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

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

### **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body 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 HKSA's 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 consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ko Sze Man.

#### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
24 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK\$	2021 HK\$
Commission and fee income	5	223,210,519	326,540,730
Interest revenue	5	49,393,205	106,356,223
Net trading and investment income	5	(14,599,536)	203,473,756
<hr/>			
Total revenue	5	258,004,188	636,370,709
Other income	5	116,493,723	31,386,354
Share of result of a joint venture	16	–	(20,060,274)
Finance costs	7	(182,003,396)	(187,871,898)
Commission and fee expenses	8	(62,899,895)	(64,536,118)
Staff costs	9	(160,103,290)	(159,927,725)
Other operating expenses		(163,018,113)	(166,202,778)
Impairment losses on financial assets	9	(82,462,673)	(95,493,470)
Other gains or losses	9	(29,294,055)	75,712,803
<hr/>			
(Loss)/profit before taxation	9	(305,283,511)	49,377,603
Taxation	10	7,881,095	(9,283,964)
<hr/>			
(Loss)/profit for the year attributable to:		(297,402,416)	40,093,639
– Holders of ordinary shares of the Company		(297,402,416)	40,093,639
– Holders of other equity instruments of the Company		–	–
<hr/>			
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
– Equity investments at fair value through other comprehensive income			
– Net movement in fair value reserve (non-recycling)		(67,928,321)	–
Item that may be reclassified subsequently to profit or loss:			
– Debt investments at fair value through other comprehensive income			
– Net movement in fair value reserve (recycling)		(26,989,533)	–
<hr/>			
Other comprehensive income for the year, net of tax		(94,917,854)	–
<hr/>			
Total comprehensive income for the year attributable to:		(392,320,270)	40,093,639
– Holders of ordinary shares of the Company		(392,320,270)	40,093,639
– Holders of other equity instruments of the Company		–	–
<hr/>			
(Loss)/earnings per share attributable to ordinary equity holders of the Company			
Basic (expressed in HKD)	13	(0.0744)	0.0100

The notes on pages 53 to 159 form part of these financial statements. Details of dividends declared for the year are set out in note 12.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$	2021 HK\$
<b>Non-current assets</b>			
Property and equipment	14	33,462,873	76,002,382
Intangible assets	15	11,726,329	7,658,890
Interest in a joint venture	16	–	16,125,931
Financial assets at fair value through profit or loss	17	24,726,511	16,615,824
Debt investments at amortised cost	19	214,953,954	–
Reverse repurchase agreements	20	92,947,167	90,036,076
Statutory deposits	21	17,395,812	19,063,234
Deferred tax assets	29	133,464,944	121,593,827
Deposits, other receivables and prepayments	22	14,858,045	14,946,898
		<b>543,535,635</b>	362,043,062
<b>Current assets</b>			
Accounts receivable	23	1,167,456,618	1,518,484,994
Reverse repurchase agreements	20	–	120,712,083
Financial assets at fair value through profit or loss	17	2,818,655,977	4,892,256,938
Financial assets at fair value through other comprehensive income	18	2,174,690,074	–
Statutory deposits	21	16,785,992	30,463,929
Deposits, other receivables and prepayments	22	169,308,298	139,002,439
Tax receivable		3,707,080	4,464,870
Bank balances – trust accounts	24	2,874,093,301	4,268,417,736
Bank balances – general accounts and cash	24	2,703,948,516	5,458,957,080
		<b>11,928,645,856</b>	16,432,760,069
<b>Current liabilities</b>			
Accounts payable	27	3,150,506,807	4,786,178,972
Accruals and other payables	28	32,034,528	101,672,982
Amount due to a fellow subsidiary	25	1,316,280	4,560,326
Amount due to the immediate holding company	25	–	2,300,852,500
Contract liabilities		5,356,160	5,049,632
Tax payable		695,364	252,291
Financial liabilities at fair value through profit or loss	26	50,926,422	65,396,077
Repurchase agreements	30	1,958,527,621	1,970,119,726
Bank borrowings	31	1,000,907,152	530,146,916
Lease liabilities	33	16,305,095	37,325,638
Other liabilities	47	180,720,209	238,046,664
		<b>6,397,295,638</b>	10,039,601,724
Net current assets		<b>5,531,350,218</b>	6,393,158,345

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$	2021 HK\$
Non-current liabilities			
Bonds	32	2,079,992,337	2,352,317,863
Deferred tax liabilities	29	15,814	18,767
Lease liabilities	33	–	15,666,805
		<b>2,080,008,151</b>	2,368,003,435
Net assets		<b>3,994,877,702</b>	4,387,197,972
Equity			
Share capital	34	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Accumulated loss		(1,144,119,533)	(846,717,117)
Other reserve		11,577,844	11,577,844
Capital reserve	35	442,441,821	442,441,821
Fair value reserve		(94,917,854)	–
Equity attributable to holders of the ordinary shares		<b>2,994,877,702</b>	3,387,197,972
Equity attributable to holders of other equity instruments	36	<b>1,000,000,000</b>	1,000,000,000
Total equity		<b>3,994,877,702</b>	4,387,197,972

The consolidated financial statements on pages 47 to 159 were approved and authorised for issue by the Board of Directors on 24 March 2023 and are signed on its behalf by:

**Cai Junzheng**  
DIRECTOR

**Zhang Chunjuan**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Equity attributable to holders of ordinary shares								
	Share capital	Share premium	Capital reserve	Fair value reserve	Other reserve	Accumulated loss	Total	Other equity instruments	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	(Note 34)		(Note 35)				(Note 36)	(Note 36)	
At 1 January 2021	400,000,000	3,379,895,424	442,441,821	-	11,577,844	(886,810,756)	3,347,104,333	-	3,347,104,333
Profit and total comprehensive income for the year	-	-	-	-	-	40,093,639	4,003,639	-	40,093,639
Issue of perpetual securities (note 36)	-	-	-	-	-	-	1,000,000,000	1,000,000,000	1,000,000,000
At 31 December 2021 and 1 January 2022	400,000,000	3,379,895,424	442,441,821	-	11,577,844	(846,717,117)	3,387,197,972	1,000,000,000	4,387,197,972
Loss for the year	-	-	-	-	-	(297,402,416)	(297,402,416)	-	(297,402,416)
Other comprehensive income for the year	-	-	-	(94,917,854)	-	-	(94,917,854)	-	(94,917,854)
Total comprehensive income for the year	-	-	-	(94,917,854)	-	(297,402,416)	(392,320,270)	-	(392,320,270)
At 31 December 2022	400,000,000	3,379,895,424	442,441,821	(94,917,854)	11,577,844	(1,144,119,533)	2,994,887,702	1,000,000,000	3,994,877,702

The notes on pages 53 to 159 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK\$	2021 HK\$
<b>OPERATING ACTIVITIES</b>			
(Loss)/profit before taxation		<b>(305,283,511)</b>	49,377,603
Adjustments for:			
Finance costs	7	<b>182,003,396</b>	187,871,898
Depreciation of property and equipment	9	<b>51,416,860</b>	42,338,233
Amortisation of intangible assets	9	<b>4,549,535</b>	5,145,124
Impairment losses on financial assets	9	<b>82,462,673</b>	95,493,470
Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds	9	<b>(13,641,539)</b>	(18,639,172)
Share of result of a joint venture		–	20,060,274
Losses on disposal of property and equipment	9	<b>30,723</b>	–
Dividend income and interest income from financial assets at fair value through other comprehensive income	5	<b>(44,917,602)</b>	–
Interest income from debt investments at amortised cost	5	<b>(3,919,843)</b>	–
Operating cash flows before movements in working capital		<b>(47,299,308)</b>	381,647,430
Decrease in statutory deposits		<b>15,345,359</b>	1,488,736
(Increase)/decrease in deposits, other receivables and prepayments		<b>(30,217,006)</b>	193,702,694
Decrease in financial assets at fair value through profit or loss		<b>2,090,162,548</b>	3,107,446,825
Decrease in accounts receivable		<b>268,845,457</b>	1,869,302,311
Decrease in reverse repurchase agreements		<b>117,872,896</b>	278,061,861
Decrease/(increase) in bank balances – trust accounts		<b>1,394,316,441</b>	(953,718,443)
(Decrease)/increase in accounts payable		<b>(1,635,672,165)</b>	773,272,443
Decrease in accruals and other payables		<b>(71,737,893)</b>	(70,588,837)
Decrease in financial liabilities at fair value through profit or loss		<b>(14,508,416)</b>	(86,212,463)
Decrease in repurchase agreements		<b>(19,128,271)</b>	(1,264,908,474)
Increase in contract liabilities		<b>306,528</b>	4,622,708
(Decrease)/increase in amount due to related parties		<b>(3,244,046)</b>	3,208,816
Cash generated from operations		<b>2,065,042,124</b>	4,237,325,607
Tax paid		<b>(2,792,112)</b>	(10,342,349)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>2,062,250,012</b>	4,226,983,258
<b>INVESTING ACTIVITIES</b>			
Dividends and interest received from investments		<b>16,117,449</b>	–
Purchase of property and equipment	14	<b>(8,908,074)</b>	(21,264,039)
Purchase of intangible assets	15	<b>(8,616,974)</b>	(1,079,183)
Purchase of financial assets at fair value through other comprehensive income		<b>(2,241,850,339)</b>	–
Purchase of debt investments at amortised cost		<b>(210,335,211)</b>	–
Deemed acquisition of a consolidated structured entity	46	<b>1,514,669</b>	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,452,078,480)</b>	(22,343,222)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 HK\$	2021 HK\$
FINANCING ACTIVITIES	43		
Interest paid		(169,767,313)	(171,431,290)
Bank borrowings raised		1,490,000,000	46,224,144,990
Repayments of bank borrowings		(1,020,000,000)	(49,514,144,990)
Other borrowings raised		–	4,303,792
Repayments of other borrowings		–	(769,615,240)
Redemption of notes		–	(69,769,800)
Proceeds from issue of bonds		–	2,333,859,046
Repurchase of bonds		(274,774,500)	–
Capital element of lease rentals paid		(36,687,348)	(35,251,163)
Interest element of lease rentals paid		(1,451,946)	(2,888,132)
Contributions from third-party unitholders/shareholders of consolidated investment funds		–	30,640,827
Withdrawals from third-party unitholders/shareholders of consolidated investment funds		(51,646,489)	(75,708,844)
Loan from the immediate holding company		–	13,953,500
Repayment of loan from the immediate holding company		(2,300,852,500)	–
Proceeds from issue of other equity instruments		–	1,000,000,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(2,365,180,096)</b>	(1,031,907,304)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<b>(2,755,008,564)</b>	3,172,732,732
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<b>5,458,957,080</b>	2,286,224,348
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>2,703,948,516</b>	5,458,957,080
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances – general accounts and cash	24	<b>2,703,948,516</b>	5,458,957,080
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE			
Interest received		<b>270,031,879</b>	490,193,995
Dividend received		<b>7,705,174</b>	8,916,885

The notes on pages 53 to 159 form part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investments in debt and equity securities (see note 2(k));
- derivative financial instruments (see note 2(k)); and
- net assets attributable to third-party unit holder/shareholders' interests in consolidated investment funds (see note 2(k)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, but possesses the practical ability to direct the relevant activities of the investee, the Group considers all relevant facts and circumstances in assessing whether or not the Group has power over the investee, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Basis of consolidation *(Continued)*

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, that it does not control the fund.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds managed by the Group are considered as “structured entities”.

The Group serves as the investment manager of investment funds. These investment funds invest mainly in equities, debt securities and cash and cash equivalents. The Group’s percentage ownership in these structured entities can fluctuate from day to day according to the Group’s and third-party participation in them. Where the Group is deemed to control such investment funds, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units/shares in such investment funds for cash. These are presented as “Third-party interests in consolidated structured entities” within other liabilities in the consolidated statement of financial position, if any.

### (e) Investment in a joint venture

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group’s share of the acquisition-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group’s equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group’s share of the investee’s net assets and any impairment loss relating to the investment (see notes 2(i)). Any acquisition-date excess over cost, the Group’s share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group’s share of the post-acquisition post-tax items of the investees’ other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group’s share of losses exceeds its interest in the joint venture, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group’s interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group’s net investment in the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 2(k)).

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group’s interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Investment in a joint venture *(Continued)*

If an investment in an joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(k)).

In the Company's statement of financial position, investment in a joint venture is stated at cost less impairment losses (see note 2(i)).

### (f) Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Revenue from contracts with customers *(Continued)*

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Details of the Group's performance obligations for revenue for contracts with customers resulting from application of HKFRS 15 are set out in note 5.

#### **Contracts with multiple performance obligations (including allocation of transaction price)**

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

#### **Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

##### *Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

#### **Variable consideration**

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Revenue from contracts with customers *(Continued)*

#### Variable consideration *(Continued)*

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

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

- (i) Commission income arising from broking business of securities, and futures and option contracts dealings is recorded as income on a trade-date basis;
- (ii) Commission income arising from insurance brokerage business is recognised as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed, generally at the effective date of the applicable insurance policies;
- (iii) Corporate advisory fee and sponsor fee, asset management fee, investment advisory fee, custodian and handling fee income and arrangement fee income are recognised when the Group has fulfilled its obligations under the respective contracts. Depending on the nature of the services and the contract terms, corporate advisory fee and sponsor fee are recognised in profit or loss over time using a method that depicts the Group's performance, or at point in time when the service is completed;
- (iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income when the Group has fulfilled its obligations in accordance with the terms of the agreements;
- (v) Realised profits or losses from financial assets/financial liabilities at fair value through profit or loss ("FVTPL") and derivatives are recognized on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses of financial assets/financial liabilities at FVTPL and derivatives are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments;
- (vi) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)); and
- (vii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)):

- right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and
- items of equipment, including right-of-use assets arising from leases of underlying equipment (see note 2(q)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment 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.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Leasehold improvement	Over the lease term
Motor vehicles	12.5%
Furniture and fixtures	20%
Computer equipment	20% – 33.3%
Properties leased for own use	Over the lease term

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

### (h) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Intangible assets *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	3 years
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Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

### (i) Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amounts individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### (j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that including a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the gross carrying amount of a financial asset or the amortised cost of a financial liability.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

#### **Financial assets**

##### *Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### *Classification and subsequent measurement of financial assets (Continued)*

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

#### (i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### *Classification and subsequent measurement of financial assets (Continued)*

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The unrealised gain or loss is determined as the change in the fair values of the financial asset between the reporting period, whilst realised gain is determined as difference between the transaction price and the fair value at the prior period-end. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net trading and investment income" line item.

##### *Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including financial assets measured at amortised cost and FVTOCI, accounts receivable, reverse repurchase agreements, deposits and other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### Impairment of financial assets *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due (except for secured margin loans where a shorter period of 30 days past due has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### Impairment of financial assets *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, reverse repurchase agreements, deposits and other receivables and bank balances are each assessed as a separate group);
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

- (a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and
- (b) the cash flows that the Group expects to receive if the loan is drawn down.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable where the corresponding adjustment is recognised through a loss allowance account.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### Impairment of financial assets *(Continued)*

(vi) Financial guarantee contracts held

Financial guarantee contracts is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument. A contract is classified as a financial guarantee contract when the following conditions are satisfied:

- The reference obligation is a debt instrument
- The holder is compensated only for a loss that it incurs
- The contract does not compensate the holder for more than the actual loss that it incurs.

