

KEB HANA GLOBAL FINANCE LIMITED

Reports and Financial Statements
For the year ended 31 December 2023

KEB HANA GLOBAL FINANCE LIMITED

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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KEB HANA GLOBAL FINANCE LIMITED

REPORT OF THE DIRECTORS

The directors of KEB Hana Global Finance Limited (the "Company") present their report together with the audited financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company is a deposit-taking company registered under the Banking Ordinance in Hong Kong and a registered institution under the Securities and Futures Ordinance. It engages in the business of lending, deposit-taking, dealing in securities and brokerage business. There was no significant change in the nature of the Company's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2023 are set out in the statement of profit or loss and other comprehensive income on page 6.

The directors do not recommend the payment of a dividend for the year (2022: nil).

SHARE CAPITAL

Details of the Company's share capital are set out in note 18 to the financial statements. There was no movement in the share capital of the Company during the year.

DIRECTORS

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

Mr. Han Donghyun	
Mr. Lee Il Ro	(resigned on 18 March 2024)
Mr. Kwon Yong Dae	(resigned on 3 April 2024)
Mr. Park Youngmin	(appointed on 8 February 2023)
Mr. Ko Yung Ryul	(appointed on 25 April 2023 and resigned on 18 March 2024)
Mr. Kim Hyungsoo	(appointed on 3 April 2024)
Mr. Ro Kwang Kuk	(appointed on 30 May 2023)
Mr. Lee Jaehyen	(resigned on 8 February 2023)
Mr. Jeon Ho Jin	(resigned on 25 April 2023)
Mr. Seo Joong Gun	(resigned on 30 May 2023)

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

KEB HANA GLOBAL FINANCE LIMITED

MANAGEMENT CONTRACTS

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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 directors of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its specified undertakings.

BUSINESS REVIEW

No business review is presented for 2023 as the Company has been able to claim an exemption under section 388(3)(b) of the Hong Kong Companies Ordinance Cap 622 since it is a wholly-owned subsidiary of KEB Hana Bank, a limited company incorporated in the Republic of Korea.

DIRECTORS' INTERESTS IN CONTRACTS

No other contracts of significance to which the Company, or any of its holding companies or fellow subsidiaries, were a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

At no time during the financial year and up to the date of this report of the directors, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITORS

The financial statements for the year ended 31 December 2023 of the Company have been audited by Deloitte Touche Tohmatsu, who has been appointed as new auditor of the Company with a special resolution on 20 October 2023 upon the retirement of Ernst & Young. Deloitte Touche Tohmatsu will retire and offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board



Park Youngmin
DIRECTOR

Hong Kong
23 April 2024

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF KEB HANA GLOBAL FINANCE LIMITED

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of KEB Hana Global Finance Limited (the "Company") set out on pages 6 to 44, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory 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 ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the 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.

Other Matter

The financial statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 21 April 2023.

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF KEB HANA GLOBAL FINANCE LIMITED
(incorporated in Hong Kong with limited liability)

Other Information - continued

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

Responsibilities of Directors and Those Charged with Governance 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF KEB HANA GLOBAL FINANCE LIMITED
(incorporated in Hong Kong with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements - continued

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

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



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 April 2024

KEB HANA GLOBAL FINANCE LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>NOTES</u>	<u>2023</u> US\$	<u>2022</u> US\$
REVENUE			
Interest income	8	11,271,620	5,288,386
Interest expenses	8	(5,652,098)	(1,760,106)
Net interest income		5,619,522	3,528,280
Fee income	9	3,747,312	4,085,143
Total revenue		<u>9,366,834</u>	<u>7,613,423</u>
OPERATING EXPENSES			
Loss on disposal of debt investments at fair value through other comprehensive income		630	-
Charge (reversal) of expected credit losses on debt investments at fair value through other comprehensive income	14	100	(104)
Charge (reversal) of expected credit losses on loans and advances to customers	13	293,955	(17,580)
Staff costs	10	1,576,988	1,755,585
Other operating expenses		1,791,407	1,677,580
Total operating expenses		<u>3,663,080</u>	<u>3,415,481</u>
Profit before taxation		5,703,754	4,197,942
Income tax expense	12	(896,379)	(655,656)
Profit for the year	11	<u>4,807,375</u>	<u>3,542,286</u>
OTHER COMPREHENSIVE INCOME (EXPENSES)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain (loss) on debt investments at fair value through other comprehensive income		173,083	(235,560)
Reserve reclassified to profit or loss on disposal of debt investments measured at fair value through other comprehensive income		630	-
Charge (reversal) of expected credit loss on debt investments at fair value through other comprehensive income		100	(104)
Other comprehensive income (expenses) for the year		<u>173,813</u>	<u>(235,664)</u>
Total comprehensive income for the year		<u>4,981,188</u>	<u>3,306,622</u>

