

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

Report of the Directors and Audited Financial Statements

31 December 2023

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

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REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Woori Global Markets Asia Limited (the "Company") for the year ended 31 December 2023.

Principal activities

The Company is a deposit-taking company registered under the Banking Ordinance in Hong Kong. There were no significant changes in the nature of the Company's principal activities during the year. It is engaged in the business of lending, deposit-taking and dealing in securities, and holds Type 1 and Type 4 licenses under the Securities and Futures Ordinance.

Results and dividends

The Company's profit for the year ended 31 December 2023 and the Company's financial position at that date are set out in the financial statements on pages 5 to 51.

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

Share capital

There were no movements in the Company's share capital during the year.

Directors

The directors of the Company during the year and up to the date of this report are:

Mr. Chung Jeffrey Jin Wook

Mr. Lee Tae Hoon

Mr. Kwon Tae Joon

Mr. Lee Daesung

Mr. Lee Soo Jin

(Appointed on 9 April 2024)

(Resigned on 9 April 2024)

There being no provision to the contrary in the Company's Articles of Association, all existing directors shall remain in office.

Directors' interests

At no time during the year was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which any of the Company's holding companies or fellow subsidiaries was a party during the year.

Management contracts

Pursuant to an agreement dated 30 December 2008 between the Company and its holding company, Woori Bank, Woori Bank provides management services to the Company. The agreement may be terminated by either party subject to a 90-day written notice. During the year, management service fee relating to this contract was US\$17,752 (2022: US\$24,000).

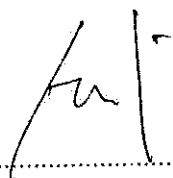
WOORI GLOBAL MARKETS ASIA LIMITED
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REPORT OF THE DIRECTORS (continued)

Auditors

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'Lee Daesung', written over a horizontal dotted line.

Lee Daesung
Director

Hong Kong
24 April 2024

Independent auditor's report
To the members of Woori Global Markets Asia Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Woori Global Markets Asia Limited (the "Company") set out on pages 5 to 51, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Independent auditor's report (continued)
To the members of Woori Global Markets Asia Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

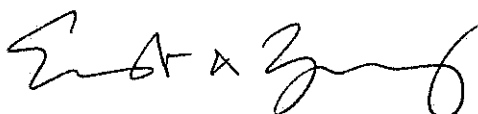
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405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

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

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



Certified Public Accountants
Hong Kong
24 April 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 US\$	2022 US\$
Interest income	6	31,450,436	15,690,575
Interest expenses	6	<u>(18,518,532)</u>	<u>(6,941,468)</u>
Net interest income		12,931,904	8,749,107
Fee income	7	5,309,549	3,802,624
Net trading income	8	960,565	651,006
Net gains from disposal of financial assets at fair value through other comprehensive income		<u>539</u>	<u>608</u>
		19,202,557	13,203,345
Staff costs	9	(1,935,559)	(1,755,355)
Other operating expenses		(2,527,628)	(2,489,539)
Impairment allowance, net	10	<u>(1,063,087)</u>	<u>209,825</u>
PROFIT BEFORE TAX	10	13,676,283	9,168,276
Income tax	11	<u>(2,615,156)</u>	<u>(1,318,528)</u>
PROFIT FOR THE YEAR		<u>11,061,127</u>	<u>7,849,748</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Debt investments at fair value through other comprehensive income:			
Changes in fair value, net of tax	17	790,970	(536,538)
Reclassification adjustments for gains/ (losses) included in profit or loss			
- gains on disposal	17	8,181	37,102
- impairment losses	17	<u>55,201</u>	<u>(8,537)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>854,352</u>	<u>(507,973)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>11,915,479</u>	<u>7,341,775</u>

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 US\$	2022 US\$
ASSETS			
Cash		384	385
Bank balances with banks and other financial institutions		2,990,769	9,480,529
Placements with banks	15	-	5,968,801
Loans and advances to customers	16	289,081,843	248,198,457
Debt investments at fair value through other comprehensive income	17	184,616,767	193,481,340
Financial assets at fair value through profit or loss	17	14,874,022	11,432,094
Property and equipment	13	50,886	37,194
Right-of-use assets	13	2,149,225	1,280,732
Deferred tax assets	12	246,464	193,349
Other assets		<u>380,126</u>	<u>356,040</u>
Total assets		<u>494,390,486</u>	<u>470,428,921</u>
LIABILITIES			
Loans due to banks and other financial institutions		344,091,025	334,946,921
Other payables and accruals	18	712,207	765,752
Lease liabilities	13	2,148,965	1,274,804
Tax payable		<u>2,610,250</u>	<u>528,884</u>
Total liabilities		<u>349,562,447</u>	<u>337,516,361</u>
EQUITY			
Share capital	19	100,000,000	100,000,000
Reserves		<u>44,828,039</u>	<u>32,912,560</u>
Total equity		<u>144,828,039</u>	<u>132,912,560</u>
Total liabilities and equity		<u>494,390,486</u>	<u>470,428,921</u>



Lee Daesung
Director



Lee Tae Hoon
Director

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Share Capital US\$	Fair value reserve of debt investments at fair value through other comprehensive income US\$	Retained profits US\$	Regulatory reserve (note 21) US\$	Total US\$
At 1 January 2022	100,000,000	165,432	24,329,682	1,075,671	125,570,785
Profit for the year	-	-	7,849,748	-	7,849,748
Other comprehensive income for the year:					
Changes in fair value of debt investment at fair value through other comprehensive income, net of tax	-	(499,436)	-	-	(499,436)
Impairment losses	-	(8,537)	-	-	(8,537)
Transfer from regulatory reserve to retained profits	-	-	227,519	(227,519)	-
At 31 December 2022 and 1 January 2023	100,000,000	(342,541)	32,406,949	848,152	132,912,560
Profit for the year	-	-	11,061,127	-	11,061,127
Other comprehensive income for the year:					
Changes in fair value of debt investment at fair value through other comprehensive income, net of tax	-	799,151	-	-	799,151
Impairment losses	-	55,201	-	-	55,201
Transfer from retained profits to regulatory reserve	-	-	(223,908)	223,908	-
At 31 December 2023	<u>100,000,000</u>	<u>511,811</u>	<u>43,244,168</u>	<u>1,072,060</u>	<u>144,828,039</u>

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 US\$	2022 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,676,283	9,168,276
Adjustments for:			
Impairment allowance, net:			
- Placements with banks	10	(3,551)	(23,087)
- Loans and advances to customer	10	990,853	(178,262)
- Debt investments at fair value through other comprehensive income	10	55,201	(8,537)
- Loan commitments	10	20,585	61
Depreciation of property and equipment	10	30,252	38,979
Depreciation of right-of-use assets	10	1,058,667	1,086,091
Interest on lease liabilities	6	25,196	28,501
Fair value changes of financial assets at fair value through profit or loss	8	(444,955)	(296,681)
Dividend income	8	(515,610)	(354,325)
		<u>14,892,921</u>	<u>9,461,016</u>
Changes in working capital:			
Placements with banks with maturity more than three months		2,933,174	3,263,773
Gross loans and advances to customers		(41,874,239)	23,182,132
Debt investments at fair value through other comprehensive income		9,821,641	15,296,895
Financial assets at fair value through profit or loss		(2,996,973)	(2,640,738)
Other assets		(24,086)	(11,437)
Loans due to banks and other financial institutions		9,144,104	(46,950,001)
Other payables and accruals		(73,946)	146,642
		<u>(8,177,404)</u>	<u>1,748,282</u>
Cash (used in)/ generated from operations		(8,177,404)	1,748,282
Dividend received		515,610	354,325
Tax paid		(744,821)	(1,566,433)
		<u>(8,406,615)</u>	<u>536,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	13	(43,977)	(1,953)
Net cash flows used in investing activities		<u>(43,977)</u>	<u>(1,953)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities	13	(1,078,167)	(1,107,064)
Net cash flows used in financing activities		<u>(1,078,167)</u>	<u>(1,107,064)</u>