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial asset'.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial assets *(Continued)*

##### *Derecognition of financial assets*

The Group derecognises a financial asset only 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 entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset other than equity investment, 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 recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

#### Financial liabilities and equity

##### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Perpetual bonds issued by the Company contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; and perpetual bonds issued includes no terms and arrangements that the bonds must or will alternatively be settled in the Company's own equity instruments. The Company classifies perpetual bonds issued as an equity instrument. Fees, commissions and other transaction costs of perpetual bonds issuance are deducted from equity. The interest on perpetual bonds is recognised as profit distribution at the time of declaration.

##### *Financial liabilities at amortised cost*

Financial liabilities not classified as at FVTPL (including amount due to related parties, accounts payable, bank borrowings, other borrowings, notes, repurchase agreements, contract liabilities, other liabilities, lease liabilities and other payables) are subsequently measured at amortised cost using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

##### *Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

##### *Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds*

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities.

As at year end, such financial liability of net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds is presented as an "other liabilities" in the consolidated statement of financial position.

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised as an increase or decrease in a liability which would be reflected in the consolidated statement of profit or loss.

##### *Derecognition/substantial modification of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

#### Financial liabilities and equity *(Continued)*

##### *Non-substantial modifications of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

#### Repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position and continue to be recognised as "financial assets at FVTPL". The proceeds from selling such assets are presented as "Repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

#### Reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the consolidated statement of financial position. The cost of purchasing such assets is presented under "Reverse repurchase agreements" in the consolidated statement of financial position. Reverse repurchase agreements are measured at amortised cost as they are held for the collection of contractual cash flows which represent solely payments of principal and interest. Reverse repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

#### Offsetting a financial asset and a financial liability

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(f)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for expected credit losses in accordance with the policy set out in note 2(k).

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Taxation

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Taxation *(Continued)*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

### (q) Leased asset

At inception of a contract, the Group 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.

#### **As a lessee**

Where the contract contains lease component(s) and non-lease component(s), the Group 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 Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) **Leased asset** *(Continued)*

#### **As a lessee** *(Continued)*

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

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

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 Group'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 Group 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 profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (s) Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

#### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### (t) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Related parties *(Continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

### (u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of its customers. These client securities arising thereon are excluded from the consolidated financial statements, as they are not assets of the Group.

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of the regulated business activities. The Group has classified the "bank balances — trust and segregated accounts" within the current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

The Group is not allowed to use the clients' monies to settle its own obligations. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

Neither of these amendments to HKFRSs have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Critical judgements in applying accounting policies *(Continued)*

#### Measurement of ECL

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Selecting appropriate models and assumptions for the measurement of ECL;
- Establishing the relative probability weightings of forward-looking scenarios.

#### *Significant increase in credit risk*

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 41. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information with significant judgements involved.

#### *Models and assumptions used*

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 41 for more details on ECL.

### Key sources of estimation uncertainty

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

#### Fair value measurement of financial instruments

Financial assets at FVTPL amounting to HK\$734,690,376 as at 31 December 2022 (2021: Financial assets at FVTPL and financial liabilities at FVTPL amounting to HK\$743,969,178 and HK\$1,066,372 respectively) are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 41 for further disclosures.

#### Measurement of ECL

##### *Impairment assessment under ECL for accounts receivable (except for secured margin loans)*

The Group uses a provision matrix to calculate ECL for the accounts receivable (except for secured margin loans) that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, accounts receivable with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 41.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

#### Measurement of ECL *(Continued)*

*Impairment assessment under ECL for financial assets at amortised cost other than accounts receivable (including debt investments at amortised cost, secured margin loans, reverse repurchase agreements, deposits, other receivables and bank balances) and debt investments at fair value through other comprehensive income*

The impairment assessment under ECL for financial assets at amortised cost (including debt investments at amortised cost, secured margin loans, reverse repurchase agreements, deposits, other receivables and bank balances) and debt investments at fair value through other comprehensive income is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instruments.

(i) Inputs, assumptions and estimation techniques

ECL is the discounted product of expected future cash flows by using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), of which PD and LGD are estimates based on significant management judgement.

(ii) Forward-looking information

In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost and debt investments at fair value through other comprehensive income are disclosed in note 41.

#### Income taxes

Deferred tax asset of HK\$131,409,218 (2021: HK\$125,596,740) has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK\$796 million as at 31 December 2022 (2021: HK\$761 million) for subsidiaries that are expected to have taxable profits in the future. No deferred tax asset was recognised for the deductible temporary differences of approximately HK\$202 million arising from the changes in fair value of financial instruments and estimated unused tax losses of approximately HK\$645 million (2021: estimated unused tax losses of approximately HK\$583 million) in respect of subsidiaries where it is not probable that sufficient profits will be generated. Details of the tax losses and the deferred tax are disclosed in note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

### Revenue

	2022 HK\$	2021 HK\$
<b>Commission and fee income</b>		
Brokerage:		
Commission and fee income from securities brokerage	142,392,737	191,890,547
Commission and fee income from futures and options brokerage	14,803,471	17,326,795
Commission income from insurance brokerage	603,959	1,600,925
	<b>157,800,167</b>	210,818,267
Corporate finance:		
Commission income on placing, underwriting and sub-underwriting		
– Debt securities	33,802,428	50,776,112
– Equity securities	3,251,007	4,618,264
Corporate advisory fee income	662,500	2,965,476
Sponsor fee income	5,650,000	1,956,376
Arrangement fee income	2,343,600	22,304,453
	<b>45,709,535</b>	82,620,681
Asset management:		
Asset management fee income	17,592,251	28,489,935
Investment advisory fee income	2,108,566	4,611,847
	<b>19,700,817</b>	33,101,782
	<b>223,210,519</b>	326,540,730
<b>Interest revenue</b>		
Financial products and investments:		
Interest income from reverse repurchase agreements	6,664,845	10,744,657
Interest income from debt investments at fair value through other comprehensive income	8,710,680	–
Interest income from debt investments at amortised cost	3,919,843	–
	<b>19,295,368</b>	10,744,657
Margin financing:		
Interest income from margin financing	30,097,837	95,611,566
	<b>49,393,205</b>	106,356,223

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. REVENUE AND OTHER INCOME (Continued)

### Revenue (Continued)

	2022 HK\$	2021 HK\$
<b>Net trading and investment income</b>		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	277,501,172	261,610,580
Dividend income from financial assets at fair value through profit or loss	6,279,937	8,911,838
Net loss on financial assets at fair value through profit or loss	(510,821,170)	(42,023,342)
Interest income from derivatives	6,164,915	8,037,051
Net gain on derivatives	128,976,195	2,354,872
Net gain/(loss) on financial liabilities at fair value through profit or loss	41,092,493	(35,417,243)
Dividend income from equity securities designated at fair value through other comprehensive income	36,206,922	–
	<b>(14,599,536)</b>	203,473,756
<b>Total revenue</b>	<b>258,004,188</b>	636,370,709

Timing of revenue recognition for commission and fee income from customers

	2022 HK\$	2021 HK\$
A point in time	194,888,492	287,277,964
Over time	28,322,027	39,262,766
Total	<b>223,210,519</b>	326,540,730

### Performance obligations for commission and fee income from customers

#### (1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group also provides handling services for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed.

The Group provides custodian services for securities, futures and options customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Performance obligations for commission and fee income from customers *(Continued)*

#### (1) Brokerage *(Continued)*

The Group also provides placement services for insurance and wealth products to customers. Commission income is recognised at a point in time when the placement is completed and is calculated at a certain percentage of the premium paid for certain period of the insurance and wealth products.

#### (2) Corporate finance

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also structured products arrangement services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or structured products arrangement activities are completed. Accordingly, the revenue is recognised at a point in time.

The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should be therefore accounted for as a single performance obligation. As there is enforceable right to payment for the Group for the performance of services completed up to date based on the contracts with customers regarding sponsor or corporate advisory services, the revenue is recognised over time.

#### (3) Asset management

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receive and consume the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

#### *Transaction price allocated to the remaining performance obligation for contracts with customers*

The following table shows the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partly unsatisfied) as at 31 December 2022 and 2021 and the expected timing of recognising revenue are as follows:

	2022 HK\$	2021 HK\$
Within one year	15,600,000	15,100,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. REVENUE AND OTHER INCOME (Continued)

### Performance obligations for commission and fee income from customers (Continued)

Transaction price allocated to the remaining performance obligation for contracts with customers (Continued)

This amount represents revenue expected to be recognised in the future from the contracts for sponsoring services. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 months.

### Other Income

	2022 HK\$	2021 HK\$
Interest income from financial institutions	102,759,275	28,142,289
Sundry income	13,734,448	3,244,065
	<b>116,493,723</b>	31,386,354

## 6. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

The Group's reportable and operating segments under HKFRS 8 are as follows:

Brokerage – provision of securities, futures and options and insurance brokerage services;

Margin financing – provision of margin financing services to customers;

Corporate finance – provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management – provision of fund management, discretionary account management and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

Others – other businesses in addition to the above, including head office operations and investment holding platforms, and management of general working capital.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred. During the current year, the Group has regrouped the segment revenue by different nature of revenue consistent with the analysis of revenue presented in note 5 and reallocated them to different segments. Comparative information on segment revenue has been restated to conform to the current year's presentation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. SEGMENT REPORTING (Continued)

For the year ended 31 December 2022

	Brokerage HK\$	Margin financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Others HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>								
Commission and fee income	157,800,167	-	45,709,535	19,700,817	-	-	-	223,210,519
Interest revenue	-	30,097,837	-	-	19,295,368	-	-	49,393,205
Net trading and investment income	-	-	-	-	(14,599,536)	-	-	(14,599,536)
Inter-segment revenue	265,000	-	-	9,127,635	-	-	(9,392,635)	-
Segment revenue	158,065,167	30,097,837	45,709,535	28,828,452	4,695,832	-	(9,392,635)	258,004,188
Revenue presented in the consolidated statement of profit or loss and other comprehensive income								258,004,188
Segment results	13,783,945	(102,102,990)	(3,020,924)	(44,413,111)	(201,288,950)	31,758,519	-	(305,283,511)
Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income								(305,283,511)
<b>Other segmental information included in the measure of segment results</b>								
Change in impairment losses on financial assets	7,994	82,865,370	-	(682,452)	271,761	-	-	82,462,673
Depreciation	11,993	-	-	-	-	51,404,867	-	51,416,860
Amortisation	2,340,260	-	-	1,422	-	2,207,853	-	4,549,535
Interest income	91,517,209	30,097,837	284,081	36,201	311,838,642	170,545,577	(168,500,980)	435,818,567
Interest expenses	136,635	20,170,706	-	-	190,145,192	140,051,843	(168,500,980)	182,003,396
Dividend income	-	-	-	-	42,486,859	-	-	42,486,859

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. SEGMENT REPORTING (Continued)

### For the year ended 31 December 2021

	Brokerage HK\$	Margin financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Others HK\$	Eliminations HK\$	Consolidated HK\$
<b>Segment revenue and result</b>								
Commission and fee income	210,818,267	-	82,620,681	33,101,782	-	-	-	326,540,730
Interest revenue	-	95,611,566	-	-	10,744,657	-	-	106,356,223
Net trading and investment income	-	-	-	-	203,473,756	-	-	203,473,756
Inter-segment revenue	296,366	-	-	24,014,591	-	-	(24,310,957)	-
Segment revenue	211,114,633	95,611,566	82,620,681	57,116,373	214,218,413	-	(24,310,957)	636,370,709
Revenue presented in the consolidated statement of profit or loss and other comprehensive income								636,370,709
Segment results	84,678,069	(78,928,780)	32,966,676	3,547,564	16,397,839	(9,283,765)	-	49,377,603
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income								49,377,603
<b>Other segmental information included in the measure of segment results</b>								
Change in impairment losses on financial assets	(131,442)	95,940,759	-	(444,217)	128,370	-	-	95,493,470
Depreciation	27,627	-	-	-	-	42,310,606	-	42,338,233
Amortisation	3,122,530	-	-	-	-	2,022,594	-	5,145,124
Interest income	19,356,800	95,611,566	20,199	21,491	289,035,367	162,011,096	(161,910,376)	404,146,143
Interest expenses	298,926	27,447,215	-	-	178,805,629	143,230,504	(161,910,376)	187,871,898
Dividend income	-	-	-	-	8,911,838	-	-	8,911,838

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. SEGMENT REPORTING *(Continued)*

### Geographical information

For the years ended 31 December 2022 and 2021, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

### Information about major customers

The largest customer and largest 5 customers contribute approximately 15.9% and 26.2% respectively (2021: 4.2% and 16.5% respectively) to the Group's revenue from external customers during the year ended 31 December 2022.

## 7. FINANCE COSTS

	2022 HK\$	2021 HK\$
Interest on bank borrowings	23,382,592	41,800,455
Interest on bonds	48,591,228	44,344,568
Interest on other borrowings	–	5,019,308
Interest on repurchase agreements	41,326,235	26,658,711
Interest on secured margin loans from brokers	56,274	182,201
Interest on notes	–	273,513
Interest on clients' account	142,408	153,310
Interest on financial liabilities at fair value through profit or loss	38,761	68,585
Interest on lease liabilities	1,451,946	2,888,132
Interest on amount due to the immediate holding company	67,013,952	66,483,115
	<b>182,003,396</b>	187,871,898

## 8. COMMISSION AND FEE EXPENSES

	2022 HK\$	2021 HK\$
Sales commission paid to account executives	23,297,441	15,912,213
Commission and fee paid to brokers	22,978,874	22,015,510
Others <i>(note)</i>	16,623,580	26,608,395
	<b>62,899,895</b>	64,536,118

*Note:* Amount includes the sub-management fees, custodian fees, scrip fee, clearing fee and other handling fee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 9. (LOSS)/PROFIT BEFORE TAXATION

	2022 HK\$	2021 HK\$
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' emoluments and five highest paid employees' emoluments) ( <i>note a</i> )	<b>160,103,290</b>	159,927,725
Salaries and bonuses	<b>156,118,656</b>	156,504,024
Contribution to the MPF Scheme	<b>3,213,493</b>	3,103,006
Other staff costs	<b>771,141</b>	320,695
Auditor's remuneration	<b>1,800,000</b>	1,800,000
Legal and professional fee	<b>18,721,324</b>	6,351,578
Amortisation of intangible assets	<b>4,549,535</b>	5,145,124
Depreciation of property and equipment	<b>51,416,860</b>	42,338,233
Telephone and postage	<b>4,851,580</b>	4,364,646
Maintenance fee	<b>15,086,688</b>	22,791,461
Transportation expenses	<b>2,692,075</b>	4,635,948
Entertainment expenses	<b>2,062,841</b>	3,476,112
Impairment losses on financial assets	<b>82,462,673</b>	95,493,470
Secured margin loans ( <i>note c</i> )	<b>81,936,022</b>	95,940,759
Accounts receivable (except for secured margin loans)	<b>246,897</b>	(528,875)
Reverse repurchase agreements	<b>(71,904)</b>	128,370
Bank balances – trust accounts	<b>7,994</b>	(46,784)
Debt investments at amortised costs	<b>99,421</b>	–
Debt investments at FVTOCI	<b>244,243</b>	–
Other gains or losses	<b>29,294,055</b>	(75,712,803)
Exchange loss/(gain)	<b>42,904,871</b>	(57,073,631)
Other gains ( <i>note b</i> )	<b>(13,641,539)</b>	(18,639,172)
Losses on disposal of property and equipment	<b>30,723</b>	–

*Notes:*

- (a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance.
- (b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK\$13,641,539 (2021: net gain of HK\$18,639,172). See note 47.
- (c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK\$81,936,022 (2021: HK\$95,940,759) were made for the year, including (i) impairment losses recognised of HK\$95,555,925 (2021: HK\$184,075,525); net of (ii) reversal of impairment losses of HK\$13,619,903 (2021: HK\$89,920,559); and (iii) impairment losses upon the derecognition of guarantees amounted to nil (2021: HK\$1,785,793).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 10. TAXATION

	2022 HK\$	2021 HK\$
Hong Kong Profit Tax:		
Current year	19,354	596,000
Under-provision in prior year	3,973,621	5,744,606
	<b>3,992,975</b>	6,340,606
Deferred Tax:		
Current year	(11,874,070)	2,943,358
	<b>(7,881,095)</b>	9,283,964

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

The provision for Hong Kong Profits Tax for 2022 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2021-22 subject to a maximum reduction of HK\$10,000 for each business (2021: a maximum reduction of HK\$10,000 was granted for the year of assessment 2020-21 and was taken into account in calculating the provision for 2021).