KEB HANA GLOBAL FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	<u>NOTES</u>	<u>2023</u> US\$	<u>2022</u> US\$
ASSETS			
Bank balances with the Parent Bank	21	1,104,020	248,397
Bank balances with other financial institutions		314,134	1,606,939
Loans and advances to customers	13	182,449,691	156,606,635
Debt investments at fair value through other comprehensive income	14	9,623,266	9,710,320
Property and equipment	15	151,448	274,595
Right-of-use assets	15	538,053	887,554
Intangible assets	16	254,963	254,963
Deferred tax assets	12	98,052	32,760
Prepayments and other receivables		222,444	215,363
Total assets		<u>194,756,071</u>	<u>169,837,526</u>
LIABILITIES			
Loans due to the Parent Bank	21	113,860,825	93,406,456
Lease liabilities	15	544,737	851,776
Provision for reinstatement costs	17	124,727	122,207
Accruals and other payables		183,434	181,007
Tax payable		454,787	669,707
Total liabilities		<u>115,168,510</u>	<u>95,231,153</u>
NET ASSETS		<u>79,587,561</u>	<u>74,606,373</u>
EQUITY			
Share capital	18	50,000,000	50,000,000
Reserves		29,587,561	24,606,373
TOTAL EQUITY		<u>79,587,561</u>	<u>74,606,373</u>

The financial statements on pages 6 to 44 were approved and authorised for issue by the Board of Directors on 23 April 2024 and are signed on its behalf by:



Park Youngmin
Director



Ro Kwang Kuk
Director

KEB HANA GLOBAL FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>Share capital</u> US\$	<u>Fair value reserve</u> US\$	<u>Retained profits</u> US\$	<u>Regulatory reserve</u> US\$ (note 19)	<u>Total</u> US\$
Balance at 1 January 2022	50,000,000	43,297	20,415,344	841,110	71,299,751
Profit for the year	-	-	3,542,286	-	3,542,286
Other comprehensive (expenses) income for the year:					
Fair value loss on debt investments at fair value through other comprehensive income	-	(235,560)	-	-	(235,560)
Reversal of expected credit loss on debt investments at fair value through other comprehensive income	-	(104)	-	-	(104)
Transfer to retained profits	-	-	64,001	(64,001)	-
Balance at 31 December 2022	50,000,000	(192,367)	24,021,631	777,109	74,606,373
Profit for the year	-	-	4,807,375	-	4,807,375
Other comprehensive income (expenses) for the year:					
Fair value gain on debt investments at fair value through other comprehensive income	-	173,083	-	-	173,083
Reserve reclassified to profit or loss on disposal of debt investments measured at fair value through other comprehensive income	-	630	-	-	630
Charge of expected credit loss on debt investments at fair value through other comprehensive income	-	100	-	-	100
Transfer to retained profits	-	-	105,115	(105,115)	-
Balance at 31 December 2023	50,000,000	(18,554)	28,934,121	671,994	79,587,561

KEB HANA GLOBAL FINANCE LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>NOTE</u>	<u>2023</u> US\$	<u>2022</u> US\$
OPERATING ACTIVITIES			
Profit before taxation		5,703,754	4,197,942
Adjustments for:			
Depreciation		852,024	840,525
Interest expenses on lease liabilities		10,981	6,510
Interest expenses on provision for reinstatement costs		2,520	2,475
Charge (reversal) of expected credit losses on debt investments at fair value through other comprehensive income		100	(104)
Charge (reversal) of expected credit losses on loans and advances to customers		293,955	(17,580)
Operating cash flows before movements in working capital		6,863,334	5,029,768
(Increase) decrease in gross loans and advances to customers		(26,137,011)	14,457,229
Decrease in debt investments at fair value through other comprehensive income		260,767	63,397
(Increase) decrease in prepayments and other receivables		(7,081)	74,317
Increase (decrease) in loans due to the Parent Bank		20,454,369	(19,008,674)
Increase in accruals and other payables		2,427	8,516
Cash generated from operations		1,436,805	624,553
Income taxes paid		(1,176,591)	-
NET CASH FROM OPERATING ACTIVITIES		<u>260,214</u>	<u>624,553</u>
INVESTING ACTIVITIES			
Purchase of property and equipment		(10,432)	(4,860)
NET CASH USED IN INVESTING ACTIVITIES		<u>(10,432)</u>	<u>(4,860)</u>
FINANCING ACTIVITIES			
Repayment of lease liabilities	15	(686,964)	(733,685)
NET CASH USED IN FINANCING ACTIVITIES		<u>(686,964)</u>	<u>(733,685)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(437,182)	(113,992)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>1,855,336</u>	<u>1,969,328</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by cash and bank balances		<u><u>1,418,154</u></u>	<u><u>1,855,336</u></u>