WOORI GLOBAL MARKETS ASIA LIMITED
友利投資金融有限公司

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2023

	2023 US\$	2022 US\$
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,528,759)	(572,843)
Effect of foreign exchange rate changes, net	(180)	20
Cash and cash equivalents at beginning of year	<u>12,520,092</u>	<u>13,092,915</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>2,991,153</u></u>	 <u><u>12,520,092</u></u>
 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash	384	385
Balances with banks and other financial institutions	2,990,769	9,480,529
Unpledged placements with banks with original maturity of less than three months when acquired	<u>-</u>	<u>3,039,178</u>
	<u><u>2,991,153</u></u>	<u><u>12,520,092</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE INFORMATION

Woori Global Markets Asia Limited (the "Company") is a public limited company incorporated in Hong Kong. It is a deposit-taking company registered under the Banking Ordinance in Hong Kong. It is engaged in the business of lending, deposit-taking and dealing in securities, and possesses Type 1 and Type 4 licenses under the Securities and Futures Ordinance. The registered office and principal place of business of the Company is Room 1907-1909, 19/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

In the opinion of the directors, the immediate holding company is Woori Bank (the "Parent Bank"), a public limited company incorporated in the Republic of Korea and the ultimate holding company is Korea Deposit Insurance Corporation, which is wholly owned by the Government of the Republic of Korea.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except for debt investments at fair value through other comprehensive income and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in United States dollars ("US\$") and all values are rounded to the nearest dollar except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Company has disclosed the material accounting policy information in note 2.5 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any item in the Company's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Company's approach and policy align with the amendments, the amendments had no impact on the Company's financial statements.
- (c) Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments had no impact on the Company's financial statements.
- (d) Amendments to HKAS 12 introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Company has applied the amendments retrospectively. Since the Company did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the "2020 Amendments") ^{1, 2}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the "2022 Amendments") ¹

¹ Effective for annual periods beginning on or after 1 January 2024

² As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

Further information about those HKFRSs that are expected to be applicable to the Company is described below.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Company is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Company's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

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

or

- (b) the party is an entity where any of the following conditions applies
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Property and equipment, and depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment is required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the unexpired term of the lease
Furniture and fixtures	20%
Office equipment	30%
Computer equipment	30%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Company assesses at contract inception whether a 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.

Company as a lessee

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Company as a lessee (continued)

(a) Right-of-use assets

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

Buildings	1 to 4 years
Furniture and office equipment	3 years
Motor vehicles	1 to 2 years

If ownership of the leased asset transfers to the Company by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for termination of a lease, if the lease term reflects the Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Company applies the short-term lease recognition exemption to its short-term leases of properties, electronic equipment and motor vehicles (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that result from transactions within the scope of HKFRS 15 and that do not contain a significant financing component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that result from transactions within the scope of HKFRS 15 and that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

This category includes equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include interest-bearing bank borrowings and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income ("OCI") or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credit and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credit and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the 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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, 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 between the Company and the customer at contract inception. When the contract contains a financing component which provides the Company with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

- (a) Management, commitment, arrangement and participation fees
The performance obligation is satisfied at a point in time. The Company recognises revenue when it renders services to a customer, generally when the transaction takes place.

Revenue from other sources

- (b) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.
- (c) Net gain on trading activities includes all gains and losses from changes in fair value for financial assets and financial liabilities held for trading and are recognised on the transaction dates when the relevant contract notes have been exchanged.
- (d) Dividend income is recognised when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.5 MATERIAL ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional currency. Foreign currency transactions recorded by the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreement) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost. Securities purchased under agreements to resell (reverse repurchase agreements) are reported as receivables and are carried in the statement of financial position at amortised cost.

Repos or securities lending are initially recorded in the statement of financial position as cash collateral on securities lent and repurchase agreement at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as financial assets at fair value through profit or loss on the financial statement of financial position. Reverse repos or securities borrowing are initially recorded in the statement of financial position as cash collateral as securities borrowed and reverse repos at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the statement of financial position. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Company's accounting policies, which are described in note 2.5, the directors 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.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Company applied judgements in determining the amount and timing of revenue arising from the provision of management, commitment and arrangement services.

For management, commitment and arrangement services, the Company concluded that revenue is recognised at a point in time when the Company has rendered the service to a customer and the Company has the present right of payment and the collection of the consideration is probable.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Fair value of unlisted financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company has used quoted prices from the secondary market for financial assets and liabilities at fair value through profit or loss that are not traded in active markets. The fair values of the unlisted financial assets at fair value through profit or loss and unlisted debt investments at fair value through other comprehensive income were US\$14,874,022 (2022: US\$11,432,094) and US\$78,769,995 (2022: US\$83,756,350) respectively. Further details are included in notes 5 and 17 to the financial statements.

Leases – Estimating the incremental borrowing rate

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

Provision for expected credit losses on in-scope financial instruments under HKFRS 9

The Company uses an expected credit loss model to calculate ECLs for in-scope financial instruments under HKFRS 9. For other financial instruments, the provision rates are based on the estimated probability of default of companies with similar credit ratings, with adjustment to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The Company calibrates the model to adjust the expected credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the brokerage sector, the probability of default rates is adjusted. At each reporting date, the parameters are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among probability of default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Company's expected credit loss experience and forecast of economic conditions may also not be representative of the actual default in the future. The information about the ECLs on the Company's in-scope financial instruments are disclosed in notes 15, 16, 17 and 20 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Income taxes and deferred tax assets

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions and the amount of net deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

At 31 December 2023, net deferred tax assets of US\$246,464 (2022: US\$193,349) have been recognised in the Company's statement of financial position in respect of the accelerated tax depreciation, expected credit loss allowances, changes of fair value of financial assets at fair value through other comprehensive income.

4. CAPITAL MANAGEMENT

The Company has adopted a policy of maintaining a strong capital base to:

- comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance; and
- support the Company's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted assets, has remained well above the statutory minimum ratio.

Capital adequacy position and the use of regulatory capital are monitored closely by management of the Company, employing techniques based on the Banking (Capital) Rules.

The Company has an established capital planning process to assess the adequacy of its capital to support current and future activities. The process states the Company's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan.

The Company has complied with the capital requirements imposed by the Banking (Capital) Rules throughout the years ended 31 December 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	2023 US\$	2022 US\$
Financial assets		
<i>Financial assets at fair value through profit or loss</i>	14,874,022	11,432,094
<i>Financial assets at fair value through other comprehensive Income</i>		
- Debt investments at fair value through other comprehensive income	184,616,767	193,481,340
<i>Financial assets at amortised cost</i>		
- Cash	384	385
- Bank balances with banks and other financial institutions	2,990,769	9,480,529
- Placements with banks	-	5,968,801
- Loans and advances to customers	289,081,843	248,198,457
- Financial assets included in other assets	286,397	268,926
	<u>491,850,182</u>	<u>468,830,532</u>
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
- Loans due to banks and other financial institutions	344,091,025	334,946,921
- Financial liabilities included in other payables and accruals	529,878	578,620
- Lease liabilities	2,148,965	1,274,804
	<u>346,769,868</u>	<u>336,800,345</u>

The risks associated with these financial instruments include market risk (price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk arising in its normal course of business. The policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Price risk

Price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices. The Company's exposure to price risk through its financial assets at fair value through profit or loss as disclosed in note 17 to the financial statements is considered not significant.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set at the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