The tax (credit)/expense for the years ended 31 December 2022 and 2021 can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 HK\$	2021 HK\$
(Loss)/profit before taxation	(305,283,511)	49,377,603
Notional tax on (loss)/profit before taxation, calculated at 16.5% (2021: 16.5%)	(50,371,779)	8,147,305
Tax effect of expenses not deductible for tax purpose	50,989,569	11,989,385
Tax effect of income not taxable for tax purpose	(11,095,676)	(6,497,861)
Tax at concessionary tax rate of 8.25% (2021: 8.25%)	(38,800)	(165,000)
Tax effect of deductible temporary difference not previously provided for	(11,613,510)	(36,384,430)
Tax effect of tax losses not recognised	13,268,156	30,350,589
Utilisation of tax losses previously not recognised	(2,951,697)	(2,743,541)
Under-provision in prior years	3,973,621	5,744,606
Others	(40,979)	(1,157,089)
Tax (credit)/expense for the year	<b>(7,881,095)</b>	9,283,964

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

During the years ended 31 December 2022 and 2021, the emoluments paid or payable by the Group are as follows:

	Fees HK\$	Salaries and allowances HK\$	Benefits in kind HK\$	Discretionary bonus HK\$ (note b)	Retirement benefit schemes contributions HK\$	Total HK\$
<b>For the year ended 31 December 2022</b>						
Cai Junzheng (note a and c)	-	241,617	-	-	-	241,617
Li Baochen (note a and c)	-	2,788,236	-	2,596,740	-	5,384,976
Wang Xiang (note a and c)	-	779,164	-	427,500	-	1,206,664
Zeng Yanxia (note a and c)	-	1,821,078	-	448,660	-	2,269,738
Zhang Chunjuan (note a and c)	-	1,953,078	-	1,772,380	-	3,725,458
Huang Yilin (note e)	-	-	-	-	-	-
Hong Ying (note d)	272,055	-	-	-	-	272,055
Tian Li (note d)	272,055	-	-	-	-	272,055
Qin Shuo (note d)	241,993	-	-	-	-	241,993
	<b>786,103</b>	<b>7,583,173</b>	<b>-</b>	<b>5,245,280</b>	<b>-</b>	<b>13,614,556</b>
<b>For the year ended 31 December 2021</b>						
Li Baochen (note a and c)	-	2,921,447	-	3,044,800	-	5,966,247
Wang Xiang (note a and c)	-	2,073,857	-	279,330	-	2,353,187
Zeng Yanxia (note a and c)	-	1,833,857	-	269,870	-	2,103,727
Zhang Chunjuan (note a and c)	-	1,965,857	-	2,193,500	-	4,159,357
Huang Yilin (note e)	-	-	-	-	-	-
Hong Ying (note d)	250,000	-	-	-	-	250,000
Tian Li (note d)	250,000	-	-	-	-	250,000
Qin Shuo (note d)	220,000	-	-	-	-	220,000
	<b>720,000</b>	<b>8,795,018</b>	<b>-</b>	<b>5,787,500</b>	<b>-</b>	<b>15,302,518</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

Notes:

- (a) No retirement benefit schemes contributions was paid or payable by the Group to Mr. Cai Junzheng, Mr. Li Baochen, Mr. Wang Xiang, Ms. Zeng Yanxia and Ms. Zhang Chunjuan during the years ended 31 December 2022 and 2021.
- (b) The discretionary bonus of directors or chief executive of the Company was determined by the management of the ultimate and intermediate holding companies and by reference to the Group's financial performance and the directors' and the chief executive's duties, responsibilities and individual performance within the Group.
- (c) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.
- (d) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.
- (e) The remuneration of Mr. Huang Yilin for the years ended 31 December 2022 and 2021 was borne by the ultimate holding company and there is no basis of allocation of their remuneration between the ultimate holding company and the Group. Mr. Huang Yilin resigned during the year ended 31 December 2022.

### (b) Highest paid individuals

The five individuals with the highest emoluments in the Group included two directors of the Company for the year ended 31 December 2022 (2021: Two) and details of whose emoluments are included in the disclosure above. The emoluments of the remaining three individuals for the year ended 31 December 2022 (2021: Three) are as below:

	<b>2022</b>	2021
	<b>HK\$</b>	HK\$
<b>Employees</b>		
– salaries and allowances	<b>7,689,000</b>	7,697,000
– discretionary bonuses	<b>7,429,870</b>	9,106,400
– retirement benefit schemes contributions	<b>54,000</b>	54,000
	<b>15,172,870</b>	16,857,400

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

#### (b) Highest paid individuals *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2022	2021
HK\$4,500,001 to HK\$5,000,000	2	–
HK\$5,000,001 to HK\$5,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	–	2
HK\$6,500,001 to HK\$7,000,000	–	–
	<b>3</b>	<b>3</b>

During the year ended 31 December 2022, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office (2021: Nil). None of the directors waived any emoluments during both years.

### 12. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2022	2021
	HK\$	HK\$
2021 Final – HK\$Nil (2021: 2020 Final – HK\$Nil) per share	–	–

Subsequent to the end of the reporting period, the directors of the Company did not recommend any payment of final dividend in respect of the year ended 31 December 2022 (2021: did not recommend any payment of final dividend in respect of the year ended 31 December 2021).

### 13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to ordinary equity holders of the Company is based on the following data:

	2022	2021
	HK\$	HK\$
(Loss)/earnings (HK\$)		
(Loss)/earnings for the purpose of basic (loss)/earnings per share:		
(Loss)/profit for the year attributable to ordinary equity holders of the Company	<b>(297,402,416)</b>	40,093,639
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<b>4,000,000,000</b>	4,000,000,000

For each of the years ended 31 December 2022 and 2021, there were no potential ordinary shares in issue, thus no diluted (loss)/earnings per share is presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 14. PROPERTY AND EQUIPMENT

### (a) Reconciliation of carrying amount

	<b>Leasehold improvement</b>	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Other properties leased for own use carried at cost</b>	<b>Total</b>
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost</b>					
At 1 January 2021	35,081,334	1,844,561	32,958,539	151,373,868	221,258,302
Additions	17,605,321	788,641	2,870,077	–	21,264,039
At 31 December 2021	52,686,655	2,633,202	35,828,616	151,373,868	242,522,341
Additions	1,938,951	18,590	6,950,533	–	8,908,074
Disposals	–	–	(759,299)	–	(759,299)
At 31 December 2022	54,625,606	2,651,792	42,019,850	151,373,868	250,671,116
<b>Depreciation</b>					
At 1 January 2021	(31,932,666)	(1,058,633)	(26,229,136)	(64,961,291)	(124,181,726)
Charge for the year	(3,752,332)	(351,183)	(2,687,885)	(35,546,833)	(42,338,233)
At 31 December 2021	(35,684,998)	(1,409,816)	(28,917,021)	(100,508,124)	(166,519,959)
Charge for the year	(11,737,301)	(391,466)	(3,741,260)	(35,546,833)	(51,416,860)
Disposals	–	–	728,576	–	728,576
At 31 December 2022	(47,422,299)	(1,801,282)	(31,929,705)	(136,054,957)	(217,208,243)
<b>Carrying values</b>					
At 31 December 2022	7,203,307	850,510	10,090,145	15,318,911	33,462,873
At 31 December 2021	17,001,657	1,223,386	6,911,595	50,865,744	76,002,382

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 14. PROPERTY AND EQUIPMENT *(Continued)*

### (b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	<b>31 December 2022 HK\$</b>	31 December 2021 HK\$
Other properties leased for own use, carried at depreciated cost	<b>15,318,911</b>	50,865,744

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

	<b>2022 HK\$</b>	2021 HK\$
Depreciation charge of right-of-use assets	<b>35,546,833</b>	35,546,833
Interest on lease liabilities <i>(note 7)</i>	<b>1,451,946</b>	2,888,132

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 24(a) and 33, respectively.

The lease typically runs for 2-3 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 15. INTANGIBLE ASSETS

	<b>Software</b>	<b>Trading rights</b>	<b>Total</b>
	HK\$	HK\$	HK\$
Cost:			
At 1 January 2021	19,889,935	1,000,000	20,889,935
Additions	1,079,183	–	1,079,183
<hr/>			
At 31 December 2021	20,969,118	1,000,000	21,969,118
Additions	8,616,974	–	8,616,974
<hr/>			
At 31 December 2022	29,586,092	1,000,000	30,586,092
<hr/>			
Amortisation			
At 1 January 2021	(9,165,104)	–	(9,165,104)
Charge for the year	(5,145,124)	–	(5,145,124)
<hr/>			
At 31 December 2021	(14,310,228)	–	(14,310,228)
Charge for the year	(4,549,535)	–	(4,549,535)
<hr/>			
At 31 December 2022	(18,859,763)	–	(18,859,763)
<hr/>			
Carrying values			
At 31 December 2022	10,726,329	1,000,000	11,726,329
<hr/>			
At 31 December 2021	6,658,890	1,000,000	7,658,890

Intangible assets include trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited with indefinite useful life and the using rights of software with finite life.

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 16. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

	2022 HK\$	2021 HK\$
Cost of investment in a joint venture	–	40,032,960
Share of post-acquisition loss	–	(23,907,029)
	–	16,125,931

Details of the Group's joint venture as at 31 December 2021 are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activity
			2021	2021	
IS Investment Fund Segregated Portfolio Company – CIS New China Ever-Growing Fund Segregated Portfolio ("CISNCEF") (note)	Cayman Islands	Hong Kong	66.95%	50%	Investment trading

*Note:* As at 31 December 2021, the Group held the interest of participating shares of CISNCEF as disclosed above such that the participating shares provide the Group with the share of returns from CISNCEF. As at 31 December 2021, the Group and an independent third party acted as co-investment manager of CISNCEF. Both parties jointly established an investment committee which comprises four members, with two from the Group and two from the independent third party. The investment committee was empowered to make all the key financing and operating decisions in CISNCEF and required unanimous consent of all investment committee members. The arrangement of co-management was contractually agreed by both parties. As such, the interest of the Group in CISNCEF was classified as a joint venture as at 31 December 2021.

On 16 November 2021, the other co-investment manager filed a notice to the Group to resign as the co-investment manager of CISNCEF with effective from 1 January 2022 (the "Effective Date"). As at the Effective Date, the proportion of voting rights held by the Group increased to 100% (2021:50%) such that the Group has full and absolute discretionary power in making all the key financing and operating decisions in CISNCEF. The Group considered that it had control over CISNCEF since the Effective Date. Therefore, CISNCEF ceased to be a joint venture of the Group and has become a subsidiary (a consolidated structured entity) of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 16. INTEREST IN A JOINT VENTURE *(Continued)*

#### Summarised financial information of a joint venture

Summarised financial information of CISNCEF, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements as at 31 December 2021 are disclosed below:

	2021 HK\$
Current assets	26,186,943
Current liabilities	(2,099,439)
Net current assets and net assets	24,087,504
Included in the above assets and liabilities	
Cash and cash equivalents	1,514,669

	For the year ended 31 December 2021 HK\$
Investment losses	(29,964,280)
Included in the above loss:	
Interest income	14

Reconciliation of the above summarised financial information to the carrying amount of the interest in CISNCEF recognised in the consolidated financial statements:

	2021 HK\$
Net assets of CISNCEF	24,087,504
Proportion of the Group's ownership interest in CISNCEF	66.95%
	16,125,931

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK\$	2021 HK\$
Equity securities		
– Listed in Hong Kong	<b>69,167,656</b>	145,926,586
– Listed outside Hong Kong	<b>79,573,379</b>	100,116,954
– Unlisted ( <i>note a</i> )	–	25,398,354
Debt securities ( <i>note b</i> )		
– Listed in Hong Kong	<b>1,211,859,039</b>	2,826,566,690
– Listed outside Hong Kong	<b>303,677,030</b>	594,941,990
– Unlisted	<b>1,074,514,177</b>	1,015,414,392
Funds		
– Unlisted	<b>104,591,207</b>	200,507,796
	<b>2,843,382,488</b>	4,908,872,762
Analysed as		
Current	<b>2,818,655,977</b>	4,892,256,938
Non-current ( <i>note c</i> )	<b>24,726,511</b>	16,615,824
	<b>2,843,382,488</b>	4,908,872,762

*Notes:*

- (a) For the years ended 31 December 2022 and 2021, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.
- (b) Included in the portfolio of held for trading debt securities, there were arrangements to sell debt securities under a repurchase agreement during the year ended 31 December 2022 and 2021. Details of the arrangement are set out in notes 30 and 39.
- (c) For the years ended 31 December 2022 and 2021, included in the non-current portion is an unlisted investment fund that the directors of the Group do not expect to realise within twelve months after the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 HK\$	2021 HK\$
Equity securities designated at FVTOCI ( <i>note</i> )		
– Listed in Hong Kong	1,327,673,412	–
– Listed outside Hong Kong	338,116,526	–
– Unlisted	70,099,153	–
Debt securities		
– Listed in Hong Kong	328,628,528	–
– Listed outside Hong Kong	86,577,179	–
– Unlisted	23,595,276	–
	<b>2,174,690,074</b>	–
Analysed as		
– Current	2,174,690,074	–
– Non-current	–	–
	<b>2,174,690,074</b>	–

*Note:* The Group has designated the above equity securities at fair value through other comprehensive income ("FVTOCI") as these equity investments are not held for trading purpose.