1. GENERAL INFORMATION

KEB Hana Global Finance Limited (the "Company") is a company incorporated in Hong Kong with limited liability. The Company's immediate holding company is KEB Hana Bank (the "Parent Bank"), a company incorporated in the Republic of Korea, and the ultimate holding company is Hana Financial Group Inc. The registered office of the Company is located at Unit 6203A, Level 62, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The Company is a deposit-taking company registered under the Banking Ordinance in Hong Kong and a registered institution under the Securities and Futures Ordinance. The Company principally engages in lending, deposit-taking, dealing in securities and brokerage business.

The financial statements are presented in US Dollars ("US\$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform - Pillar Two Model Rules

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Company's financial positions and performance for the current and prior years and/or on the disclosures set out in these financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Amendments to HKFRSs in issue but not yet effective

The Company has not early applied the following amendments to HKFRSs, which may be relevant to the Company, that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of these amendments to HKFRSs will have no material impact on the financial statements in the foreseeable future.

Application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") - Long Service Payment ("LSP") offsetting mechanism in Hong Kong

The Company operates in Hong Kong and is obliged to pay LSP to employees under certain circumstances. Meanwhile, the Company makes mandatory and voluntary MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "Abolition"). The Abolition will officially take effect on 1 May 2025 (the "Transition Date"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Amendments to HKFRSs in issue but not yet effective - continued

Application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") - Long Service Payment ("LSP") offsetting mechanism in Hong Kong - continued

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong.

The Company considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Company has been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19.

This application of the HKICPA guidance has had no material impact on the Company's financial positions and performance for the current and prior years and/or on the disclosures set out in the financial statements.

3. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

For the purposes of compliance with sections 379 and 380 of the Hong Kong Companies Ordinance (Cap. 622), the financial statements of the Company have been prepared to present a true and fair view of the financial position and financial performance of the Company. Consequently, the financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance (Cap. 622) that are relevant to the preparation of financial statements.

For the purpose of preparation of the financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users of the financial statements.

3. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION - continued

The directors of the Company have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

4. MATERIAL ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Revenue from contracts with customers

The Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

4. MATERIAL ACCOUNTING POLICIES - continued

Revenue from contracts with customers - continued

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

4. MATERIAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

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

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

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

(i) Amortised cost and interest income

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

(ii) Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of Fair Value reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

4. MATERIAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Company performs impairment assessment under expected credit loss ("ECL") model on financial assets (including bank balances, loans and advances to customers, debt instruments at FVTOCI and other receivables), and loan commitments which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the 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. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

4. MATERIAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(i) Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

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

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

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

(ii) Definition of default

For internal credit risk management, the Company considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collaterals held by the Company).

Irrespective of the above, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. MATERIAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Company uses a practical expedient in estimating ECL on loans and advances to customers using a provision matrix taking into consideration historical credit loss experience and forward looking information that is available without undue cost or effort.

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

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Company if the holder of the loan commitments draws down the loan, and the cash flows that the Company expects to receive if the loan is drawn down.

4. MATERIAL ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the Fair Value reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including loans due to Parent Bank, lease liabilities and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

4. MATERIAL ACCOUNTING POLICIES - continued

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.

The Company as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Company; and
- an estimate of costs to be incurred by the Company in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Company is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Company recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Company exercising an option to terminate the lease.

4. MATERIAL ACCOUNTING POLICIES - continued

Lease - continued

The Company as a lessee - continued

Lease liabilities - continued

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Company remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property and equipment are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation is calculated on a straight-line basis. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the unexpired term of the lease
Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. MATERIAL ACCOUNTING POLICIES - continued

Intangible assets

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

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

Impairment on property and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Company reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

4. MATERIAL ACCOUNTING POLICIES - continued

Impairment on property, plant and equipment, right-of-use assets and intangible assets - continued

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Company applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

4. MATERIAL ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Expenses

All expenses are accounted for on an accrual basis and are charged to the statement of profit or loss and other comprehensive income as incurred.