The following table summarises the Company's exposure to interest rate risk. Included in the table are the Company's assets and liabilities, including non-financial assets and liabilities, at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Weighted average effective interest rate %	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Non-interest bearing US\$	Total US\$
At 31 December 2023						
<u>Financial assets</u>						
Cash	-	-	-	-	384	384
Bank balances with banks and other financial institutions	-	2,990,769	-	-	-	2,990,769
Placements with banks	-	-	-	-	-	-
Loans and advances to customers	7.56	257,699,037	29,441,565	-	1,941,241	289,081,843
Debt investments at fair value through other comprehensive income	6.41	183,476,662	-	-	1,140,105	184,616,767
Financial assets at fair value through profit or loss	-	-	-	-	14,874,022	14,874,022
Financial assets included in other assets	-	-	-	-	286,397	286,397
Total financial assets		444,166,468	29,441,565	-	18,242,149	491,850,182
<u>Financial liabilities</u>						
Loans due to banks and other financial institutions	5.74	329,180,682	12,500,000	-	2,410,343	344,091,025
Financial liabilities included in other payables and accruals	-	-	-	-	529,878	529,878
Lease liabilities	5.15	227,087	594,285	1,327,593	-	2,148,965
Total financial liabilities		329,407,769	13,094,285	1,327,593	2,940,221	346,769,868
Total interest sensitivity gap		114,758,699	16,347,280	(1,327,593)	15,301,928	145,080,314
At 31 December 2022						
<u>Financial assets</u>						
Cash	-	-	-	-	385	385
Bank balances with banks and other financial institutions	-	9,480,529	-	-	-	9,480,529
Placements with banks	1.01	5,956,686	-	-	12,115	5,968,801
Loans and advances to customers	5.31	204,434,124	42,370,766	-	1,393,567	248,198,457
Debt investments at fair value through other comprehensive income	5.34	192,519,056	-	-	962,284	193,481,340
Financial assets at fair value through profit or loss	-	-	-	-	11,432,094	11,432,094
Financial assets included in other assets	-	-	-	-	268,926	268,926
Total financial assets		412,390,395	42,370,766	-	14,069,371	468,830,532
<u>Financial liabilities</u>						
Loans due to banks and other financial institutions	4.62	299,497,997	33,864,301	-	1,584,623	334,946,921
Financial liabilities included in other payables and accruals	-	-	-	-	578,620	578,620
Lease liabilities	2.14	267,625	774,297	232,882	-	1,274,804
Total financial liabilities		299,765,622	34,638,598	232,882	2,163,243	336,800,345
Total interest sensitivity gap		112,624,773	7,732,168	(232,882)	11,906,128	132,030,187

Management of the Company considers that the Company is not subject to significant level of fair value interest rate risk due to fluctuations in the prevailing market interest rates since the Company mainly invests in investments bearing interest at floating rates.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

The Company is exposed to cash flow interest rate risk in relation to debt investments at fair value through other comprehensive income which were floating rate debt securities and other financial assets and liabilities bearing interest at floating rates (except the cash and balances with banks and other financial institutions as disclosed below).

The cash and balances with banks and other financial institutions of the Company are entered into based on short-term market interest rates and are therefore exposed to minimal interest rate risk on cash and balances with banks and other financial institutions.

The sensitivity analyses for cash flow interest rate risk have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables being held constant, the Company's profit after tax would have increased/decreased by US\$444,822 (2022: US\$423,538).

Foreign currency risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial assets/liabilities and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

As the financial assets and liabilities of the Company are mainly denominated in the functional currency of the Company or Hong Kong dollars ("HK\$"), the Company is not exposed to significant currency risk. No material fluctuation is expected in view of the HK\$ being pegged to the US\$. Accordingly, no sensitivity analysis has been presented on foreign currency risk.

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is managed by taking into account the strategy and performance goals set by management of the Company to ensure stability, profitability and liquidity while adopting best practices in risk management, and complying with the Banking Ordinance, guidelines issued by the Hong Kong Monetary Authority and other statutory requirements.

The Company's credit approval process is in such a way that when a transaction is initiated by a front office staff and discussed with the Head of Business Support Unit, it is then pre-screened by the Credit Committee of the Company before conducting further assessment of the credit by the front office and Risk Management Department. After the pre-screen process, a transaction memo will be submitted to the Parent Bank's Credit Department to obtain consent for the transaction. After obtaining the Parent Bank's consent for the transaction, the credit application will be submitted to the Company's Credit Committee or Board of Directors for final approval. Documentation and compliance review of the terms and conditions of the loan agreements will then be followed.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Head of Risk Management reviews the respective outstanding amounts on an annual basis to ensure that adequate impairment losses are made for irrecoverable amounts. Exposure to credit risk arising from loans and advances to customers is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits, where appropriate. Exposure to credit risk is also managed in part by obtaining guarantees and by creating charges over collateral.

The Company uses a credit performance classification system, similar to that required by the Hong Kong Monetary Authority, to assess the likelihood of default by the customers. Except for a loan to one customer as at 31 December 2023 which is classified as doubtful, all other loans and advances to customers are classified as pass as at 31 December 2023 and 2022.

The carrying amounts of financial assets recorded in the statement of financial position, net of any impairment losses, and the loan commitments are set out in notes 15, 16, 17 and 20 to the financial statements respectively, and they represent the Company's maximum exposures to credit risk without taking account of the value of any collateral obtained:

Maximum exposures and year-end staging as at 31 December 2023

	12-month	Lifetime ECLs		US\$
	Stage 1	Stage 2	Stage 3	
	US\$	US\$	US\$	
Cash	384	-	-	384
Bank balances with banks and other financial institutions	2,990,769	-	-	2,990,769
Placements with banks	-	-	-	-
Loans and advances to customers	284,526,219	-	4,555,624	289,081,843
Debt investments at fair value through other comprehensive income	184,616,767	-	-	184,616,767
Financial assets included in other assets	286,397	-	-	286,397
	<u>472,420,536</u>	<u>-</u>	<u>4,555,624</u>	<u>476,976,160</u>

Maximum exposures and year-end staging as at 31 December 2022

	12-month	Lifetime ECLs		US\$
	Stage 1	Stage 2	Stage 3	
	US\$	US\$	US\$	
Cash	385	-	-	385
Bank balances with banks and other financial institutions	9,480,529	-	-	9,480,529
Placements with banks	5,968,801	-	-	5,968,801
Loans and advances to customers	243,227,425	-	4,971,032	248,198,457
Debt investments at fair value through other comprehensive income	193,481,340	-	-	193,481,340
Financial assets included in other assets	268,926	-	-	268,926
	<u>452,427,406</u>	<u>-</u>	<u>4,971,032</u>	<u>457,398,438</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Company holds collateral against loans and advances to customers primarily in the form of charges over vessels and guarantees. Credit risk exposures relating to off-balance sheet items are as follows:

	2023 US\$	2022 US\$
Loan commitments	<u>18,287,777</u>	<u>856,845</u>

Credit risk arising from liquid funds (including balances with banks and other financial institutions) and debt investments at fair value through other comprehensive income is limited because the counterparties have high credit ratings assigned by international credit-rating agencies. As at 31 December 2023 and 2022, no bank balances and debt securities are impaired.

As at 31 December 2023 and 2022, the majority of debt investments measured at fair value through other comprehensive income, that were neither past due nor impaired, held by the Company by rating agency designation at the end of the reporting period, based on ratings of Moody's Investors Service are rated from A2 to A1 (2022: Baa1 to A1).

As at 31 December 2023, the concentration of credit risk is such that the loans and advances to customers were due from 29 counterparties (2022: 25 counterparties). Furthermore, the majority of bank balances and placements are from 3 counterparties (2022: 4 counterparties).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Company's geographical concentration of on-balance sheet financial assets with credit exposure is summarised below:

	Hong Kong US\$	Korea US\$	Asia Pacific (excluding Hong Kong and Korea) US\$	Europe US\$	Middle East US\$	Caribbean US\$	United States US\$	Others US\$	Total US\$
At 31 December 2023									
<u>Financial assets</u>									
Cash	384	-	-	-	-	-	-	-	384
Bank balances with banks and other financial institutions	2,988,802	-	-	1,967	-	-	-	-	2,990,769
Placements with banks	-	-	-	-	-	-	-	-	-
Loans and advances to customers	15,574,770	30,214,359	74,775,672	68,901,541	16,153,738	10,110,791	70,339,566	7,235,532	293,305,969
Debt investments at fair value through other comprehensive income	-	179,595,200	-	-	5,021,567	-	-	-	184,616,767
Financial assets included in other assets	286,397	-	-	-	-	-	-	-	286,397
Total financial assets	18,850,353	209,809,559	74,775,672	68,903,508	21,175,305	10,110,791	70,339,566	7,235,532	481,200,286

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

At 31 December 2022

	Hong Kong US\$	Korea US\$	Asia Pacific (excluding Hong Kong and Korea) US\$	Europe US\$	Middle East US\$	Caribbean US\$	United States US\$	Others US\$	Total US\$
<u>Financial assets</u>									
Cash	385	-	-	-	-	-	-	-	385
Bank balances with banks and other financial institutions	8,382,382	-	-	1,098,147	-	-	-	-	9,480,529
Placements with banks	5,972,352	-	-	-	-	-	-	-	5,972,352
Loans and advances to customers	27,505,567	30,182,090	65,561,291	89,073,416	17,979,951	13,294,838	-	7,834,577	251,431,730
Debt investments at fair value through other comprehensive income	-	173,378,245	-	-	10,039,265	10,063,830	-	-	193,481,340
Financial assets included in other assets	268,926	-	-	-	-	-	-	-	268,926
Total financial assets	42,129,612	203,560,335	65,561,291	90,171,563	28,019,216	23,358,668	-	7,834,577	460,635,262

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

The Company is exposed to call on its available cash resources from maturing deposits of customers and loans from banks. Limits are set on the minimum proportion of maturing funds available to meet such calls.