### 19. DEBT INVESTMENTS AT AMORTISED COST

	2022 HK\$	2021 HK\$
Debt securities		
– Listed in Hong Kong	215,053,375	–
Less: impairment allowance	(99,421)	–
	<b>214,953,954</b>	–
Analysed as		
– Current	–	–
– Non-current	214,953,954	–
	<b>214,953,954</b>	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 20. REVERSE REPURCHASE AGREEMENTS

	2022 HK\$	2021 HK\$
Analysed by collateral type:		
Debt securities		
– Unlisted	–	120,767,482
Unlisted equity securities	<b>93,215,541</b>	90,320,955
Less: impairment allowance	<b>(268,374)</b>	(340,278)
	<b>92,947,167</b>	210,748,159
Analysed as:		
Current	–	120,712,083
Non-current	<b>92,947,167</b>	90,036,076
	<b>92,947,167</b>	210,748,159

The reverse repurchase agreements are those repurchase agreements which the external investors entered into with the Group under which assets were sold to the Group with a concurrent commitment to purchase the specified securities from the Group at a future date of an agreed price. The resale prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as “collateral” because the external investors retain substantially all the risks and rewards of these securities. Accordingly, the Group recognises these as collateralised lending asset for the price paid to purchase the assets.

As at 31 December 2022, the fair value of the collaterals were HK\$251,872,170 (2021: HK\$447,905,038).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 21. STATUTORY DEPOSITS

Statutory deposits represent deposits with clearing houses. They are non-interest bearing.

### Non-current portion

In accordance with the rules of Central Clearing and Settlement System ("CCASS"), admission fee, basic contribution and dynamic contribution to the guarantee fund of a defaulting clearing participant will be used to offset its indebtedness arising in the course of dealing in securities as disclosed in note 42 in accordance with the rules of CCASS.

Under the arrangement with HKFE Clearing Corporation Limited ("HKCC"), the statutory deposit could be used to set off against accounts payable to HKCC.

The directors of the Company do not expect to realise the amounts within twelve months after the reporting period.

### Current portion

In accordance with the rules of CCASS, the Group is required to provide to Hong Kong Securities Clearing Company Limited (the "HKSCC") deposits from time to time as determined by HKSCC, as the Group has become a China Connect Clearing Participant under the rules of CCASS since year 2014. Amounts will be used to offset the Group's indebtedness arising in the course of dealing in securities as disclosed in note 42 in accordance with the rules of CCASS.

## 22. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	2022 HK\$	2021 HK\$
Deposits ( <i>note</i> )	152,022,331	130,773,878
Other receivables	27,981,161	17,899,486
Prepayments	4,162,851	5,275,973
	<b>184,166,343</b>	153,949,337
Analysed as:		
Current	169,308,298	139,002,439
Non-current	14,858,045	14,946,898
	<b>184,166,343</b>	153,949,337

*Note:* As at 31 December 2022 and 2021, the amount mainly comprises of cash collaterals posted to banks and other financial institutions for total return swaps, sales and repurchase agreements and credit derivatives transaction.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 23. ACCOUNTS RECEIVABLE

	2022 HK\$	2021 HK\$
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	<b>1,448,473,422</b>	1,641,156,797
Less: impairment allowance	<b>(916,853,993)</b>	(835,067,558)
	<b>531,619,429</b>	806,089,239
Clearing houses	<b>213,420,226</b>	199,656,455
Cash clients	<b>61,431,806</b>	109,270,792
Brokers	<b>79,431,836</b>	32,704,349
Less: impairment allowance	<b>(1,261,939)</b>	(332,591)
	<b>353,021,929</b>	341,299,005
	<b>884,641,358</b>	1,147,388,244
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing houses	<b>61,254,257</b>	28,718,585
Brokers	<b>122,845,799</b>	154,488,402
	<b>184,100,056</b>	183,206,987
Accounts receivable arising from the business of corporate finance	<b>4,101,017</b>	6,930,769
Accounts receivable arising from the business of asset management	<b>10,443,983</b>	17,902,189
Less: impairment allowance	<b>(606,643)</b>	(1,493,961)
	<b>9,837,340</b>	16,408,228
Accounts receivable arising from the business of financial products and investments:		
Brokers	<b>84,776,847</b>	164,550,766
	<b>1,167,456,618</b>	1,518,484,994

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 23. ACCOUNTS RECEIVABLE (Continued)

#### Secured margin loans

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The Group seeks to maintain strict control over its outstanding receivables, and rigorously monitors credit risks. To minimise exposure to credit risk, the Group evaluates customers' credit rating, financial background and repayment abilities. Management of the Group has set up credit limit for each individual customer, the application for which shall be subject to the Group's authorisation mechanism and submitted to the internal control department and senior management for approval. The maximum credit limit granted for each customer is based on the customer's creditworthiness, financial strength, the past collection statistic and the quality of related collateral. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group and other factors.

As at 31 December 2022 and 2021, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2022 HK\$	2021 HK\$
Non credit-impaired secured margin loans		
– Gross amount	<b>379,592,090</b>	544,283,253
– Carrying amount	<b>376,021,091</b>	538,852,654
Credit-impaired secured margin loans		
– Gross amount	<b>1,068,881,332</b>	1,096,873,544
– Carrying amount	<b>155,598,338</b>	267,236,585
Market value of securities pledged in respect of all margin loans	<b>2,188,840,000</b>	3,160,583,000

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the margin value of securities deposited.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. As at 31 December 2022 and 2021, no bank borrowings were secured by charges over client's pledged securities.

During the years ended 31 December 2022 and 2021, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 23. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans)

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice at the reporting date:

### Corporate finance clients

	2022 HK\$	2021 HK\$
Less than 31 days	390,636	3,427,483
31 – 60 days	233,120	2,788,715
61 – 90 days	–	313,985
91 – 180 days	1,559,134	400,586
Over 180 days	1,918,127	–
	<b>4,101,017</b>	6,930,769

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 23. ACCOUNTS RECEIVABLE *(Continued)*

#### Accounts receivable (except for secured margin loans) *(Continued)*

##### Asset management clients

	2022 HK\$	2021 HK\$
Less than 31 days	1,538,636	4,183,563
31 – 60 days	1,217,741	2,206,800
61 – 90 days	1,168,779	2,257,808
91 – 180 days	1,815,548	2,546,737
Over 180 days	4,703,279	6,707,281
	<b>10,443,983</b>	17,902,189

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 42.

### 24. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH

The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

The general accounts held by the Group comprise current and saving deposits held by the Group at prevailing market interest rate and bank deposits bearing interest at commercial rate with original maturity of three months or less.

#### (a) Total cash outflow for leases

	2022 HK\$	2021 HK\$
Within operating cash flows	–	–
Within investing cash flows	–	–
Within financing cash flows	<b>38,139,294</b>	38,139,295

These amounts relate to lease rentals paid.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 25. AMOUNT DUE TO RELATED PARTIES

The Group had the following balance with related parties at the end of each reporting period:

	2022 HK\$	2021 HK\$
Amount due to the immediate holding company ( <i>note a</i> )	–	2,300,852,500
Amount due to Industrial Securities (Shenzhen) ( <i>note b</i> )	<b>1,316,280</b>	4,560,326
	<b>1,316,280</b>	2,305,412,826
Analysed as:		
Current	<b>1,316,280</b>	2,305,412,826
Non-current	–	–
	<b>1,316,280</b>	2,305,412,826

Notes:

- (a) Amount due to Industrial Securities (Hong Kong) Financial Holdings Limited, the immediate holding company, represents an intercompany loan which is unsecured, repayable in 2022 and interest-bearing at a fixed rate. The loan has been repaid in the current year.
- (b) Amount due to Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)"), a fellow subsidiary, was mainly arising from the consultancy services provided by Industrial Securities (Shenzhen), which is unsecured, non-interest bearing and repayable on demand.

### 26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK\$	2021 HK\$
<b>Held for trading</b>		
Short position in listed debt securities	<b>20,479,079</b>	–
Short position in listed equity securities	–	11,010,000
Credit derivatives ( <i>note a</i> )	–	1,066,372
	<b>20,479,079</b>	12,076,372
<b>Designated at fair value through profit or loss</b>		
Unlisted issued structured products ( <i>note b</i> )	<b>30,447,343</b>	53,319,705
	<b>50,926,422</b>	65,396,077
Analysed as:		
Current	<b>50,926,422</b>	65,396,077
Non-current	–	–
	<b>50,926,422</b>	65,396,077

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes:

- (a) For the year ended 31 December 2021, the Group held one credit derivative contract with a non-bank financial institution at a notional amount of USD130,000,000 of which the reference entity was within the banking sector in Hong Kong.
- (b) As at 31 December 2022 and 2021, included in financial liabilities designated at FVTPL are the structured notes issued with the underlying investments relating to unlisted investment fund.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets at FVTPL. These structured products are designated at FVTPL as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

The amount of change in fair values of the financial liabilities designated at FVTPL, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

### 27. ACCOUNTS PAYABLE

	2022 HK\$	2021 HK\$
Accounts payable arising from the business of dealing in securities:		
Clearing house	–	26,217,445
Brokers	<b>8,895,331</b>	6,534,819
Clients	<b>2,809,820,292</b>	4,340,712,723
	<b>2,818,715,623</b>	4,373,464,987
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	<b>331,791,184</b>	408,089,583
Accounts payable arising from the business of financial products and investments:		
Brokers	–	4,624,402
	<b>3,150,506,807</b>	4,786,178,972

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 27. ACCOUNTS PAYABLE (Continued)

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 21 and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

The Group has accounts payable arising from the business of dealing in securities of HK\$77,557,769 due to the immediate holding company as at 31 December 2022 (2021: HK\$78,718,717).

## 28. ACCRUALS AND OTHER PAYABLES

	<b>2022</b>	2021
	<b>HK\$</b>	HK\$
Accrued charges (note)	<b>30,491,392</b>	73,833,548
Other payables	<b>1,543,136</b>	27,839,434
	<b>32,034,528</b>	101,672,982

Note: The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 29. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2022 HK\$	2021 HK\$
Deferred tax assets	133,464,944	121,593,827
Deferred tax liabilities	(15,814)	(18,767)
	<b>133,449,130</b>	121,575,060

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2022 and 2021:

	Changes in fair value of financial instruments	Tax loss	ECL provision	Accelerated tax depreciation	Bonus provision	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2021	–	124,000,338	1,469,301	(951,221)	–	124,518,418
(Charge)/credit to profit or loss (note 10)	(9,388,066)	1,596,402	(500,983)	1,882,463	3,466,826	(2,943,358)
At 31 December 2021	(9,388,066)	125,596,740	968,318	931,242	3,466,826	121,575,060
Credit/(charge) credit to profit or loss (note 10)	9,388,066	5,812,478	(230,935)	371,287	(3,466,826)	11,874,070
At 31 December 2022	–	131,409,218	737,383	1,302,529	–	133,449,130

Deferred tax asset has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK\$796 million as at 31 December 2022 (2021: HK\$761 million).

No deferred tax has been recognised in the consolidated statement of financial position in relation to the deductible temporary differences of approximately HK\$202 million arising from the changes in fair value of financial instruments and estimated unused tax losses of approximately HK\$645 million (2021: estimated unused tax losses of approximately HK\$583 million) as it is uncertain whether future taxable profits will be available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30. REPURCHASE AGREEMENTS

	2022 HK\$	2021 HK\$
Analysed as:		
Current	1,958,527,621	1,970,119,726
Non-current	-	-
	<b>1,958,527,621</b>	1,970,119,726

As at 31 December 2022, financial assets at FVTPL of HK\$560,206,365 (2021: HK\$3,354,003,506), financial assets at FVTOCI of HK\$1,709,278,919 and financial assets at amortised cost of HK\$206,211,372 were sold under repurchase agreements with other financial institutions which the Group simultaneously agreed to repurchase these debt securities at the agreed date and price. Details of the arrangement are set out in note 39. The Group's repurchase agreements as at 31 December 2022 are at fixed interest rate of 1.8% to 4.95% per annum (2021: -0.75% to 0.65% per annum), repayable within 1 year (2021: 1 year).

### 31. BANK BORROWINGS

	2022 HK\$	2021 HK\$
Variable rate borrowings	1,000,907,152	530,146,916
Repayable within one year and contain a repayable on demand clause	1,000,907,152	530,146,916
Repayable within a period of more than one year but not exceeding two years	-	-
	<b>1,000,907,152</b>	530,146,916

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 31 December 2022 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +0.8% to HIBOR+1.2% (2021: HIBOR+1.75% to HIBOR+2.4%).

At 31 December 2022, HK\$1,000,000,000 (net of bank charge) (2021: HK\$530,000,000) had been drawn under the aggregated banking facilities of HK\$8,316,000,000 (2021: HK\$7,415,000,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK\$3,387,000,000 as at 31 December 2022 (2021: HK\$3,700,000,000). Out of which HK\$1,000,000,000 have been drawn as at 31 December 2022 (2021: HK\$530,000,000).

No bank borrowings were secured by charges over clients' pledged securities as at 31 December 2022 and 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 32. BONDS

During the year ended 31 December 2021, the Company issued US\$300,000,000 corporate bonds with fixed interest rate of 2% per annum with a three year maturity (the "Corporate Bonds") which is guaranteed by the Company's controlling shareholder.

During the year ended 31 December 2022, the Company repurchased the Corporate Bonds with an aggregate principal amount of US\$35,000,000 in the open market. Such repurchased Corporate Bonds were cancelled subsequently in accordance with their respective terms and conditions. The remaining principal amount of US\$265,000,000 of the Corporate Bonds will mature in February 2024.

### 33. LEASE LIABILITIES

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

	31 December 2022		31 December 2021	
	Present value of the minimum lease payment HK\$	Total minimum lease payment HK\$	Present value of the minimum lease payment HK\$	Total minimum lease payment HK\$
Within 1 year	16,305,095	16,500,345	37,325,638	38,139,294
After 1 but within 3 years	–	–	15,666,805	16,500,345
	<b>16,305,095</b>	<b>16,500,345</b>	<b>52,992,443</b>	<b>54,639,639</b>
Less: finance cost		<b>(195,250)</b>		<b>(1,647,196)</b>
Present value lease obligation		<b>16,305,095</b>		<b>52,992,443</b>

### 34. SHARE CAPITAL

Details of the movement of share capital for both years are as follows:

	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Authorised:		
As at 1 January 2021, 31 December 2021 and 31 December 2022	20,000,000,000	2,000,000,000
Issued and fully paid:		
As at 1 January 2021, 31 December 2021 and 31 December 2022	4,000,000,000	400,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 35. CAPITAL RESERVE

As at 31 December 2022 and 2021, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK\$0.1 each issued by the Company and the consideration for the acquisition of the combined businesses pursuant to the Group reorganisation (as more fully explained in the section headed “History, Reorganisation and Group Structure – Reorganisation” in the prospectus of the Company dated 30 September 2016 (the “Prospectus”)).

## 36. OTHER EQUITY INSTRUMENTS

On 16 June 2021, the Company issued subordinated perpetual securities (the “Perpetual Securities”) of HK\$1,000,000,000 to its controlling shareholder, Industrial Securities (Hong Kong) Financial Holdings Limited with an initial distribution rate of 1.58% per annum. There is no maturity date for the Perpetual Securities. The Company has the sole and absolute discretion to defer any distributions. The Perpetual Securities constitute direct, unconditional, subordinated and unsecured obligations of the Company and are classified as equity instruments and recorded as equity in the consolidated statement of financial position.