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. No accrual is made for the estimated liability for annual leave since no annual leave can be carried forward to the following year.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Bonus plans

The Company recognises a liability and an expense for bonuses which are determined on a discretionary basis taking into consideration the profit attributable to the Company's shareholder after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. For bonus plan with vesting period of more than twelve months after the reporting date, the Company estimates the amounts that are ultimately payable to the employees and amortise such amounts according to the specific terms and conditions of the bonus plan over the vesting period.

(iii) Pension obligations

The Company offers a mandatory provident fund scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all employees. Contributions to the scheme by the Company and employees are calculated as a percentage of employees' basic salaries.

The Company's contributions to the mandatory provident fund scheme are expensed as incurred. The assets of the scheme are held separately from those of the Company in an independently administered fund.

4. MATERIAL ACCOUNTING POLICIES - continued

Related parties

- (i) A person, or a close member of that person's family, is related to the Company if that person:
- has control or joint control over the Company;
 - has significant influence over the Company; or
 - is a member of the key management personnel of the Company or of a parent of the Company.
- (ii) An entity is related to the Company if any of the following conditions applies:
- the entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - the entity is controlled or jointly controlled by a person identified in (i);
 - a person identified in (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
 - 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.

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

Provision

A provision is recognised when a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and 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 reporting date 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 as interest expense.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

The estimates and underlying assumptions are reviewed on an on-going 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.

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

Provision of ECL for loans and advances to customers

The impairment provisions for loans and advances to customers are based on assumptions about expected credit losses. The Company uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is past due as well as the Company's historical credit loss experience and forward-looking information which uses the scenario of the Parent Bank's stress test based on macroeconomic variables at the end of each reporting period. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss. Further details of the loans and advances to customers are given in note 13 to the financial statements.

6. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern, as well as to maintain a strong capital base to comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance. The Company's overall strategy is to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company had net assets of US\$79,587,561 (2022: US\$74,606,373) at the end of the reporting period.

The capital structure of the Company consists of equity, comprising issued capital plus retained profits, fair value reserves of financial assets at fair value through other comprehensive income and regulatory reserves. The Board of Directors of the Company reviews the capital structure by considering the capital adequacy position, the cost of capital and the risk associated with the capital.

The capital adequacy position and the use of regulatory capital are monitored closely by the Company's management based on the Banking (Capital) Rules. The Company has complied with the capital requirements during the years ended 31 December 2023 and 2022 and has maintained a capital of above the minimum required ratio set by the Hong Kong Monetary Authority at 31 December 2023 and 2022.

7. FINANCIAL RISK MANAGEMENT

Categories of financial instruments

	<u>2023</u> US\$	<u>2022</u> US\$
Financial assets		
Amortised cost	184,043,731	158,631,855
Debt instruments at FVTOCI	9,623,266	9,710,320
	<u> </u>	<u> </u>
Financial liabilities		
Amortised cost	114,635,808	94,510,628
	<u> </u>	<u> </u>

Financial risk management objectives and policies

The Company's major financial instruments include loans and advances to customers, debt instruments at fair value through other comprehensive income, cash and cash equivalents, loans due to the Parent Bank, lease liabilities and accruals and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk, liquidity. The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

(i) *Currency risk*

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

During the year ended 31 December 2023, almost 100% of the financial assets (2022: 100%) and 99% of the financial liabilities (2022: 99%) of the Company are denominated in the functional currency of the Company. Accordingly, the Company's exposure to currency risk is minimal and hence no sensitivity analysis has been presented on foreign currency risk.

(ii) *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 both types of interest rate risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arise. Fair values of the debt investments at fair value through other comprehensive income may change as a result of the fluctuation in market interest rates. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) *Interest rate risk - continued*