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date based on their contractual undiscounted cash flows:

	Repayable on demand US\$	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	Undated US\$	Undiscounted cash flows US\$	Carrying amount US\$
At 31 December 2023								
<u>Financial assets</u>								
Cash	384	-	-	-	-	-	384	384
Bank balances with banks and other financial institutions	2,990,769	-	-	-	-	-	2,990,769	2,990,769
Placements with banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	15,791,837	23,310,428	194,685,146	59,719,283	-	293,506,694	289,081,843
Debt investments at fair value through other comprehensive income	-	14,996,256	75,600,000	95,000,000	-	-	185,596,256	184,616,767
Financial assets at fair value through profit or loss	-	-	-	6,752,877	8,121,145	-	14,874,022	14,874,022
Financial assets included in other assets	-	-	-	286,397	-	-	286,397	286,397
Total financial assets	2,991,153	30,788,093	98,910,428	296,724,420	67,840,428	-	497,254,522	491,850,182
<u>Financial liabilities</u>								
Loans due to banks and other financial institutions	-	97,934,483	248,507,950	-	-	-	346,442,433	344,091,025
Financial liabilities included in other payables and accruals	-	18,900	510,978	-	-	-	529,878	529,878
Lease liabilities	-	239,598	660,903	1,400,290	-	-	2,300,791	2,148,965
Total financial liabilities	-	98,192,981	249,679,831	1,400,290	-	-	349,273,102	346,769,868
Net liquidity gap	2,991,153	(67,404,888)	(150,769,403)	295,324,130	67,840,428	-	147,981,420	145,080,314

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NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Repayable on demand US\$	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	Undated US\$	Undiscounted cash flows US\$	Carrying amount US\$
At 31 December 2023 (continued)								
<u>Financial liabilities (continued)</u>								
Loan commitments	-	-	3,842,975	8,265,233	6,179,569	-	18,287,777	18,287,777
Other commitments	-	-	-	2,252,544	7,246,198	-	9,498,742	9,489,742
At 31 December 2022								
<u>Financial assets</u>								
Cash	385	-	-	-	-	-	385	385
Bank balances with banks and other financial institutions	9,480,529	-	-	-	-	-	9,480,529	9,480,529
Placements with banks	-	6,005,567	-	-	-	-	6,005,567	5,968,801
Loans and advances to customers	-	5,632,874	17,963,905	182,185,253	45,951,644	-	251,733,676	248,188,457
Debt investments at fair value through other comprehensive income	-	12,603,571	41,000,000	141,600,000	-	-	195,203,571	193,481,340
Financial assets at fair value through profit or loss	-	-	-	1,359,007	10,073,087	-	11,432,094	11,432,094
Financial assets included in other assets	-	-	-	268,926	-	-	268,926	268,926
Total financial assets	9,480,914	24,242,012	58,963,905	325,413,186	56,024,731	-	474,124,748	468,830,532
<u>Financial liabilities</u>								
Loans due to banks and other financial institutions	-	127,497,063	190,896,530	9,000,000	10,000,000	-	337,393,593	334,946,921
Financial liabilities included in other payables and accruals	-	50,643	527,977	-	-	-	578,620	578,620
Lease liabilities	-	273,986	785,480	235,785	-	-	1,295,251	1,274,804
Total financial liabilities	-	127,821,692	192,209,987	9,235,785	10,000,000	-	339,267,464	336,800,345
Net liquidity gap	-	(103,579,680)	(133,246,082)	316,177,401	46,024,731	-	134,857,284	132,030,187

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

	Repayable on demand US\$	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	Undated US\$	Undiscounted cash flows US\$	Carrying amount US\$
At 31 December 2022 (continued)								
Financial liabilities (continued)								
Loan commitments				856,845			856,845	856,845
Other commitments				3,450,000	4,646,054		8,096,054	8,096,054

Matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to management of the Company. Nevertheless, mismatches might still occur due to the uncertainty in types and terms of transactions. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

As at 31 December 2023, there were negative net liquidity gaps shown for the period "repayable in up to 3 months" and "3-12 months" (2022: negative net liquidity gaps shown for the period "repayable in up to 3 months" and "3-12 months"). This is largely caused by the loans due to the Parent Bank. The Parent Bank has committed to continually provide financial support to meet the Company's financial obligations, this loan is expected to be renewed. Liquidity risk is therefore considered to be minimal.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.
- The fair value of unlisted investment funds at fair value through profit or loss was estimated using a net asset value valuation technique based on parameters that are not supported by observable market prices or rates.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

The fair values of these financial assets are based on quoted bid prices from dealers. The fair value hierarchy of financial assets and financial liabilities measured at fair value is as follows:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<u>31 December 2023</u>				
Financial assets at fair value through other comprehensive income:				
Debt investments	-	184,616,767	-	184,616,767
Financial assets at fair value through profit or loss:				
Investment funds	-	-	<u>14,874,022</u>	<u>14,874,022</u>
Total	<u>-</u>	<u>184,616,767</u>	<u>14,874,022</u>	<u>199,490,789</u>
<u>31 December 2022</u>				
Financial assets at fair value through other comprehensive income:				
Debt investments	-	193,481,340	-	193,481,340
Financial assets at fair value through profit or loss:				
Investment funds	-	-	<u>11,432,094</u>	<u>11,432,094</u>
Total	<u>-</u>	<u>193,481,340</u>	<u>11,432,094</u>	<u>204,913,434</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

During the years ended 31 December 2023 and 2022, there have been no transfers between Level 1 and Level 2. The movement of fair value measurement in Level 3 were as follows:

	Unlisted investment funds US\$
As at 1 January 2022	8,494,675
Purchases	2,640,738
Changes in fair value recognised in profit or loss	<u>296,681</u>
As at 31 December 2022 and 1 January 2023	11,432,094
Purchases	2,996,973
Changes in fair value recognised in profit or loss	<u>444,955</u>
As at 31 December 2023	<u><u>14,874,022</u></u>

The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10% of the net asset values.

	Effect on statement or profit or loss	
	Favourable	Unfavourable
	US\$	US\$
2023		
Assets		
Financial assets at fair value through profit or loss:		
Investment funds	<u>1,487,402</u>	<u>(1,487,402)</u>
2022		
Assets		
Financial assets at fair value through profit or loss:		
Investment funds	<u>1,143,209</u>	<u>(1,143,209)</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

6. INTEREST INCOME AND INTEREST EXPENSES

	2023 US\$	2022 US\$
Interest income arising from:		
Balances with Parent Bank and other financial institutions	375	482
Placements with Parent Bank and other financial institutions	201,964	99,537
Loans and advances to customers	19,471,193	9,931,125
Debt investments at fair value through other comprehensive income	<u>11,776,904</u>	<u>5,659,431</u>
	<u>31,450,436</u>	<u>15,690,575</u>
Interest expenses for financial liabilities not designated at fair value through profit or loss:		
Loans due to banks and other financial institutions	18,493,336	6,912,967
Lease liabilities (note 13)	<u>25,196</u>	<u>28,501</u>
	<u>18,518,532</u>	<u>6,941,468</u>

All interest income derived from financial assets was calculated using effective interest rate method. Interest income of US\$55,899 was recognised during the year on impaired loans and advances (2022: US\$66,111).

7. FEE INCOME

	2023 US\$	2022 US\$
<i>Revenue from contracts with customers</i>		
Management, commitment, arrangement and participation fees	<u>5,309,549</u>	<u>3,802,624</u>

The performance obligation is satisfied and the income is recognised at a point in time upon the Company has rendered the service to a customer. The contracts provide the Company the present right of payment and the collection of the consideration is probable.