## 37. COMMITMENTS

### Investment commitments

In the normal course of business, the Group had no investment commitments contracted as at 31 December 2022 (2021: Nil).

## 38. EMPLOYEE BENEFITS

### Retirement Benefits Schemes

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates (up to HK\$1,500 per employee per month) specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid to the schemes by the Group are disclosed in note 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 39. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

The Group transfers financial assets that are not derecognised in their entirety primarily through the sale of securities with concurrent total return swaps and sales and repurchase agreements.

#### Repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security investment and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those security investments sold. These security investments are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retains substantially all the risks and rewards of these security investments. The proceeds received on the transfer are recognised as liabilities under “repurchase agreements”.

The following table sets out the carrying amounts of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

Analysed by liabilities type	As at 31 December 2022				
	Carrying amount of transferred assets			Carrying amount of associated liabilities	Net position
	Deposits – collateral paid	Financial assets	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$
Repurchase agreements (note 30)	54,818,461	2,475,696,656	2,530,515,117	1,958,527,621	571,987,496

Analysed by liabilities type	As at 31 December 2021				
	Carrying amount of transferred assets			Carrying amount of associated liabilities	Net position
	Deposits – collateral paid	Financial assets	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$
Repurchase agreements (note 30)	33,464,261	3,354,003,506	3,387,467,767	1,970,119,726	1,417,348,041

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 40. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of amount due to the immediate holding company, bank borrowings and bonds as disclosed in notes 25, 31 and 32, and equity attributable to owners of the Company (comprising issued share capital, other equity instruments, reserves and retained earnings) as follows:

	2022 HK\$	2021 HK\$
Amount due to the immediate holding company	–	2,300,852,500
Bank borrowings	<b>1,000,907,152</b>	530,146,916
Bonds	<b>2,079,992,337</b>	2,352,317,863
Equity attributable to holders of the ordinary shares	<b>2,994,877,702</b>	3,387,197,972
Equity attributable to holders of other equity instruments	<b>1,000,000,000</b>	1,000,000,000
	<b>7,075,777,191</b>	9,570,515,251

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through new share issues or bank borrowings. The Group's overall strategy remains unchanged throughout the years.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are granted licenses by the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management of the Group closely monitors, on a daily basis, the Regulated Subsidiaries' liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Regulated Subsidiaries has no non-compliance of capital requirements imposed by the SF(FR)R throughout both years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2022 HK\$	2021 HK\$
<b>Financial assets</b>		
Financial assets at amortised cost	<b>7,267,584,852</b>	11,654,808,496
Financial assets at fair value through profit or loss	<b>2,843,382,488</b>	4,908,872,762
Financial assets at fair value through other comprehensive income	<b>2,174,690,074</b>	–
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss	<b>231,646,631</b>	303,442,741
Financial liabilities at amortised cost	<b>8,209,098,428</b>	12,025,008,180

### Financial risk management objectives and policies

The Group's major financial instruments include statutory deposits, financial assets at FVTPL, financial assets at FVTOCI, debt investments at amortised cost, reverse repurchase agreements, accounts receivable, deposits and other receivables, bank balances and cash, accounts payable, repurchase agreements, bank borrowings, bonds, other liabilities, other payables and amount due to a fellow subsidiary and the immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with those financial instruments and the policies on how to mitigate these risks are set out below.

The Group's risk management objectives are to achieve a proper balance between risks and yield and minimise the adverse impact of risks on the Group's operating performance. Based on these risk management objectives, the Group's risk management strategy is to identify and analyse the various risks the Group is exposed to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks that the Group is exposed to in its daily operating activities mainly include market risk (including currency exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicators, risk limits, risk policies and internal control process.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risk

The Group's activities expose it primarily to the market risk of changes in interest rates, foreign currency risk and other price risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to fixed-rate security investments classified as financial assets at FVTPL and FVTOCI. The Group currently does not have fair value hedging policy. The Group is also exposed to cash flow interest rate risk mainly from balances with banks, secured margin loans and bank borrowings carrying interests at prevailing market rates.

Management of the Group monitors the related interest rate exposure closely to ensure the interest rate risks are maintained at an acceptable level. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's respective HKD and USD denominated financial instruments.

#### Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year. When reporting to management of the Group on the interest rate risk, a 50 basis points ("bps") increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. Interest bearing bank deposit is not included in the sensitivity analysis of 2021 for the decrease of interest rate as the bank deposit rate of 2021 is at a low level and management of the Group considers such downward adjustment is unlikely. A positive number below indicates an increase in profit after taxation of the Group or vice versa.

	<b>2022</b>	2021
	<b>HK\$</b>	HK\$
Profit after taxation for the year		
Increase by 50 bps	<b>13,512,210</b>	14,612,458
Decrease by 50 bps	<b>(13,512,210)</b>	25,998,165
<hr/>		
	<b>2022</b>	2021
	<b>HK\$</b>	HK\$
Other comprehensive income for the year		
Increase by 50 bps	<b>(28,769,248)</b>	-
Decrease by 50 bps	<b>28,769,248</b>	-

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as at the year end and exposure does not reflect the exposure during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Market risk *(Continued)*

##### Foreign currency risk

The Group undertakes certain transactions denominated in currencies other than its functional currencies, hence they are exposed to exchange rate fluctuation. The Group mitigates currency risk using cross-currency forward contracts to hedge movements in exchange rates where necessary.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

	Assets		Liabilities	
	2022 HK\$	2021 HK\$	2022 HK\$	2021 HK\$
United States dollars ("USD")	<b>6,683,763,854</b>	7,469,337,844	<b>4,908,937,988</b>	7,708,121,251
Renminbi ("RMB")	<b>771,491,079</b>	1,251,535,262	<b>312,996,367</b>	614,298,083

##### Foreign currency sensitivity

The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD. The following table details the Group's sensitivity to a 5% strengthening in RMB against HKD, translated at year-end date. 5% sensitivity rate represents management's assessment of a reasonably possible change in foreign exchange rates. For a 5% weakening in RMB against HKD, there would be an equal and opposite impact on the profit after taxation for the year.

	RMB impact	
	2022 HK\$	2021 HK\$
Increase in profit after taxation for the year	<b>22,925,000</b>	26,605,000

##### Other price risk

The Group is exposed to price changes arising from investments classified as financial assets at FVTPL and FVTOCI.

The Group has established a multi-level management system for its financial products and investments business. The Board has set up the Investment Decision Committee for the purposes of formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. The risk control team is responsible for monitoring the daily operations of its financial products and investments activities and to ensure compliance with its trading policies.

In addition, the Group's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Finance Department, the Compliance Department and the Internal Audit Department. The Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

#### Other price risk (Continued)

The following table summarises the impact on changes in prices/unit prices of financial assets at FVTPL, financial assets at FVTOCI, financial liabilities at FVTPL and other liabilities on the Group's profit after tax and other components of equity for the year:

2022

	Exposure	Impact on a 5% increases in price on profit after tax for the year	Impact on a 5% decreases in price on profit after tax for the year
<b>Financial assets at fair value through profit or loss (except for foreign currency forward contracts and credit derivative)</b>			
Listed equity securities and debt securities	1,647,608,794	82,380,440	(82,380,440)
Unlisted equity securities, debt securities and investment funds	1,049,260,417	52,463,021	(52,463,021)
<b>Financial liabilities at fair value through profit or loss (except for foreign currency exchange contracts and credit derivative)</b>			
Unlisted structured financial products	30,447,343	(1,522,367)	1,522,367
Debt securities	20,479,079	(1,023,954)	1,023,954
<b>Other liabilities (third parties unit holders/shareholders of consolidated investment funds)</b>			
	146,377,072	(7,318,854)	7,318,854
		124,978,286	(124,978,286)
<b>Financial assets at fair value through other comprehensive income</b>			
Listed equity securities and debt securities	2,055,055,562	102,752,778	(102,752,778)
Unlisted equity securities and debt securities	93,259,695	4,662,985	(4,662,985)
		107,415,763	(107,415,763)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Market risk (Continued)

#### Other price risk (Continued)

2021

	Exposure	Impact on a 5% increases in price on profit after tax for the year	Impact on a 5% decreases in price on profit after tax for the year
<b>Financial assets at fair value through profit or loss (except for foreign currency forward contracts and credit derivative)</b>			
Listed equity securities and debt securities	3,649,061,653	182,453,083	(182,453,083)
Unlisted equity securities, debt securities, investment funds and convertible bonds	1,225,972,116	61,298,606	(61,298,606)
<b>Financial liabilities at fair value through profit or loss (except for foreign currency exchange contracts and credit derivative)</b>			
Unlisted structured financial products	53,319,705	(2,665,985)	2,665,985
Short position	11,010,000	(550,500)	550,500
<b>Other liabilities (third parties unit holders/shareholders of consolidated investment funds)</b>			
	317,275,030	(15,863,751)	15,863,751
		224,671,453	(224,671,453)

The fair value of derivative financial instruments depends on the credit spread of reference entities. If the credit spread increased/decreased by 1 bps, profit after tax for the year ended 31 December 2021 would have an estimated HK\$191,088 decrease/increase.

In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

#### Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Other than the debt securities in the PRC and overseas, the Group's concentration of credit risk by geographical location is mainly in Hong Kong.

As at 31 December 2022 and 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of respective recognised financial assets as stated in the consolidated statement of financial position during the year. In addition, there was a maximum exposure of approximately HK\$1,091,930,000 as at 31 December 2021 as the Group issued protection under certain credit instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### **Financial risk management objectives and policies** *(Continued)*

#### **Credit risk and impairment assessment** *(Continued)*

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that financial assets at FVTPL, financial assets at FVTOCI, debt investments at amortised cost, reverse repurchase agreements, accounts receivable, other receivables and bank balances represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has monitoring procedures in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model. In this regard, the directors of the Company consider that the Group's credit risk is sufficiently managed.

The credit risk on bank balances is limited because the counterparties are with high credit ratings assigned by well-known credit-rating agencies.

The management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

As described in more details in note 23, the credit risk on accounts receivable is managed through daily monitoring of the outstanding exposures from individual clients, margin values and realisable values of individual client's securities. The Group has concentration of credit risk to ten largest securities margin clients' exposure representing 68% (2021: 53%) of the total loans to margin clients as at 31 December 2022. The balances due from the ten largest securities margin clients were approximately HK\$359,729,000 (2021: HK\$426,081,000), of which the amount is secured by clients' securities with an aggregate fair value of HK\$1,438,169,000 (2021: HK\$1,505,733,000). Apart from the exposures to ten largest margin clients' exposure mentioned above, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

The credit risk for accounts receivable from clearing houses and brokers is considered as not material taking into account the good market reputations and high credit ratings of the counterparties.

The Group also invested in debt securities and other financial products which exposed it to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities and other financial products to ensure that the concentration risk is at an acceptable level. The directors of the Company consider that the credit risk relating to the debt securities and other financial products is closely monitored.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

The following table details the aggregate investment grade of debt securities, held by the Group, as rated by well-known rating agencies.

	As at 31 December 2022	As at 31 December 2021
Portfolio by issuer rating		
<i>Debt securities</i>		
AAA to A-	<b>23.6%</b>	18.9%
BBB+ to BBB-	<b>13.1%</b>	17.1%
BB+ and below	<b>0.2%</b>	3.6%
Non-rated <i>(note)</i>	<b>63.1%</b>	60.4%
	<b>100%</b>	100%

*Note:* Non-rated financial assets mainly represent debts instruments issued by special purpose entities, banks and other financial institutions and large corporations in the industries of industrial and construction, real estate, chemicals, metals and mining, transportation, and trade and retail.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### **Financial risk management objectives and policies** *(Continued)*

#### **Credit risk and impairment assessment** *(Continued)*

##### *Impairment assessment policies*

The Group's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

The risk management department is responsible for developing and maintaining the processes for measuring ECL, the impairment requirements under HKFRS 9. The ECL are assessed by the Group on quarterly basis. The Group applies simplified approach to measure ECL on accounts receivable (except for secured margin loans); and general approach to measure ECL on secured margin loans and other financial assets accounted for at amortised cost. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-month ECL, Stage 2: Lifetime ECL – not credit-impaired and Stage 3: Lifetime ECL – credit-impaired.

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The measurement of ECL adopted by the management involves judgements, assumptions and estimations as follows:

- Determination of the criteria for significant increase in credit risk;
- Selection of the appropriate models and assumptions;
- Establishment of relative probability weightings for forward-looking scenarios.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

##### *Measurement of ECL*

The ECL are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

PD represents an estimate of the likelihood of default of a borrower on its financial obligation over a given horizon, i.e. over the next 12 months or over the remaining lifetime. For secured margin loans, the Group determines PD by using historical default rate. For other financial assets at amortised cost and FVTOCI, the external credit ratings and related PD are taken into consideration.

LGD represents an estimate of the loss on default. For secured margin loans, LGD is determined based on factors including the realisation value of collateral and historical loss rate. For other financial assets at amortised cost and FVTOCI, LGD is determined based on assessed publicly available information from credit-rating agencies.

EAD represents the amounts expected to be owed at the time of default over the next 12 months or over the remaining lifetime taking into account expected changes in the exposure after the reporting date.

For financial instruments that are credit-impaired, the Group may also consider any other factors such as remedies available for recovery and the financial situation of the borrower.

##### *Assessment of significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment, including forward-looking information. For secured margin loans, the number of days past due and loan-to-collateral value ("LTV") are used to determine significant increase in credit risk. For other financial assets, the number of days past due is used as determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

##### *Forward looking information*

The estimation of credit loss under all stages is taking into consideration of forward looking information. The Group identifies the key economic driver impacting credit risk and ECL to be the growth rate of domestic GDP. The Group applied the probability weighted scenarios for incorporating the forward looking information. HK real GDP, HK CPI, HK unemployment rate, Hang Seng index and 3-month HIBOR has been used in determining the probability-weighting of each of the optimistic scenario, base case scenario and pessimistic scenario. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 41. FINANCIAL INSTRUMENTS *(Continued)*

#### Financial risk management objectives and policies *(Continued)*

##### Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable (except for secured margin loans)	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payment has been overdue for more than 30 days (secured margin loans: LTV over 75% and margin call less than 30 days)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (secured margin loans: LTV over 100% and overdue for more than 30 days)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
					2022 HK\$	2021 HK\$
Debt investments at fair value through other comprehensive income	18	BBB- or above	Low risk	12-month ECL	<b>438,800,983</b>	-
Debt investments at amortised cost	19	A- or above	Low risk	12-month ECL	<b>215,053,375</b>	-
Reverse repurchase agreements	20	N/A	Low risk	12-month ECL	<b>93,215,541</b>	211,088,437
Secured margin loans	23	N/A	Low risk	12-month ECL	<b>244,776,982</b>	517,830,760
			Doubtful	Lifetime ECL (not credit impaired)	<b>134,815,108</b>	26,452,493
			Loss	Credit impaired	<b>1,068,881,332</b>	1,096,873,544
					<b>1,448,473,422</b>	1,641,156,797
Accounts receivable (except for secured margin loans)	23	N/A	(Note 2)	Lifetime ECL (not credit impaired)	<b>634,998,486</b>	710,580,204
				Lifetime ECL (credit-impaired)	<b>2,707,285</b>	3,642,103
					<b>637,705,771</b>	714,222,307
Bank balances – trust accounts	24	BBB or above	N/A	12-month ECL	<b>2,874,533,585</b>	4,268,850,026
Bank balances – general accounts and cash	24	BBB or above	N/A	12-month ECL	<b>2,703,948,516</b>	5,458,957,080
Deposits and other receivables	22	N/A	(Note 1)	12-month ECL	<b>180,003,492</b>	148,673,364

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	2022			2021		
	Past due HK\$	Not past due/ Repayable on demand HK\$	Total HK\$	Past due HK\$	Not past due/ Repayable on demand HK\$	Total HK\$
Deposits and other receivables	–	180,003,492	180,003,492	–	148,673,364	148,673,364

2. For accounts receivable (except for secured margin loans), the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by aging status.