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

31 December 2023

	Weighted average effective interest rate per annum %	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets						
Bank balances with the Parent						
Bank and other financial institutions	0.01	925,020	-	-	493,134	1,418,154
Loans and advances to customers	6.94	181,381,796	-	-	1,067,895	182,449,691
Other receivables	-	-	-	-	175,886	175,886
Debt investments at fair value through other comprehensive income	2.24	4,689,506	-	4,845,813	87,947	9,623,266
		<u>186,996,322</u>	<u>-</u>	<u>4,845,813</u>	<u>1,824,862</u>	<u>193,666,997</u>
Financial liabilities						
Loans due to the Parent Bank	5.94	45,300,000	68,100,000	-	460,825	113,860,825
Lease liabilities	1.89	168,193	215,830	160,714	-	544,737
Provision for reinstatement costs	1.91	-	-	124,727	-	124,727
Other payables	-	-	-	-	105,519	105,519
		<u>45,468,193</u>	<u>68,315,830</u>	<u>285,441</u>	<u>566,344</u>	<u>114,635,808</u>
Interest sensitivity gap		<u>141,528,129</u>	<u>(68,315,830)</u>	<u>4,560,372</u>	<u>1,258,518</u>	<u>79,031,189</u>

31 December 2022

	Weighted average effective interest rate per annum %	Up to 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets						
Bank balances with the Parent						
Bank and other financial institutions	0.01	87,616	-	-	1,767,720	1,855,336
Loans and advances to customers	5.84	149,789,903	5,998,044	-	818,688	156,606,635
Other receivables	-	-	-	-	169,884	169,884
Debt investments at fair value through other comprehensive income	4.14	5,013,564	-	4,594,059	102,697	9,710,320
		<u>154,891,083</u>	<u>5,998,044</u>	<u>4,594,059</u>	<u>2,858,989</u>	<u>168,342,175</u>
Financial liabilities						
Loans due to the Parent Bank	5.20	21,200,000	71,600,000	-	606,456	93,406,456
Lease liabilities	0.93	163,406	445,903	242,467	-	851,776
Provision for reinstatement costs	1.02	-	-	122,207	-	122,207
Other payables	-	-	-	-	130,189	130,189
		<u>21,363,406</u>	<u>72,045,903</u>	<u>364,674</u>	<u>736,645</u>	<u>94,510,628</u>
Interest sensitivity gap		<u>133,527,677</u>	<u>(66,047,859)</u>	<u>4,229,385</u>	<u>2,122,344</u>	<u>73,831,547</u>

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) *Interest rate risk* - continued

As at 31 December 2023, if the market interest rates had been 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the profit after taxation for the year would have increased/decreased by US\$324,701 (2022: US\$299,386).

The Company had completed the London Inter Bank Offered Rate ("LIBOR") contract transition according to the requirement of the Inter Bank Offered Rate reform during the year.

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. The Company reviews the respective recognised recoverable amount 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 these 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. As at 31 December 2023, except a loan was downgraded to Stage 2 amounting to US\$14,056,831 (2022: US\$1,013,554), all remaining loans and advances are classified as Stage 1, with none past due or impaired.

The credit risk arising from liquid funds (including placements and balances with banks and other financial institutions) is limited because the counterparties have high credit ratings assigned by international credit-rating agencies. As at 31 December 2023 and 2022, the expected credit loss of the placements and bank balances is immaterial.

As at 31 December 2023, the loans and advances to customers and debt investments were due from 39 counterparties (2022: 37 counterparties). There was no significant concentration of credit risk to any single customer. Furthermore, the majority of bank balances are from two (2022: two) counterparties, including the Parent Bank.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification.

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The amounts presented are carrying amounts for financial assets.

31 December 2023

	12-month expected credit losses		Lifetime expected credit losses		Total US\$
	Stage 1	Stage 2	Stage 3		
	US\$	US\$	US\$		
Bank balances with the Parent Bank and other financial institutions	1,418,154	-	-		1,418,154
Loans and advances to customers (Note 1)					
- Pass	168,066,555	-	-		168,066,555
- Special Mention	-	14,383,136	-		14,383,136
Financial assets included in other receivables					
- Normal (Note 2)	175,886	-	-		175,886
Debt investments at fair value through other comprehensive income	9,623,266	-	-		9,623,266
Loan commitments	2,561,983	-	-		2,561,983
	<u>181,845,844</u>	<u>14,383,136</u>	<u>-</u>		<u>196,228,980</u>

31 December 2022

	12-month expected credit losses		Lifetime expected credit losses		Total US\$
	Stage 1	Stage 2	Stage 3		
	US\$	US\$	US\$		
Bank balances with the Parent Bank and other financial institutions	1,855,336	-	-		1,855,336
Loans and advances to customers (Note 1)					
- Pass	155,593,081	-	-		155,593,081
- Special Mention	-	1,013,554	-		1,013,554
Financial assets included in other receivables					
- Normal (Note 2)	169,884	-	-		169,884
Debt investments at fair value through other comprehensive income	9,710,320	-	-		9,710,320
Loan commitments	-	-	-		-
	<u>167,328,621</u>	<u>1,013,554</u>	<u>-</u>		<u>168,342,175</u>

Note 1: The Company holds collateral against loans and advances to customers primarily in the form of charges over vessels and guarantees.