8. NET TRADING INCOME

	2023 US\$	2022 US\$
Net fair value changes on financial assets at fair value through profit or loss	444,955	296,681
Dividend income	<u>515,610</u>	<u>354,325</u>
	<u>960,565</u>	<u>651,006</u>

The financial assets at fair value through profit or loss include unlisted investment funds.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

9. STAFF COSTS

Staff costs, together with directors' remuneration for the year disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2023 US\$	2022 US\$
Employees' remuneration		
- benefits and compensation	1,548,362	1,392,358
- contributions to retirement benefits scheme	58,832	53,589
Directors' remuneration		
- fee	51,133	51,085
- salaries, allowances and benefits in kind	277,232	258,323
	<u>1,935,559</u>	<u>1,755,355</u>

10. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging/(crediting):

	2023 US\$	2022 US\$
Premises and equipment expenses		
- Lease payments not included in the measurement of lease liabilities	45,500	-
- Depreciation of property and equipment (note 13)	30,252	38,979
- Depreciation of right-of-use assets (note 13)	1,058,667	1,086,091
Auditors' remuneration	74,929	63,690
Charge/(write-back) of impairment allowance, net:		
- Placements with banks	(3,551)	(23,087)
- Loans and advances to customers	990,853	(178,262)
- Debt investments at fair value through other comprehensive income	55,201	(8,537)
- Loan commitments	20,585	61
Foreign exchange differences, net	<u>(4,359)</u>	<u>98,057</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 8.25% for the first HK\$2 million and 16.5% for over HK\$2 million (2022: 8.25% for the first HK\$2 million and 16.5% for over HK\$2 million) on the estimated assessable profits arising in Hong Kong during the year:

	2023 US\$	2022 US\$
Current – Hong Kong		
Charge for the year	2,341,666	1,416,169
Under/(over) provision in prior years	34,709	(111,866)
Current – Overseas		
Withholding tax	449,812	34,270
Deferred tax charge (note 12)	<u>(211,031)</u>	<u>(20,045)</u>
Total tax charge for the year	<u>2,615,156</u>	<u>1,318,528</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as below:

	2023 US\$	2022 US\$
Profit before tax	<u>13,676,283</u>	<u>9,168,276</u>
Tax at the statutory income tax rate of 16.5% (2022: 16.5%)	2,256,587	1,512,766
Tax effect of first HK\$2,000,000 assessable profits taxed at 8.25%	(21,067)	(21,164)
Under/(over) provision in prior years	34,709	(111,865)
Income not subject to tax	(85,076)	(58,464)
Expenses not deductible for tax	19,558	6,849
Temporary differences not recognised	-	(43,864)
Tax credit claim on withholding tax paid	(39,367)	-
Foreign withholding tax	<u>449,812</u>	<u>34,270</u>
Tax expense at the Company's effective rate of 19.12% (2022: 14.38%)	<u>2,615,156</u>	<u>1,318,528</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

12. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets/(liabilities)

	Accelerated tax depreciation US\$	Expected credit loss allowances US\$	Fair value adjustments of debt investments at fair value through other comprehensive income US\$	Total US\$
At 1 January 2022	19,311	73,592	(18,079)	74,824
Deferred tax credited to the statement of profit or loss during the year (note 11)	3,805	16,240	-	20,045
Deferred tax recognised in other comprehensive income during the year	-	-	98,480	98,480
At 31 December 2022 and 1 January 2023	23,116	89,832	80,401	193,349
Deferred tax credited to the statement of profit or loss during the year (note 11)	(4,590)	215,621	-	211,031
Deferred tax recognised in other comprehensive income during the year	-	-	(157,916)	(157,916)
At 31 December 2023	<u>18,526</u>	<u>305,453</u>	<u>(77,515)</u>	<u>246,464</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. PROPERTY AND EQUIPMENT AND LEASES

	Right-of-use assets				Owned assets				Total US\$
	Buildings US\$	and Office Equipment US\$	Motor Vehicles US\$	Total US\$	Leasehold Improvement US\$	Furniture and Fixtures US\$	Office Equipment US\$	Computer Equipment US\$	
Cost:									
At 1 January 2022	4,805,112	17,583	123,237	4,945,932	356,563	33,726	13,821	586,461	990,571
Additions	640,549	4,204	108,360	753,113	-	-	715	1,238	1,953
Disposals	(64,319)	-	(5,211)	(69,530)	-	-	-	-	-
Exchange difference	3,389	33	5,935	9,357	-	-	-	7	7
At 31 December 2022 and 1 January 2023	5,384,731	21,820	232,321	5,638,872	356,563	33,726	14,536	587,706	992,531
Additions	433,044	4,569	-	437,613	-	-	-	43,977	43,977
Lease modification	1,698,757	-	-	1,698,757	-	-	-	-	-
Disposals	(204,641)	-	-	(204,641)	-	(41)	(1,223)	(10,189)	(11,453)
Exchange difference	(9,806)	(34)	(5,690)	(15,530)	-	-	-	(105)	(105)
At 31 December 2023	7,302,085	26,355	226,631	7,555,071	356,563	33,685	13,313	621,389	1,024,950
Accumulated depreciation:									
At 1 January 2022	3,146,781	15,020	99,550	3,261,351	353,432	32,747	2,636	527,543	916,358
Charge for the year	1,049,617	3,606	32,868	1,086,091	3,131	286	3,883	31,679	38,979
Exchange difference	16,492	19	(5,813)	10,698	-	-	-	-	-
At 31 December 2022 and 1 January 2023	4,212,890	18,645	126,605	4,358,140	356,563	33,033	6,519	559,222	955,337
Charge for the year	1,017,768	4,687	36,212	1,058,667	-	287	3,936	26,029	30,252
Written back on disposals	-	-	-	-	-	(41)	(1,223)	(10,189)	(11,453)
Exchange difference	(16,801)	(29)	5,869	(10,961)	-	-	1	(73)	(72)
At 31 December 2023	5,213,857	23,303	168,686	5,405,846	356,563	33,279	9,233	574,989	974,064
Net carrying amount:									
At 31 December 2023	2,088,228	3,052	57,945	2,149,225	-	406	4,080	46,400	50,886
At 31 December 2022	1,171,841	3,175	105,716	1,280,732	-	693	8,017	28,485	37,194

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. PROPERTY AND EQUIPMENT AND LEASES (continued)

Notes:

- (a) The Company's right of use of buildings represents the Hong Kong office held for own use. The premise is held on a medium-term lease expiring on 31 January 2027.
- (b) The Company leases certain of its office equipment used in its operations. Leases for these assets are negotiated for terms ranging from two to three years with no extension or termination options and all the lease payments are fixed.

The maturity analysis of lease liabilities is disclosed in note 5 to the financial statements.

Movements of carrying amounts of lease liabilities for the year ended 31 December 2023 and 2022

	2023 US\$	2022 US\$
At beginning of year	1,274,804	1,671,115
New leases	437,613	753,113
Lease modification	1,698,757	-
Accretion of interest	25,196	28,501
Remeasurement	(204,641)	(69,530)
Payment	(1,078,167)	(1,107,064)
Exchange difference	(4,597)	(1,331)
	<u>2,148,965</u>	<u>1,274,804</u>
At end of year		
Current	<u>821,372</u>	<u>1,041,922</u>
Non-current	<u>1,327,593</u>	<u>232,882</u>

The weighted average incremental borrowing rate applied to the lease liabilities recognised at 31 December 2023 was 5.15% (2022: 2.14%).

Amounts recognised in the statement of profit or loss for the year ended 31 December 2023 and 2022

	2023 US\$	2022 US\$
Depreciation expense of right-of-use assets	1,058,667	1,086,091
Interest expense on lease liabilities	25,196	28,501
	<u>1,083,863</u>	<u>1,114,592</u>
Total		

The Company had total cash outflows for leases of US\$1,078,167 in 2023 (2022: US\$1,107,064).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. LOANS TO DIRECTORS

The Company did not make any loans to directors during the years ended 31 December 2023 and 2022, which are required to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation.