The Group's credit risk exposure of financial assets according to the stage of ECL for which an impairment allowance is recognised as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

As at 31 December 2022

	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
<b>Debt investments at fair value through other comprehensive income</b>				
Fair value	438,800,983	–	–	438,800,983
Loss allowance	(244,243)	–	–	(244,243)
<b>Debt investments at amortised cost</b>				
Gross carrying amount	215,053,375	–	–	215,053,375
Loss allowance	(99,421)	–	–	(99,421)
Net carrying amount	214,953,954	–	–	214,953,954
<b>Reverse repurchase agreements</b>				
Gross carrying amount	93,215,541	–	–	93,215,541
Loss allowance	(268,374)	–	–	(268,374)
Net carrying amount	92,947,167	–	–	92,947,167
<b>Secured margin loans</b>				
Gross carrying amount	244,776,982	134,815,108	1,068,881,332	1,448,473,422
Loss allowance	(1,590,716)	(1,980,283)	(913,282,994)	(916,853,993)
Net carrying amount	243,186,266	132,834,825	155,598,338	531,619,429
<b>Bank balances – trust accounts</b>				
Gross carrying amount	2,874,533,585	–	–	2,874,533,585
Loss allowance	(440,284)	–	–	(440,284)
Net carrying amount	2,874,093,301	–	–	2,874,093,301

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

As at 31 December 2021

	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
<b>Reverse repurchase agreements</b>				
Gross carrying amount	211,088,437	–	–	211,088,437
Loss allowance	(340,278)	–	–	(340,278)
Net carrying amount	210,748,159	–	–	210,748,159
<b>Secured margin loans</b>				
Gross carrying amount	517,830,760	26,452,493	1,096,873,544	1,641,156,797
Loss allowance	(4,894,031)	(536,568)	(829,636,959)	(835,067,558)
Net carrying amount	512,936,729	25,915,925	267,236,585	806,089,239
<b>Bank balances – trust accounts</b>				
Gross carrying amount	4,268,850,026	–	–	4,268,850,026
Loss allowance	(432,290)	–	–	(432,290)
Net carrying amount	4,268,417,736	–	–	4,268,417,736

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for debt investments at fair value through other comprehensive income is as follow:

	<b>Stage 1</b> <b>12-month</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Total</b> HK\$
As at 31 December 2020, 31 December 2021 and 1 January 2022	–	–	–	–
Impairment losses recognised	244,243	–	–	244,243
As at 31 December 2022	244,243	–	–	244,243

Movement in the allowances for impairment for debt investments at amortised cost is as follow:

	<b>Stage 1</b> <b>12-month</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Total</b> HK\$
As at 31 December 2020, 31 December 2021 and 1 January 2022	–	–	–	–
Impairment losses recognised	99,421	–	–	99,421
As at 31 December 2022	99,421	–	–	99,421

Movement in the allowances for impairment for reverse repurchase agreements is as follows:

	<b>Stage 1</b> <b>12-month</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Stage 3</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Total</b> HK\$
As at 31 December 2020 and 1 January 2021	211,908	–	–	211,908
Impairment losses recognised	128,370	–	–	128,370
As at 31 December 2021 and 1 January 2022	340,278	–	–	340,278
Impairment losses reversed	(71,904)	–	–	(71,904)
As at 31 December 2022	268,374	–	–	268,374

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for bank balances – trust accounts is as follows:

	<b>Stage 1</b> <b>12-month</b> <b>ECL</b> HK\$	<b>Stage 2</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Stage 3</b> <b>Lifetime</b> <b>ECL</b> HK\$	<b>Total</b> HK\$
As at 31 December 2020 and 1 January 2021	479,074	–	–	479,074
Impairment losses reversed	(46,784)	–	–	(46,784)
As at 31 December 2021 and 1 January 2022	432,290	–	–	432,290
Impairment losses recognised	7,994	–	–	7,994
As at 31 December 2022	440,284	–	–	440,284

As at 31 December 2022, the Group measured the loss allowance for bank balances – trust accounts of Stage 1 amounting to HK\$440,284 (2021: HK\$432,290), which was contributed by the fixed deposits in the trust accounts with a gross carrying amount of HK\$1,589.5 million (2021: HK\$2,094.4 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for secured margin loans is as follows:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>12-month</b>	<b>Lifetime</b>	<b>Lifetime</b>	<b>Total</b>
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>
	HK\$	HK\$	HK\$	HK\$
As at 1 January 2021	7,272,586	1,059,555	732,580,451	740,912,592
Changes due to financial instruments recognised as at 1 January 2021:				
– Transfer to Stage 3	(794,089)	(102,138)	896,227	–
– Transfer to Stage 2	(337,361)	337,361	–	–
– Transfer to Stage 1	1,204,577	–	(1,204,577)	–
Impairment losses recognised	1,108,637	199,205	181,678,702	182,986,544
Impairment losses reversed	(4,621,335)	(957,415)	(84,341,809)	(89,920,559)
New financial assets originated or purchased	1,061,016	–	27,965	1,088,981
As at 31 December 2021 and 1 January 2022	4,894,031	536,568	829,636,959	835,067,558
Changes due to financial instruments recognised as at 1 January 2022:				
– Transfer to Stage 3	(33,100)	(536,567)	569,667	–
– Transfer to Stage 2	(1,132,194)	1,132,194	–	–
– Transfer to Stage 1	1,497,421	–	(1,497,421)	–
Impairment losses recognised	7,393	848,088	94,180,875	95,036,356
Impairment losses reversed	(4,162,404)	–	(9,457,499)	(13,619,903)
Written-off	–	–	(149,587)	(149,587)
New financial assets originated or purchased	519,569	–	–	519,569
As at 31 December 2022	1,590,716	1,980,283	913,282,994	916,853,993

The overall increase of the ECL allowance was HK\$81.8 million (2021: HK\$94.2 million) for the year ended 31 December 2022.

The movement was mainly driven by secured margin loans of Stage 3. Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. Additional loss allowance of HK\$94.2 million (2021: HK\$181.7 million) was made for secured margin loans with a gross carrying amount of HK\$1,068.9 million (2021: HK\$1,096.9 million) at Stage 3.

This increase had been partially set off by reversal of impairment losses for secured margin loans of stage 3 with a gross carrying amount of HK\$1,124.3 million (2021: HK\$1,318.5 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

The Group's credit risk exposure of accounts receivable (except for secured margin loans) for which an impairment allowance is recognised as follows based on simplified approach:

**As at 31 December 2022**

	Lifetime ECL (not credit- impaired) HK\$	Lifetime ECL (credit-impaired) HK\$	Total HK\$
<i>Accounts receivable arising from the business of dealing in securities (except for secured margin loans)</i>			
Gross carrying amount	351,726,583	2,557,285	354,283,868
Loss allowance	(1,062)	(1,260,877)	(1,261,939)
Net carrying amount	351,725,521	1,296,408	353,021,929
<i>Accounts receivable arising from the business of dealing in futures and options contracts</i>			
Gross carrying amount	184,100,056	–	184,100,056
Loss allowance	–	–	–
Net carrying amount	184,100,056	–	184,100,056
<i>Accounts receivable arising from the business of corporate finance</i>			
Gross carrying amount	4,101,017	–	4,101,017
Loss allowance	–	–	–
Net carrying amount	4,101,017	–	4,101,017
<i>Accounts receivable arising from the business of asset management</i>			
Gross carrying amount	10,293,983	150,000	10,443,983
Loss allowance	(456,643)	(150,000)	(606,643)
Net carrying amount	9,837,340	–	9,837,340
<i>Accounts receivable arising from the business of financial products and investments</i>			
Gross carrying amount	84,776,847	–	84,776,847
Loss allowance	–	–	–
Net carrying amount	84,776,847	–	84,776,847
<b>Total</b>			
Gross carrying amount	634,998,486	2,707,285	637,705,771
Loss allowance	(457,705)	(1,410,877)	(1,868,582)
Net carrying amount	634,540,781	1,296,408	635,837,189

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Credit risk and impairment assessment (Continued)

As at 31 December 2021

	Lifetime ECL (not credit- impaired) HK\$	Lifetime ECL (credit-impaired) HK\$	Total HK\$
<i>Accounts receivable arising from the business of dealing in securities (except for secured margin loans)</i>			
Gross carrying amount	340,226,297	1,405,299	341,631,596
Loss allowance	(5,704)	(326,887)	(332,591)
Net carrying amount	340,220,593	1,078,412	341,299,005
<i>Accounts receivable arising from the business of dealing in futures and options contracts</i>			
Gross carrying amount	183,206,987	–	183,206,987
Loss allowance	–	–	–
Net carrying amount	183,206,987	–	183,206,987
<i>Accounts receivable arising from the business of corporate finance</i>			
Gross carrying amount	6,930,769	–	6,930,769
Loss allowance	–	–	–
Net carrying amount	6,930,769	–	6,930,769
<i>Accounts receivable arising from the business of asset management</i>			
Gross carrying amount	15,665,385	2,236,804	17,902,189
Loss allowance	–	(1,493,961)	(1,493,961)
Net carrying amount	15,665,385	742,843	16,408,228
<i>Accounts receivable arising from the business of financial products and investments</i>			
Gross carrying amount	164,550,766	–	164,550,766
Loss allowance	–	–	–
Net carrying amount	164,550,766	–	164,550,766
<b>Total</b>			
Gross carrying amount	710,580,204	3,642,103	714,222,307
Loss allowance	(5,704)	(1,820,848)	(1,826,552)
Net carrying amount	710,574,500	1,821,255	712,395,755

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 41. FINANCIAL INSTRUMENTS *(Continued)*

#### Financial risk management objectives and policies *(Continued)*

##### Credit risk and impairment assessment *(Continued)*

Movement in the allowances for impairment for accounts receivable (except for secured margin loans) is as follows:

	<b>Lifetime ECL (not credit- impaired)</b>	<b>Lifetime ECL (credit-impaired)</b>	<b>Total</b>
	HK\$	HK\$	HK\$
As at 31 December 2020 and 1 January 2021	184,718	2,170,709	2,355,427
Impairment losses recognised	–	87,861	87,861
Impairment losses reversed	(179,014)	(437,722)	(616,736)
As at 31 December 2021 and 1 January 2022	5,704	1,820,848	1,826,552
Impairment losses recognised	456,643	933,990	1,390,633
Impairment losses reversed	(4,642)	(1,139,094)	(1,143,736)
Written-off	–	(204,867)	(204,867)
As at 31 December 2022	457,705	1,410,877	1,868,582

Accounts receivable arising from the business of dealing in securities which are credit-impaired represent accounts receivable from cash clients when clients fail to settle according to settlement terms after taking into consideration the recoverability of collateral.

Accounts receivable arising from the business of asset management which are credit-impaired represent accounts receivable from asset management clients which have not yet been settled by clients over 1 year and the client encountered financial difficulty on the repayment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from debt securities held by the Group, is shown below.

	2022 HK\$	2021 HK\$
Carrying amount	<b>3,243,805,182</b>	4,436,923,072
<b>Concentration by sector</b>		
Banks	<b>422,412,028</b>	701,304,300
Other financial institutions	<b>436,870,068</b>	580,589,031
Insurance	–	124,202,484
Government	<b>120,195,374</b>	30,530,411
Corporate:	<b>2,264,327,712</b>	3,000,296,846
Real estate	<b>1,119,004,125</b>	1,026,249,831
Chemicals	<b>131,245,953</b>	113,388,155
Customer services	<b>305,487,197</b>	461,431,198
Industrial and construction	<b>317,608,974</b>	757,400,126
Information technology	<b>14,216,230</b>	7,589,962
Transportation	<b>125,243,954</b>	140,711,802
Utilities	<b>251,521,279</b>	470,142,169
Manufacturing	–	15,567,958
Metals and mining	–	7,815,645
	<b>3,243,805,182</b>	4,436,923,072
<b>Concentration by location</b>		
Mainland China	<b>1,722,191,352</b>	2,092,834,914
Europe	<b>162,058,311</b>	88,801,880
Hong Kong	<b>544,706,206</b>	1,118,944,280
Other parts in Asia	<b>67,898,303</b>	84,857,123
America	<b>699,735,508</b>	1,051,484,875
Australia	<b>47,215,502</b>	–
	<b>3,243,805,182</b>	4,436,923,072

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### Credit risk and impairment assessment *(Continued)*

Concentration by location for debt securities is based on the country of domicile of the issuer of the security.

Other than concentration of credit risk on bank balances, amounts due from clearing houses and brokers, top ten margin clients' exposure described above, and debt securities investment, the Group had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties.

#### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The directors of Company consider that the liquidity risk of the Group is remote because the Group has sufficient assets to repay the liabilities when demanded.

A number of the Group's activities in Hong Kong are subject to various statutory liquidity requirements as prescribed by the Hong Kong Securities and Futures Commission in accordance with the Hong Kong Securities and Futures Ordinance (the "HKSF").

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSF.

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the earliest date on which the Group can be required to pay with taking into account the repayment on demand clause. The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. Bank borrowings and repurchase agreements with a repayment on demand clause and bank loans that do not meet covenant conditions are classified as current liabilities. The directors of the Company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	Weighted average effective interest rate	Repayable on demand and less than one month HK\$	More than 1 month to 1 year HK\$	Over 1 year to 5 years HK\$	Total contractual undiscounted cash flows HK\$	Carrying amount HK\$
<b>At 31 December 2022</b>						
Accounts payable	N/A	3,150,506,807	-	-	3,150,506,807	3,150,506,807
Financial liabilities held for trading	N/A	20,479,079	-	-	20,479,079	20,479,079
Financial liabilities designated at fair value through profit or loss (including interest payable)	N/A	-	30,447,343	-	30,447,343	30,447,343
Repurchase agreements (including interest payable)	4.58%	1,552,672,004	405,874,297	-	1,958,546,301	1,958,527,621
Bank borrowings (including interest payable)	5.41%	1,004,883,446	-	-	1,004,883,446	1,000,907,152
Lease liabilities	4%	3,178,275	13,322,070	-	16,500,345	16,305,095
Other payables	N/A	1,543,136	-	-	1,543,136	1,543,136
Amount due to a related party	N/A	1,316,280	-	-	1,316,280	1,316,280
Bonds	2.00%	-	41,902,882	2,070,920,794	2,112,823,676	2,079,992,337
Other liabilities	N/A	180,720,209	-	-	180,720,209	180,720,209
<b>Total</b>		<b>5,915,299,236</b>	<b>491,546,592</b>	<b>2,070,920,794</b>	<b>8,477,766,622</b>	<b>8,440,745,059</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

#### Liquidity risk (Continued)

	Weighted average effective interest rate	Repayable on demand and less than one month HK\$	More than 1 month to 1 year HK\$	Over 1 year to 5 years HK\$	Total contractual undiscounted cash flows HK\$	Carrying amount HK\$
<b>At 31 December 2021</b>						
Accounts payable	N/A	4,786,178,972	-	-	4,786,178,972	4,786,178,972
Financial liabilities held for trading	N/A	12,076,372	-	-	12,076,372	12,076,372
Financial liabilities designated at fair value through profit or loss (including interest payable)	N/A	-	53,319,705	-	53,319,705	53,319,705
Repurchase agreements (including interest payable)	0.42%	1,970,170,502	-	-	1,970,170,502	1,970,119,726
Bank borrowings (including interest payable)	2.56%	531,149,390	-	-	531,149,390	530,146,916
Lease liabilities	4%	3,178,274	34,961,020	16,500,345	54,639,639	52,992,443
Other payables	N/A	27,839,434	-	-	27,839,434	27,839,434
Amount due to a related party	N/A	4,560,326	-	-	4,560,326	4,560,326
Bonds	2%	-	47,446,958	2,392,366,633	2,439,813,591	2,352,317,863
Loan from the immediate holding company	2.90%	-	2,368,318,608	-	2,368,318,608	2,300,852,500
Other liabilities	N/A	238,046,664	-	-	238,046,664	238,046,664
<b>Total</b>		<b>7,573,199,934</b>	<b>2,504,046,291</b>	<b>2,408,866,978</b>	<b>12,486,113,203</b>	<b>12,328,450,921</b>

Note: As mentioned in note 23, the Group has issued structured notes to third parties to transfer the cash flow of margin loans during the year ended 31 December 2019. The issued notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

### Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2022 and 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

The following tables give information about how the fair values of financial assets and financial liabilities measured at fair value are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2022 HK\$	31 December 2021 HK\$		
<b>1) Financial assets at fair value through profit or loss</b>				
Equity securities				
– Traded on stock exchanges	<b>148,741,035</b>	246,043,540	Level 1	Quoted price in active markets
– Unlisted	–	25,398,354	Level 3	Market approach based on the Comparable Companies Method with the Price to Earnings and EV/EBITDA multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment <i>(note a)</i>
Debt securities				
– Traded on stock exchanges and unlisted	<b>1,880,086,381</b>	3,734,968,072	Level 2	Quoted from brokers or market makers
– Unlisted	<b>709,963,865</b>	701,955,000	Level 3	Fair value of collaterals <i>(note b)</i>
Funds				
– Unlisted public	<b>43,327,885</b>	119,908,326	Level 1	Quoted price in active market
– Unlisted private	<b>36,536,811</b>	63,983,646	Level 2	Observable quoted price of underlying investment in active market
– Unlisted private	<b>24,726,511</b>	16,615,824	Level 3	Direct market comparison approach with NAV of fund provided by external counterparty <i>(note c)</i>
	<b>2,843,382,488</b>	4,908,872,762		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2022 HK\$	31 December 2021 HK\$		
<b>2) Financial assets at fair value through other comprehensive income</b>				
Equity securities designated at FVTOCI				
– Traded on stock exchanges and unlisted	<b>1,735,889,091</b>	–	Level 2	Quoted from brokers or market makers
Debt securities at FVTOCI				
– Traded on stock exchanges and unlisted	<b>438,800,983</b>	–	Level 2	Quoted from brokers or market makers
	<b>2,174,690,074</b>	–		
<b>3) Financial liabilities held for trading</b>				
Short position in listed debt securities	<b>20,479,079</b>	–	Level 2	Quoted from brokers or market makers
Short position in listed equity securities	–	11,010,000	Level 1	Quoted price in active market
Credit derivative	–	1,066,372	Level 3	Credit spread ( <i>note d</i> )
	<b>20,479,079</b>	12,076,372		
<b>4) Financial liabilities designated at fair value through profit or loss</b>				
Unlisted structured products (with the underlying investment related to unlisted fund)	<b>30,447,343</b>	53,319,705	Level 2	Observable quoted price of underlying investments in active market
	<b>30,447,343</b>	53,319,705		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS *(Continued)*

### **Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis** *(Continued)*

Notes:

- (a) As at 31 December 2021, the unobservable input was the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted. The investment was written down in 2022 as recovery is considered remote.
- (b) The unobservable inputs are the fair value of collaterals. Due to limitation of public information, management has exercised significant judgement in determining the fair value of collaterals.
- (c) The directors of the Company determined that the reported net asset value of the unlisted investment fund represents the fair value of the fund. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in positive relationship that the higher the reported net asset value adopted in the valuation assessment, the higher the fair value would be resulted.
- (d) As at 31 December 2021, the unobservable input was the spread of the credit derivative with reference to the price of the underlying reference obligation and the spread is provided by the external counterparty, when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the spread adopted in the valuation assessment, the lower the fair value would be resulted. The investment was terminated during current year.

There were no transfers between level 1 and level 2 in 2021 and 2022. The Group assumes all transfers took place at the end of the financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. FINANCIAL INSTRUMENTS (Continued)

### Reconciliation of level 3 fair value measurements

As at 31 December

	2022		2021	
	Financial liabilities at fair value through profit or loss HK\$	Financial assets at fair value through profit or loss HK\$	Financial liabilities at fair value through profit or loss HK\$	Financial assets at fair value through profit or loss HK\$
Opening balance	(1,066,372)	743,969,178	(2,608,596)	89,289,683
Transfer from Level 2 (note a)	-	-	-	701,955,000
Total gains or losses recognised in profit or loss during the year	(3,878,040)	(9,278,802)	1,542,224	(47,275,505)
Settled during the year	4,944,412	-	-	-
Closing balance	-	734,690,376	(1,066,372)	743,969,178
Total gains or losses for the year included in profit or loss attributable to the change in unrealised gains or losses of assets/liabilities held at the end of the year	-	(135,604,782)	1,542,224	(47,275,505)

Note:

- (a) The fair value of the unlisted debt securities were determined with reference to the quoted price and therefore classified as Level 2 investment in the previous year. During the year ended 31 December 2021, the fair value of the unlisted debt securities were determined based on the fair value of collaterals which involved significant unobservable inputs. Thus, the instrument was transferred from Level 2 to Level 3 category. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The gains or losses arising from the remeasurement of the financial assets and liabilities at fair values through profit or loss are presented in the "Net trading and investment income" line item in the consolidated statement of profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 41. FINANCIAL INSTRUMENTS *(Continued)*

#### Derivative financial instruments settled daily

	As at 31 December 2022		
	Notional amount HK\$	Fair value	
		Assets HK\$	Liabilities HK\$
Foreign currency exchange futures	346,460,760	–	1,672,719
Interest rate futures	350,905,500	933,615	–
<b>Total</b>	<b>697,366,260</b>	<b>933,615</b>	<b>1,672,719</b>
Less: settlement		(933,615)	(1,672,719)
<b>Net position</b>		<b>–</b>	<b>–</b>

	As at 31 December 2021		
	Notional amount HK\$	Fair value	
		Assets HK\$	Liabilities HK\$
Foreign currency exchange futures	436,269,569	389,203	–
Interest rate futures	682,456,250	–	(4,635,375)
<b>Total</b>	<b>1,118,725,819</b>	<b>389,203</b>	<b>(4,635,375)</b>
Less: settlement		(389,203)	4,635,375
<b>Net position</b>		<b>–</b>	<b>–</b>

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures traded through CISI Futures, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 31 December 2022 and 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

The disclosures set out in the table below include financial assets that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for total return swaps, foreign currency forward and sale and repurchase agreements.

The Group's total return swaps transactions and foreign currency forward that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set-off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group pledged collateral in the form of cash and/or securities in respect of its total return swaps transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral pledged must be returned on maturity of the transactions.

Under the agreement of continuous net settlement between the Group and HKSCC and respective agreements between the Group and brokers, the Group has a legally enforceable right to set off money obligations receivable and payable with HKSCC and respective brokers on the same settlement date on a net basis. The Group intends to settle these balances on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

#### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements (Continued)

As at 31 December 2022

	Gross amount of recognised financial assets HK\$	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$	Net amounts of financial assets presented in the consolidated statement of financial position HK\$	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$
				Financial instruments HK\$	Collateral received HK\$	
<b>Financial assets</b>						
Accounts receivable arising from the business of dealing in securities	908,377,029	(23,735,671)	884,641,358	(36,561,923)	(509,609,136)	338,470,299
Financial assets pledged as collaterals for repurchase agreements (as disclosed in note 39)	2,475,696,656	-	2,475,696,656	(1,958,527,621)	-	517,169,035
Reverse repurchase agreements	92,947,167	-	92,947,167	-	(92,947,167)	-

	Gross amount of recognised financial liabilities HK\$	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$	Related amounts not set off in the consolidated statement of financial position		Net amount HK\$
				Financial instruments HK\$	Collateral received HK\$	
<b>Financial liabilities</b>						
Accounts payable arising from the business of dealing in securities	2,842,451,294	(23,735,671)	2,818,715,623	(36,561,923)	(13,704,213)	2,768,449,487
Repurchase agreements	1,958,527,621	-	1,958,527,621	(1,958,527,621)	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

#### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements (Continued)

As at 31 December 2021

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amount
	HK\$	HK\$	HK\$	HK\$	Financial instruments HK\$ Collateral received HK\$	HK\$
<b>Financial assets</b>						
Accounts receivable arising from the business of dealing in securities	1,204,330,505	(56,942,261)	1,147,388,244		(89,187,672) (824,795,338)	233,405,234
Financial assets pledged as collaterals for repurchase agreements (as disclosed in note 39)	3,354,003,506	–	3,354,003,506		(1,970,119,726) –	1,383,883,780
Reverse repurchase agreements	210,748,159	–	210,748,159		– (210,748,159)	–

	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amount
	HK\$	HK\$	HK\$	HK\$	Financial instruments HK\$ Collateral received HK\$	HK\$
<b>Financial liabilities</b>						
Accounts payable arising from the business of dealing in securities	4,430,407,248	(56,942,261)	4,373,464,987		(89,187,672) (15,268,321)	4,269,008,994
Repurchase agreements	1,970,119,726	–	1,970,119,726		(1,970,119,726) –	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bonds HK\$ (Note 32)	Bank borrowings HK\$ (Note 31)	Financial liabilities at fair value through profit or loss HK\$ (Note 26)	Repurchase agreements HK\$ (Note 30)	Account payable HK\$ (Note 27)	Other liabilities HK\$ (Note 47)	Lease liabilities HK\$ (Note 33)	Amount due to the immediate holding company HK\$ (Note 25)	Total HK\$
At 1 January 2022	2,352,317,863	530,146,916	65,396,077	1,970,119,726	4,786,178,972	238,046,664	52,992,443	2,300,852,500	12,296,051,161
Financing cash flow:									
– Borrowing raised	–	1,490,000,000	–	–	–	–	–	–	1,490,000,000
– Repayments of borrowings	–	(1,020,000,000)	–	–	–	–	–	–	(1,020,000,000)
– Repayment of loan from the immediate holding company	–	–	–	–	–	–	–	(2,300,852,500)	(2,300,852,500)
– Repurchase of bonds	(274,774,500)	–	–	–	–	–	–	–	(274,774,500)
– Interest paid	(46,142,254)	(22,622,356)	–	(33,790,069)	(198,682)	–	–	(67,013,952)	(169,767,313)
– Capital element of lease rentals paid	–	–	–	–	–	–	(36,687,348)	–	(36,687,348)
– Interest element of lease rental paid	–	–	–	–	–	–	(1,451,946)	–	(1,451,946)
– Contribution from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	–	–	–	–
– Withdrawals from third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	(51,646,489)	–	–	(51,646,489)
Operating cash flow:									
– Change in financial liabilities at fair value through profit or loss	–	–	(14,508,416)	–	–	–	–	–	(14,508,416)
– Change in repurchase agreements	–	–	–	(19,128,271)	–	–	–	–	(19,128,271)
– Change in accounts payable	–	–	–	–	(1,635,672,165)	–	–	–	(1,635,672,165)
Fair value changes of interests held by third-party unitholders/shareholders of consolidated investment funds	–	–	–	–	–	(13,641,539)	–	–	(13,641,539)
Finance cost	48,591,228	23,382,592	38,761	41,326,235	198,682	–	1,451,946	67,013,952	182,003,396
Investing cash flow:									
– Deemed acquisition of a consolidated structured entity	–	–	–	–	–	1,514,669	–	–	1,514,669
Other non-cash movements	–	–	–	–	–	6,446,904	–	–	6,446,904
At 31 December 2022	2,079,992,337	1,000,907,152	50,926,422	1,958,527,621	3,150,506,807	180,720,209	16,305,095	–	8,437,885,643

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(Continued)

	Bonds HK\$ (Note 32)	Bank borrowings HK\$ (Note 31)	Other borrowings HK\$ (Note 30)	Notes HK\$ (Note 31)	Financial liabilities at fair value through profit or loss HK\$ (Note 26)	Repurchase agreements HK\$ (Note 30)	Account payable HK\$ (Note 27)	Other liabilities HK\$ (Note 46)	Lease liabilities HK\$ (Note 33)	Amount due to the immediate holding company HK\$ (Note 25)	Total HK\$
At 1 January 2021	-	3,823,475,258	766,958,032	69,769,800	151,539,955	3,235,028,200	4,012,906,529	301,753,853	88,243,606	2,286,899,000	14,736,574,233
Financing cash flow:											
- Borrowing raised	-	46,224,144,990	4,303,792	-	-	-	-	-	-	-	46,228,448,782
- Repayments of borrowings	-	(49,514,144,990)	(769,615,240)	-	-	-	-	-	-	-	(50,283,760,230)
- Redemption of notes	-	-	-	(69,769,800)	-	-	-	-	-	-	(69,769,800)
- Issuance of bonds	2,333,859,046	-	-	-	-	-	-	-	-	-	2,333,859,046
- Loan from the immediate holding company	-	-	-	-	-	-	-	-	-	13,953,500	13,953,500
- Interest paid	(25,885,751)	(45,128,797)	(6,665,892)	(273,513)	-	(26,658,711)	(335,511)	-	-	(66,483,115)	(171,431,290)
- Capital element of lease rentals paid	-	-	-	-	-	-	-	-	(35,251,163)	-	(35,251,163)
- Interest element of lease rental paid	-	-	-	-	-	-	-	-	(2,888,132)	-	(2,888,132)
- Contribution from third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	30,640,827	-	-	30,640,827
- Withdrawals from third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	(75,708,844)	-	-	(75,708,844)
Operating cash flow:											
- Change in financial liabilities at fair value through profit or loss	-	-	-	-	(86,212,463)	-	-	-	-	-	(86,212,463)
- Change in repurchase agreements	-	-	-	-	-	(1,264,908,474)	-	-	-	-	(1,264,908,474)
- Change in accounts payable	-	-	-	-	-	-	773,272,443	-	-	-	773,272,443
Fair value changes of interests held by third-party unitholders/shareholders of consolidated investment funds	-	-	-	-	-	-	-	(18,639,172)	-	-	(18,639,172)
Finance cost	44,344,568	41,800,455	5,019,308	273,513	68,585	26,658,711	335,511	-	2,888,132	66,483,115	187,871,898
At 31 December 2021	2,352,317,863	530,146,916	-	-	65,396,077	1,970,119,726	4,786,178,972	238,046,664	52,992,443	2,300,852,500	12,296,051,161

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the consolidated financial statements, the Group had the following material transactions with related parties.