15. PLACEMENTS WITH BANKS

	2023 US\$	2022 US\$
Placements with banks	-	5,972,352
Less: impairment allowance	<u>-</u>	<u>(3,551)</u>
	<u>-</u>	<u>5,968,801</u>

During the years ended 31 December 2023 and 2022, the movements in the impairment allowance for placements with banks with maturity less than three months are as follows:

	2023 US\$	2022 US\$
Balance as at 1 January	3,551	26,638
Write-back of impairment allowance, net	<u>(3,551)</u>	<u>(23,087)</u>
Balance as at 31 December	<u>-</u>	<u>3,551</u>

Provision for expected credit losses is assessed at each reporting date by considering the published credit ratings and probability of default of the banks. As at 31 December 2022, the probability of default was estimated to be 0.07% and the loss given default was estimated to be 80.35%.

16. LOANS AND ADVANCES TO CUSTOMERS

	2023 US\$	2022 US\$
Gross loans and advances to customers	293,305,969	251,431,730
Less: impairment allowance	<u>(4,224,126)</u>	<u>(3,233,273)</u>
	<u>289,081,843</u>	<u>248,198,457</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

16. LOANS AND ADVANCES TO CUSTOMERS (continued)

An analysis of changes in the gross amount of loans and advances to customers is as follow:

As at 31 December 2023

	12-month	Lifetime ECLs		US\$
	ECLs	Stage 2	Stage 3	
	Stage 1	US\$	US\$	
	US\$			
Gross loans and advances to customers as at 1 January	243,771,859	-	7,659,871	251,431,730
New financial assets originated	105,706,106	-	-	105,706,106
Financial assets that have been repaid	(63,100,516)	-	(731,351)	(63,831,867)
Gross loans and advances to customers as at 31 December	<u>286,377,449</u>	<u>-</u>	<u>6,928,520</u>	<u>293,305,969</u>

As at 31 December 2022

	12-month	Lifetime ECLs		US\$
	ECLs	Stage 2	Stage 3	
	Stage 1	US\$	US\$	
	US\$			
Gross loans and advances to customers as at 1 January	266,335,424	-	8,278,438	274,613,862
New financial assets originated	83,521,924	-	-	83,521,924
Financial assets that have been repaid	(106,085,489)	-	(618,567)	(106,704,056)
Gross loans and advances to customers as at 31 December	<u>243,771,859</u>	<u>-</u>	<u>7,659,871</u>	<u>251,431,730</u>

During the years ended 31 December 2023 and 2022, the movements in the impairment allowances for loans and advances to customers are as follows:

As at 31 December 2023

	12-month	Lifetime ECLs		US\$
	ECLs	Stage 2	Stage 3	
	Stage 1	US\$	US\$	
	US\$			
Balance as at 1 January	544,434	-	2,688,839	3,233,273
New loans/financing originated	1,449,625	-	-	1,449,625
Loans/financing derecognised or repaid during the year (other than write-offs)	(142,829)	-	(315,943)	(458,772)
	<u>1,851,230</u>	<u>-</u>	<u>2,372,896</u>	<u>4,224,126</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

16. LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December 2022

	12-month	Lifetime ECLs		US\$
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	
Balance as at 1 January	446,012	-	2,965,523	3,411,535
New loans/financing originated	326,493	-	-	326,493
Loans/financing derecognised or repaid during the year (other than write-offs)	<u>(228,071)</u>	<u>-</u>	<u>(276,684)</u>	<u>(504,755)</u>
	<u>544,434</u>	<u>-</u>	<u>2,688,839</u>	<u>3,233,273</u>

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2023, the probability of default applied ranged from 0.23% to 1.63% (2022: 0.07% to 1.63%) and the loss given default was estimated to be 82.46% (2022: 80.35%).

17. FINANCIAL INVESTMENTS

	2023 US\$	2022 US\$
Debt investments measured at fair value through other comprehensive income:		
- Debt securities, listed	105,846,772	109,724,990
- Debt securities, unlisted	<u>78,769,995</u>	<u>83,756,350</u>
	<u>184,616,767</u>	<u>193,481,340</u>
Financial assets at fair value through profit or loss:		
- Investment funds, unlisted	<u>14,874,022</u>	<u>11,432,094</u>

During the year, the net fair value loss in respect of the Company's financial investments measured at fair value through other comprehensive income amounted to US\$790,970 (2022: net gain of US\$536,538), of which US\$8,181 (2022: US\$37,102) was reclassified from other comprehensive income to profit or loss during the year.

During the years ended 31 December 2023 and 2022, the movements in the impairment allowance for financial investments measured at fair value through other comprehensive income are as follows:

	2023 US\$	2022 US\$
Balance as at 1 January	49,340	57,877
Charge for/(write-back of) impairment allowance, net	<u>55,201</u>	<u>(8,537)</u>
Balance as at 31 December	<u>104,541</u>	<u>49,340</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

17. FINANCIAL INVESTMENTS (continued)

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2023, the probability of default applied was 0.069% (2022: 0.03% to 0.063%) and the loss given default was estimated to be 82.46% (2022: 80.35%).

18. OTHER PAYABLES AND ACCRUALS

	2023 US\$	2022 US\$
Other payables	620,038	673,401
Provision for reinstatement cost	<u>92,169</u>	<u>92,351</u>
	<u>712,207</u>	<u>765,752</u>

19. SHARE CAPITAL

	2023 US\$	2022 US\$
Issued and fully paid:		
78,000,000 (2022: 78,000,000) ordinary shares	<u>100,000,000</u>	<u>100,000,000</u>

20. OFF-BALANCE SHEET EXPOSURES

Loan and other commitments

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

	2023 US\$	2022 US\$
Loan commitments		
- Within one year	3,842,975	-
- Two to five years	<u>14,444,802</u>	<u>856,845</u>
Other commitments		
- Two to five years	2,252,544	-
- More than five years	<u>7,246,198</u>	<u>8,096,054</u>
Credit risk weighted amount	<u>17,489,738</u>	<u>8,524,476</u>

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

20. OFF-BALANCE SHEET EXPOSURES (continued)

Loan and other commitments (continued)

During the years ended 31 December 2023 and 2022, the movements in the impairment allowance for loan commitments are as follows:

	2023 US\$	2022 US\$
Balance as at 1 January	702	641
Charge for impairment allowance, net	<u>20,585</u>	<u>61</u>
Balance as at 31 December	<u><u>21,287</u></u>	<u><u>702</u></u>

Provision for expected credit losses is assessed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2023, the probability of default applied ranged from 0.23% to 1.63% (2022: 0.51%) and the loss given default was estimated to be 82.46% (2022: 80.35%).

21. REGULATORY RESERVE

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through reserves and in consultation with the Hong Kong Monetary Authority.

22. RELATED PARTY TRANSACTIONS

During the year, the Company entered into transactions with the Parent Bank in the ordinary course of its business. In the opinion of the directors, the transactions, other than the guarantee from the Parent Bank which is unconditional and provided at no cost, were conducted on an arm's length basis. Transactions entered into by the Company during the year and balances with the Parent Bank as at 31 December 2023 and 2022 were as follows:

Balances with the Parent Bank

	2023 US\$	2022 US\$
Bank balances with the Parent Bank	2,978,946	9,468,278
Loans due to the Parent Bank	323,957,070	334,946,921
Service fee payable to the Parent Bank	17,752	24,000
Guarantee from the Parent Bank as collateral for certain loan and investment exposures	<u><u>14,211,813</u></u>	<u><u>15,728,457</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

22. RELATED PARTY TRANSACTIONS (continued)

Transactions with the Parent Bank

	2023 US\$	2022 US\$
Interest income	2,480	44,116
Interest expenses	17,413,055	6,604,550
Service fee expenses	17,752	24,000
Royalty fee expenses	39,778	25,642
	<u>39,778</u>	<u>25,642</u>

Compensation of key management personnel (note 9)

	2023 US\$	2022 US\$
Directors' remuneration:		
- Fee	51,133	51,085
- Salaries, allowances and benefits in kind	277,232	258,323
	<u>277,232</u>	<u>258,323</u>
Total compensation paid to key management personnel	<u>328,365</u>	<u>309,408</u>

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2024.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

31 December 2023

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

A. Corporate governance

The Company is an Authorised Institution incorporated in Hong Kong and is under the supervision of the Hong Kong Monetary Authority (the "HKMA"). The Company is in compliance with the principles and best practices in corporate governance as well as with the guidelines in the Supervisory Policy Manual ("SPM") as set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA. Accordingly, the Company has set up specialised committees with clear terms of reference and specific authorities delegated by its board of directors.