### (a) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 11(a), the remuneration of other members of key management during the years ended 31 December 2022 and 2021 was as follows:

	2022 HK\$	2021 HK\$
Short-term benefits	38,546,832	35,923,071
Post-employment benefits	183,000	183,000

### (b) Right of trading of RMB denominated securities in the PRC

During the years ended 31 December 2022 and 2021, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the immediate holding company for consideration of HK\$1 per annum.

### (c) Consultancy services from a fellow subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

On 3 November 2021, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement 2021"), pursuant to which, Industrial Securities (Shenzhen) will provide the new services to the Group: (i) logistics management services to the Group, including but not limited to provision of client visits, answering customer service calls, and financial settlement services; (ii) information consultancy services (excluding licensing information consultancy services), including but not limited to the provision of consultancy services on economic information and delivery and consultancy services on business information; (iii) corporate management services, including but not limited to personnel training services; (iv) software development services; and (v) information technology consultancy services, including but not limited to the provision of cross-border information technology support.

On 3 November 2021, the Company and Industrial Securities (Shenzhen) renewed the Service Agreement (as amended by the Supplement Service Agreement 2021) (the "Renewal Service Agreement") for a further term of three years from 1 January 2022 to 31 December 2024. Details of the Supplemental Service Agreement 2021 and the Renewal Service Agreement are set out in the announcement dated 3 November 2021.

During the year ended 31 December 2022, the Company paid a consultancy service fee of HK\$25,193,659 (2021: HK\$29,789,119) under the Service Agreement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 44. RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Right of use of trademark

During the years ended 31 December 2022 and 2021, the Group was granted by the immediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK\$1 per annum.

### (e) Investment management and advisory services to the Industrial Securities Group

On 3 November 2021, the Company and Industrial Securities entered into the master agreement (the "Master Agreement"), pursuant to which the Group conditionally agreed that it will provide the investment management and advisory services to the Industrial Securities Group for a term of three years from 1 January 2022 to 31 December 2024. No such services were provided by the Group for the year ended 31 December 2022 and 2021. Details of the Master Agreement are set out in the announcement dated 3 November 2021.

## 45. SUBSIDIARIES

The particulars of the Group's subsidiaries and consolidated investment funds are as follows:

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid up share capital	Equity attributable to the Group at 31 December		Principal activities
				2022 %	2021 %	
<i>Directly owned</i>						
China Industrial Securities International Brokerage Limited	Hong Kong	Hong Kong	HK\$3,500,000,000	100	100	Securities dealing and broking and securities margin financing
China Industrial Securities International Futures Limited	Hong Kong	Hong Kong	HK\$50,000,000	100	100	Futures and options contracts broking
China Industrial Securities International Capital Limited	Hong Kong	Hong Kong	HK\$100,000,000	100	100	Corporate finance services
China Industrial Securities International Asset Management Limited	Hong Kong	Hong Kong	HK\$20,000,000	100	100	Advising on securities and asset management services
China Industrial Securities International Investment Limited	Hong Kong	Hong Kong	HK\$20,000,000	100	100	Investment holding
China Industrial Securities International Wealth Management Limited	Hong Kong	Hong Kong	HK\$1,000,000	100	100	Wealth management services
<i>Indirectly owned</i>						
CISI Investment Limited	British Virgin Islands	Hong Kong	US\$2,500,000	100	100	Investment trading
CISI Capital Management Limited	British Virgin Islands	Hong Kong	US\$1	100	100	Investment holding

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 45. SUBSIDIARIES (Continued)

Name of investment fund	Place of incorporation	Place of operation	Class of share	Effective interest holding at 31 December		Principal activities
				2022 %	2021 %	
<i>Indirectly owned</i>						
IS Investment Fund Segregated Portfolio Company – CIS Resources Fund Segregated Portfolio ("CISRF") (note a)	Cayman Islands	Hong Kong	Participating	100	100	Investment trading
IS Investment Fund Segregated Portfolio Company – CISI Stable Growth Bond Fund Segregated Portfolio ("CISISF") (note a)	Cayman Islands	Hong Kong	Participating	86.50	80.19	Investment trading
IS Investment Fund Segregated Portfolio Company – WVCIS Value Growth Fund Segregated Portfolio ("CISWF") (note a)	Cayman Islands	Hong Kong	Participating	48.87	45.76	Investment trading
IS Investment Fund Segregated Portfolio Company – CIS The Belt and Road PE Fund I ("CISBF") (note a)	Cayman Islands	Hong Kong	Participating	50	50	Investment trading
IS Investment Fund Segregated Portfolio Company – CISI Pioneer Selection Fund SP ("Pioneer") (note a)	Cayman Islands	Hong Kong	Participating	–	100	Investment trading
IS Investment Fund Segregated Portfolio Company – CIS New China Ever-growing Fund Segregated Portfolio ("CISNCEF") (note b)	Cayman Islands	Hong Kong	Participating	66.95	66.95	Investment trading

Notes:

- (a) China Industrial Securities International Asset Management Limited, a wholly-owned subsidiary of the Group, holds all management shares of IS Investment Fund Segregated Portfolio Company ("IS IFSPC"). China Industrial Securities International Asset Management Limited has been appointed as an investment manager of CISRF, CISISF, CISWF, CISBF and CISNCEF, under IS IFSPC. The Group holds significant participating shares in the above mentioned funds. The directors of the Company are of the opinion that CISRF, CISISF, CISWF and CISBF are regarded as consolidated structured entities of the Group as the Group is able to exercise control over its operation and has significant variable financial interests as at 31 December 2022 and 2021. During the year ended 31 December 2022, the Group has fully redeemed the participating shares in Pioneer and therefore lost control over this structured entity.
- (b) As the Group has obtained control over CISNCEF due to the resignation of the other co-investment manager of CISNCEF since 1 January 2022, CISNCEF is regarded as a consolidated structured entity of the Group as at 31 December 2022. Further details are disclosed in notes 16 and 46.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 46. DEEMED ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

As disclosed in note 16, on 1 January 2022, the Group has obtained control over CISNCEF due to the resignation of the other co-investment manager of CISNCEF. No consideration was transferred by the Group to the other co-investment manager for obtaining control of CISNCEF. The interest of participating shares of CISNCEF held by the Group remains unchanged before and after the control is obtained.

#### Consideration transferred

	HK\$
Cash	Nil

#### Assets acquired and liabilities recognised at the date of deemed acquisition

	HK\$
Bank balances	1,514,669
Financial assets at fair value through profit or loss	24,672,274
Other payable	(2,099,439)
	24,087,504

#### Net assets acquired at the date of deemed acquisition attributable to the Group

	HK\$
Net assets acquired at the date of deemed acquisition (HK\$)	24,087,504
Proportion of the Group's interest	66.95%
<b>Net assets acquired at the date of deemed acquisition attributable to the Group (HK\$)</b>	<b>16,125,931</b>

Third-party interests at the deemed acquisition date were measured at the proportionate share of the fair value of identifiable net assets of CISNCEF, which are reflected as other liabilities in the consolidated statement of financial position.

At the deemed acquisition date, included in the financial assets at fair value through profit or loss represents the listed equity securities with the quoted market price.

#### Net cash inflow on deemed acquisition of a consolidated structured entity

	HK\$
Cash and cash equivalent balances acquired	1,514,669
Less: consideration paid in cash	-
	1,514,669

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 47. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2022, loss contributed by the consolidated investment funds (excluding third party interests as stated below), were HK\$21,275,272 (2021: profit of HK\$6,292,447). As at 31 December 2022, the total assets and total liabilities (excluding third party interests as stated below) of the consolidated investment funds, were HK\$1,023,009,869 and HK\$286,450,833 respectively (2021: HK\$1,300,112,713 and HK\$500,270,558 respectively).

Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders/shareholders in consolidated investment funds that are subject to the actions of third-party unit holders/shareholders.

For the year ended 31 December 2022, changes in interests held by third-party unit holders/shareholders of HK\$13,641,539 (2021: HK\$18,639,172) in consolidated structured entities are included as other gains within other gains or losses in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK\$180,720,209 (2021: HK\$238,046,664) as at 31 December 2022 are included in other liabilities in the consolidated statement of financial position.

## 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A wholly-owned subsidiary of the Company, China Industrial Securities International Asset Management Limited, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 *Disclosure of interests in other entities*. The directors of the Company are of the opinion that certain investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds and is not able to exercise control over their operation, or it has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

China Industrial Securities International Asset Management Limited receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2022 is HK\$6,931,021 (2021: HK\$11,703,700) (included in accounts receivable) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 is HK\$16,895,698 (2021: HK\$20,169,910). The net asset value of total assets under management for these funds amounts to approximately HK\$4,778 million as at 31 December 2022 (2021: HK\$5,849 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

#### **Maximum exposure to loss**

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

#### **Financial support**

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2022 and 2021, and has no contractual obligations or current intention of providing financial support in the future.

#### **Other information**

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 HK\$	2021 HK\$
Non-current assets		
Property and equipment	32,924,177	75,443,983
Intangible assets	5,870,562	3,574,885
Investment in subsidiaries	3,265,043,417	3,298,211,609
Deposits, other receivables and prepayments	14,727,956	14,828,827
Deferred tax assets	2,191,554	4,997,738
	<b>3,320,757,666</b>	3,397,057,042
Current assets		
Tax receivable	2,785,328	10,107,825
Deposits, other receivables and prepayments	7,592,022	2,785,328
Amounts due from subsidiaries	3,209,176,454	6,076,159,761
Bank balances – general accounts and cash	554,277,914	123,987,112
	<b>3,773,831,718</b>	6,213,040,026
Current liabilities		
Accruals and other payables	20,865,150	45,471,060
Amounts due to a fellow subsidiary	1,316,280	4,560,326
Amount due to the immediate holding company	–	2,300,852,500
Bank borrowings	1,000,907,152	530,146,916
Lease liabilities	16,305,095	37,325,638
	<b>1,039,393,677</b>	2,918,356,440
Net current assets	<b>2,734,438,041</b>	3,294,683,586
Non-current liabilities		
Lease liabilities	–	15,666,805
Bonds	2,079,992,337	2,352,317,863
	<b>2,079,992,337</b>	2,367,984,668
Net assets	<b>3,975,203,370</b>	4,323,755,960
Equity		
Share capital	400,000,000	400,000,000
Share premium	3,359,547,592	3,359,547,592
Accumulated loss	(1,226,786,043)	(878,233,453)
Capital reserve	442,441,821	442,441,821
Equity attributable to holders of the ordinary shares	<b>2,975,203,370</b>	3,323,755,960
Equity attributable to holders of other equity instruments	<b>1,000,000,000</b>	1,000,000,000
Total equity	<b>3,975,203,370</b>	4,323,755,960

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

#### Movements in the Company's components of equity

	Share capital	Share premium	Capital reserve	Accumulated loss	Other equity instruments	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 January 2021	400,000,000	3,359,547,592	442,441,821	(916,211,248)	-	3,285,778,165
Profit and total comprehensive income for the year	-	-	-	37,977,795	-	37,977,795
Issue of perpetual securities	-	-	-	-	1,000,000,000	1,000,000,000
At 31 December 2021	400,000,000	3,359,547,592	442,441,821	(878,233,453)	1,000,000,000	4,323,755,960
Loss and total comprehensive income for the year	-	-	-	(348,552,590)	-	(348,552,590)
At 31 December 2022	400,000,000	3,359,547,592	442,441,821	(1,226,786,043)	1,000,000,000	3,975,203,370

### 50. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2022, the directors consider the immediate holding company is Industrial Securities (Hong Kong) Financial Holdings Limited which is incorporated in Hong Kong. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 51. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

### Effective for accounting periods beginning on or after

Amendments to HKAS 1, Presentation of financial statements: <i>Classification of liabilities as current or non-current</i>	1 January 2023
Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: <i>Disclosure of accounting policies</i>	1 January 2023
Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: <i>Definition of accounting estimates</i>	1 January 2023
Amendments to HKAS 12, Income taxes: <i>Deferred tax related to assets and liabilities arising from a single transaction</i>	1 January 2023

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

# FINANCIAL SUMMARY (UNAUDITED)

## RESULTS

	Year ended 31 December				2022 HK\$
	2018 HK\$	2019 HK\$	2020 HK\$	2021 HK\$	
REVENUE	1,011,045,602	1,261,563,267	576,700,171	636,370,709	<b>258,004,188</b>
Other income	53,584,083	131,340,135	110,664,967	31,386,354	<b>116,493,723</b>
Share of result of a joint venture	(498,698)	(7,188,844)	3,840,787	(20,060,274)	–
Finance costs	(386,951,178)	(569,952,191)	(487,532,792)	(187,871,898)	<b>(182,003,396)</b>
Commission and fee expenses	(111,605,723)	(72,846,533)	(90,921,460)	(64,536,118)	<b>(62,899,895)</b>
Staff costs	(187,040,901)	(232,101,080)	(169,962,057)	(159,927,725)	<b>(160,103,290)</b>
Other operating expenses	(182,361,532)	(175,163,993)	(160,608,855)	(166,202,778)	<b>(163,018,113)</b>
Impairment losses on financial assets	(6,105,250)	(874,301,268)	(368,491,609)	(95,493,470)	<b>(82,462,673)</b>
Other gains and losses	10,483,808	1,027,010	55,063,772	75,712,803	<b>(29,294,055)</b>
PROFIT/(LOSS) BEFORE TAXATION	200,550,211	(537,623,497)	(531,247,076)	49,377,603	<b>(305,283,511)</b>
Taxation	(56,749,540)	75,764,050	38,709,493	(9,283,964)	<b>7,881,095</b>
PROFIT/(LOSS) FOR THE YEAR	143,800,671	(461,859,447)	(492,537,583)	40,093,639	<b>(297,402,416)</b>
Other comprehensive income for the year	–	–	–	–	<b>(94,917,854)</b>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	143,800,671	(461,859,447)	(492,537,583)	40,093,639	<b>(392,320,270)</b>
EARNINGS/(LOSS) PER SHARE					
Basic (expressed in HKD)	0.0360	(0.1155)	(0.1231)	0.0100	<b>(0.0744)</b>

## ASSETS AND LIABILITIES

	As at 31 December				2022 HK\$
	2018 HK\$	2019 HK\$	2020 HK\$	2021 HK\$	
Total assets	23,343,840,317	24,304,672,709	18,263,690,895	16,794,803,131	<b>12,472,181,491</b>
Total liabilities	(18,952,766,745)	(20,465,030,793)	(14,916,586,562)	(12,407,605,159)	<b>(8,477,303,789)</b>
Net assets	4,391,073,572	3,839,641,916	3,347,104,333	4,387,197,972	<b>3,994,877,702</b>



兴证国际

INDUSTRIAL SECURITIES INTERNATIONAL

興證國際金融集團有限公司

China Industrial Securities International Financial Group Limited