Specialised committees

The board of directors of the Company (the "Board") is constituted in accordance with the Company's Articles of Association and is the ultimate governing body. In order to ensure that matters arising during meetings of the Board are handled properly and timely, the Board delegates the day-to-day supervision of major functional areas to the following specialised committees. These committees are established with clearly defined objectives, authorities, responsibilities and tenure. Written terms of reference are approved by the Board and are updated as appropriate.

(i) The Asset and Liability Committee ("ALCO")

ALCO takes the responsibility to oversee the Company's operations relating to interest rate risk and liquidity risk to ensure that the structure of the Company's business and the level of the balance sheet risk it assumes are effectively managed, and that resources are available to control interest rate/liquidity risks and meet its obligations.

Members of ALCO consist of 1) Chief Executive Officer ("CEO"), 2) Head of Business Support Unit ("BSU"), 3) Treasurer and 4) Head of Risk Management.

(ii) Credit Committee

Credit Committee takes the responsibility for the approval of loan applications and monitors the quality of the Company's credit portfolio. Loans in excess of 10% of the capital base of the Company require approval by the Board.

Members of the Credit Committee consist of 1) CEO, 2) Head of BSU and 3) Head of Risk Management department. The Credit Committee meets on an as-needed basis.

(iii) Investment Committee

Investment Committee takes the role and responsibility in respect of approval of investment decisions. The function of setting investment policy remains with the Board.

Members of the Investment Committee consist of 1) CEO, 2) Head of BSU, 3) Treasurer, 4) Head of Risk Management and 5) various department heads.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

A. Corporate governance (continued)

Internal audit

The internal auditor is responsible for:

- Reviewing operating procedures to ensure that the Company incorporates adequate controls and complies with the regulations of the internal audit of the Parent Bank and the guidelines provided by the HKMA;
- Reporting any findings that might seriously affect the Company's sound operations directly to the Managing Director of the Company or the Auditing Office of the Parent Bank at any time whenever it is deemed necessary by him or her at his or her sole discretion; and
- Reviewing and testing operations regularly to ensure that internal controls are functioning properly.

B. Risk management

The Company has established policies and procedures for the control and monitoring of credit, liquidity, capital and market risks, which are reviewed regularly by the Management, Risk Management department and Credit Committee.

(i) Liquidity risk management

Disclosure on liquidity risk management of the Company can be found in the Pillar 3 regulatory disclosure located on the website of Company's parent bank specified in note H.

(ii) Capital management

The Company's policy, as reviewed by management, is to maintain a strong capital base to support the development of the Company's business and to meet the statutory capital adequacy ratio. As disclosed in Section D, the Company's total capital ratio of 27.69% as of 31 December 2023 (2022: 28.61%) is above the statutory minimum ratio of 8%.

Capital is allocated to various activities of the Company depending on the risk taken by each business division.

(iii) Market risk is the risk that interest rates, foreign exchange rates or equity prices will move relative to positions taken, causing profits or losses to the Company. Market risk arises on financial instruments which are valued at current market prices ("mark-to-market basis").

The Company executes transactions in the money market, foreign exchange market and capital markets, giving rise to market risk exposures.

The Company has established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly by the Parent Bank. Market risk is managed within various limits approved by the Parent Bank. Details of the Company's market risk management policies and measures are set out in note 5 to the financial statements.

The CEO, Head of BSU and Head of Risk Management oversee the exposure to market risk and ensure the policies procedures and controls are implemented.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

B. Risk management (continued)

(iv) Operational risk

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, system failure or from external events. It is inherent to every business organisation and covers a wide spectrum of issues.

The CEO, Head of BSU and Head of Risk Management manage operational risk through a control-based environment in which the processes and controls are documented, authorisation is independent and transactions are reconciled and monitored. The operational risk management framework comprises assignment of responsibilities at senior management level, assessment of risk factors inherent in each operational unit, information systems to record operational losses and analysis of loss events.

(v) Legal risk

Legal risk is the risk of loss arising from the uncertainty of legal proceedings. The Head of BSU and Head of Risk Management ensure the implementation of policies and procedures to minimise legal risk.

(vi) Credit risk

Details of the Company's credit risk management policies and measures are set out in note 5 to the financial statements.

(vii) Approval of new products

The Business Manager prepares a proposal of a new product and circulates to the relevant department heads for comment. All departments' comments and requirements will be incorporated in the proposal and signed off by each department head. This proposal will then be passed to the Head of BSU and CEO for their review and sign off for proceed to commence this new product. The Board of Directors will then endorse the new products and business lines.

(viii) Hedge accounting

Hedge accounting was not used in both years ended 31 December 2023 and 31 December 2022.

(ix) Derivative financial instruments

During the years ended 31 December 2023 and 31 December 2022, there were no derivative financial instruments held by the Company.

C. Segmental information

- (i) The principal operation of the Company is in Hong Kong. All income is derived from Hong Kong and the assets, liabilities, contingent liabilities and commitments are managed in Hong Kong.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

C. Segmental information (continued)

(ii) During the year, the operating revenue of the Company is contributed by two classes of business, which are commercial banking and securities dealing. A brief description of the activities of each reported class of business is as follows:

- Commercial banking - balance with banks and other financial institutions, advance of loans to customers and placement with banks. The operating income includes interest, management fee, commitment fee and participating fee from advance of loans to customers. All of the fee income disclosed in note 7 to the financial statements is also within this class of business.
- Securities dealing - holding of bond securities and private equity fund for an investment return and securities brokerage.

The following quantitative information represents each class of business's weight to the Company's revenue and total assets.

	Total operating income (net of interest expenses) before operating expenses and provisions		Operating assets	
	2023	2022	2023	2022
	US\$	US\$	US\$	US\$
Commercial banking	11,306,672	7,182,450	297,170,524	267,423,840
Securities dealing	<u>7,450,391</u>	<u>5,724,214</u>	<u>199,163,885</u>	<u>204,913,435</u>

(iii) Advances to customers - by industry sectors

	2023					
	Total loan to customer US\$	Loan covered by collateral US\$	Overdue and impaired loan to customer US\$	Specific provision US\$	Collective provision US\$	Provision charged to profit or loss US\$
Loans for use in Hong Kong						
- Loans to customers						
- finance companies and others	15,574,770	-	-	-	(102,185)	(129,307)
Loans for use outside Hong Kong						
- Loans to customers	<u>277,731,199</u>	<u>19,820,492</u>	<u>6,928,661</u>	<u>(2,372,896)</u>	<u>(1,749,045)</u>	<u>(861,545)</u>
Total	<u>293,305,969</u>	<u>19,820,492</u>	<u>6,928,661</u>	<u>(2,372,896)</u>	<u>(1,851,230)</u>	<u>(990,852)</u>
	2022					
	Total loan to customer US\$	Loan covered by collateral US\$	Overdue and impaired loan to customer US\$	Specific provision US\$	Collective provision US\$	Provision charged to profit or loss US\$
Loans for use in Hong Kong						
- Loans to customers						
- finance companies and others	17,342,385	-	-	-	27,122	(98,422)
Loans for use outside Hong Kong						
- Loans to customers	<u>234,089,345</u>	<u>19,206,820</u>	<u>7,660,064</u>	<u>2,688,839</u>	<u>(571,556)</u>	<u>276,684</u>
Total	<u>251,431,730</u>	<u>19,206,820</u>	<u>7,660,064</u>	<u>2,688,839</u>	<u>(544,434)</u>	<u>178,262</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

C. Segmental information (continued)

(iii) Advances to customers - by industry sectors (continued)

The analysis of advances to customers by industry sectors according to the usage of the loans and/or business activities of the borrowers is stated on a gross basis.

(iv) Advances to customers - by geographical areas

	2023			
	Total loans to customers US\$	Overdue and impaired loans to customers US\$	Specific provision US\$	Collective provision US\$
Korea	30,214,359	-	-	180,284
Hong Kong	15,574,770	-	-	102,185
Asia Pacific	74,775,672	6,928,661	2,372,896	414,953
Middle East	16,153,738	-	-	12,700
Caribbean	10,110,791	-	-	146,576
United States	70,339,566	-	-	463,079
Europe	68,901,541	-	-	531,453
Others	7,235,532	-	-	-
	<u>293,305,969</u>	<u>6,928,661</u>	<u>2,372,896</u>	<u>1,851,230</u>

% of total loans to customers 2.36%

Market value of collateral (in form of land,
building, machinery and complimentary)
held against impaired loans to customers 5,440,157

	2022			
	Total loans to customers US\$	Overdue and impaired loans to customers US\$	Specific provision US\$	Collective provision US\$
Korea	30,182,090	-	-	49,368
Hong Kong	27,505,567	-	-	27,122
Asia Pacific	65,561,291	7,660,064	2,688,839	146,628
Middle East	17,979,951	-	-	1,339
Caribbean	13,294,838	-	-	38,790
Europe	89,073,416	-	-	281,187
Others	7,834,577	-	-	-
	<u>251,431,730</u>	<u>7,660,064</u>	<u>2,688,839</u>	<u>544,434</u>

% of total loans to customers 3.05%

Market value of collateral (in form of land,
building, machinery and complimentary)
held against impaired loans to customers 5,356,263

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

C. Segmental information (continued)

(iv) Advances to customers - by geographical areas (continued)

The analysis of advances to customers by geographical areas after taking into account any risk transfers is stated on a gross basis. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

(v) Non-bank mainland exposures

	2023		Total US\$
	On-balance sheet exposure US\$	Off-balance sheet exposure US\$	
1. Central government, central government - owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government- owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,005,956	-	7,005,956
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	<u>7,005,956</u>	<u>-</u>	<u>7,005,956</u>
Total	<u>7,005,956</u>	<u>-</u>	<u>7,005,956</u>
Total assets after provision	494,269,739		
On-balance sheet exposures as percentage of total assets	1.42%		

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

C. Segmental information (continued)

(v) Non-bank mainland exposures (continued)

	2022		Total US\$
	On-balance sheet exposure US\$	Off-balance sheet exposure US\$	
1. Central government, central government - owned entities and their subsidiaries and joint ventures (JVs)	-	-	-
2. Local governments, local government- owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,659,233	-	19,659,233
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
	<u>19,659,233</u>	<u>-</u>	<u>19,659,233</u>
Total	<u>19,659,233</u>	<u>-</u>	<u>19,659,233</u>
Total assets after provision	470,428,921		
On-balance sheet exposures as percentage of total assets	4.18%		

The analysis of non-bank mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority Return of Mainland Activities.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

C. Segmental information (continued)

(vi) International claims

Counterparty country/jurisdiction	2023					Total claims US\$
	Banks US\$	Official Sector US\$	Non-bank private sector		Others US\$	
			Non-bank financial institutions US\$	Non-financial private sector US\$		
Developed countries	13,719	-	56,781,023	80,008,621	-	136,803,363
Offshore centres	-	-	9,371,268	55,318,772	-	64,690,040
- of which: Hong Kong	-	-	-	15,624,822	-	15,624,822
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	5,021,567	-	2,986,151	1,941,924	-	9,949,642
Developing Asia and Pacific	23,424,570	-	-	258,418,884	-	281,843,454
- of which: South Korea	2,976,978	-	-	231,325,988	-	234,302,966
- of which: China	72	-	-	72	-	144
Total	28,459,856	-	69,138,442	395,688,201	-	493,286,499

Counterparty country/jurisdiction	2022					Total claims US\$
	Banks US\$	Official Sector US\$	Non-bank private sector		Others US\$	
			Non-bank financial institutions US\$	Non-financial private sector US\$		
Developed countries	1,110,326	-	8,542,983	75,350,145	-	85,003,454
Offshore centres	-	-	10,068,130	73,611,914	-	83,680,044
- of which: Hong Kong	-	-	10,068,130	17,398,190	-	27,466,320
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	10,100,665	-	1,359,007	2,251,495	-	13,711,167
Developing Asia and Pacific	23,418,084	-	-	265,075,558	-	288,493,642
- of which: South Korea	8,370,131	-	-	227,215,037	-	235,585,168
- of which: China	5,972,423	-	-	16,159,010	-	22,131,433
Total	34,629,075	-	19,970,120	416,289,112	-	470,888,307

The information on international claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on overseas branch of a bank whose head office is located in another geographical area.

The above figures are disclosed according to the return of international banking statistics the Bank submitted to the HKMA pursuant to section 63 of the Banking Ordinance in respect of the reporting period.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

D. Capital adequacy ratio

	31 December 2023	31 December 2022
Common Equity Tier 1 Capital Ratio	27.11%	28.30%
Tier 1 Capital ratio	27.11%	28.30%
Total Capital Ratio	27.69%	28.61%

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules under the Banking Ordinance for the implementation of the "Basel III" Capital Accord. In accordance with the Banking (Capital) Rules, the Bank has adopted the "basic approach" for the calculation of the risk-weighted assets for credit risk and "basic indicator approach" for the calculation of operational risk.

E. Capital charge for credit, market and operational risks

The capital adequacy ratio as at 31 December 2023 is calculated in accordance with Banking (Capital) Rules under the Banking Ordinance for the implementation of "Basel III" Capital Accord, issued by the HKMA, which became effective on 1 January 2014. The Company uses the basic approach ("BSC approach") to calculate its credit risk. This disclosure is made by multiplying the Company's risk-weighted amount derived from the relevant calculation approach by 8%, not the Company's actual "regulatory capital". In addition, the Company uses the basic indicator approach ("BIA approach") to calculate its operational risk.

(i) Capital charge for credit risk

	Total risk weighted amount US\$'000	Capital requirement %	Capital requirements US\$'000
<u>In thousands of US\$</u>			
<u>As at 31 December 2023</u>			
On-balance sheet			
Public sector entity exposures	1,942	8	155
Bank exposures	28,910	8	2,313
Other exposures	452,723	8	36,218
Off-balance sheet			
Other commitments	<u>17,490</u>	8	<u>1,399</u>
	<u>501,065</u>		<u>40,085</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2022

E. Capital charge for credit, market and operational risks (continued)

(i) Capital charge for credit risk (continued)

	Total risk weighted amount US\$'000	Capital requirement %	Capital requirements US\$'000
<u>In thousands of US\$</u>			
<u>As at 31 December 2022</u>			
On-balance sheet			
Public sector entity exposures	2,252	8	180
Bank exposures	14,055	8	1,124
Other exposures	419,737	8	33,579
Off-balance sheet			
Other commitments	<u>8,524</u>	8	<u>682</u>
	<u>444,568</u>		<u>35,565</u>

(ii) Capital charge for market risk

The Company has an exemption from the calculation of market risk under section 22(1) of the Banking (Capital) Rules. However, the Company is required to provide details concerning market risk to the HKMA annually based on the position as at the end of the reporting period. The market risk capital charge set out below relates to net open positions of the Company's foreign exchange exposures of US\$ 780million as at 31 December 2023 (2022: US\$790 million). There is no other market risk exposure as at that date.

	2023 US\$'000	2022 US\$'000
Foreign exchange exposures	<u>7,980</u>	<u>8,008</u>
Capital charge for market risk	<u>7,980</u>	<u>8,008</u>

(iii) Capital charge for operational risk

	2023 US\$'000	2022 US\$'000
Capital charge for operational risk	<u>27,193</u>	<u>21,090</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

31 December 2023

F. Foreign currency exposure

The currency risk arising from the Company's operation for those individual currencies which each constitutes more than 10% of the total net position in all foreign currencies is as follows:

	2023 US\$ million	2022 US\$ million
Spot assets	498	469
Spot liabilities	<u>(398)</u>	<u>(369)</u>
Net structural position	<u>100</u>	<u>100</u>

G. Overdue and rescheduled assets

- (i) Except for a rescheduled loan to one customer of US\$6,927,326 (2022: US\$7,658,588) which was overdue for more than 1 year as at 31 December 2023, there were no other overdue and rescheduled loans and advances to customers or to banks and other financial institutions as at 31 December 2023 and 31 December 2022.
- (ii) There were no other assets, such as debt securities, which had been overdue as at 31 December 2023 and 31 December 2022.
- (iii) There were no repossessed of assets as at 31 December 2023 and 31 December 2022.

H. Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for this year which are prepared in accordance with the Banking (Disclosures) Rules and disclosures templates and tables issued by HKMA can be found under section "News & Notice" on the website of the Company's parent bank at https://go.wooribank.com/hk/hs/cc/HSCC300_01L.do