Note 2: The credit quality of the financial assets included other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The geographical analysis, which has been classified by the location of the counterparties, is as follows:

31 December 2023

	<u>Hong Kong</u> US\$	<u>Korea</u> US\$	<u>Asia Pacific</u> (excluding Hong Kong and Korea) US\$	<u>United</u> <u>States of</u> <u>America</u> US\$	<u>Europe</u> US\$	<u>Others</u> US\$	<u>Total</u> US\$
Financial assets							
Bank balances with the Parent							
Bank and other financial institutions	1,105,573	-	-	312,581	-	-	1,418,154
Loans and advances to customers	16,575,641	127,115,788	11,472,714	14,624,220	4,742,585	7,918,743	182,449,691
Other receivables	175,886	-	-	-	-	-	175,886
Debt investments at fair value through other comprehensive income	-	4,882,011	4,741,255	-	-	-	9,623,266
	<u>17,857,100</u>	<u>131,997,799</u>	<u>16,213,969</u>	<u>14,936,801</u>	<u>4,742,585</u>	<u>7,918,743</u>	<u>193,666,997</u>

31 December 2022

	<u>Hong Kong</u> US\$	<u>Korea</u> US\$	<u>Asia Pacific</u> (excluding Hong Kong and Korea) US\$	<u>United</u> <u>States of</u> <u>America</u> US\$	<u>Europe</u> US\$	<u>Others</u> US\$	<u>Total</u> US\$
Financial assets							
Bank balances with the Parent							
Bank and other financial institutions	249,663	-	-	1,605,673	-	-	1,855,336
Loans and advances to customers	12,964,841	122,513,889	6,409,593	-	5,592,094	9,126,218	156,606,635
Other receivables	169,884	-	-	-	-	-	169,884
Debt investments at fair value through other comprehensive income	-	5,064,512	4,645,808	-	-	-	9,710,320
	<u>13,384,388</u>	<u>127,578,401</u>	<u>11,055,401</u>	<u>1,605,673</u>	<u>5,592,094</u>	<u>9,126,218</u>	<u>168,342,175</u>

The following table presents an analysis of debt investments at fair value through other comprehensive income, that was neither past due nor impaired, held by the Company by rating agency designation at the end of the reporting periods, based on ratings of Moody's.

	<u>2023</u> US\$	<u>2022</u> US\$
Aaa	4,741,255	4,645,808
Aa2	4,882,011	5,064,512
	<u>9,623,266</u>	<u>9,710,320</u>

For investments in debt securities, credit limits setting on security issuer basis are used for managing credit risk. The investment in debt securities follows the same approval and control processes as applied for loans and advances to customers. On-going monitoring and stop-loss procedures are established. All the debt securities are assigned a high credit rating by credit agencies.

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Credit risk - continued

There are no enforceable master netting arrangements in place at the end of the reporting periods. All financial assets and financial liabilities of the Company will be settled on gross basis under all circumstances.

Liquidity risk

The Company is exposed to call on its available cash resources from repayment of loans due to the Parent Bank and other financial institutions. The Company has mitigated this risk by obtaining the commitment from the Parent Bank to continually provide financial support to the Company to meet its financial obligations.

The table below analyses the Company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting periods to the contractual maturity date.

31 December 2023

	<u>On demand</u> US\$	<u>Repayable within 1 month US\$</u>	<u>Repayable after 1 month but within 3 months US\$</u>	<u>Repayable after 3 months but within 1 year US\$</u>	<u>Repayable after 1 year but within 5 years US\$</u>	<u>Repayable in more than 5 years US\$</u>	<u>Undated</u> US\$	<u>Total undiscounted cashflows</u> US\$	<u>Total carrying amount</u> US\$
Financial assets									
Bank balances with the Parent Bank and other financial institutions	493,134	925,020	-	-	-	-	-	1,418,154	1,418,154
Loans and advances to customers	-	1,179,284	3,118,146	71,394,627	127,668,090	5,773,734	-	209,133,881	182,449,691
Other receivables	-	-	5,632	146,190	24,064	-	-	175,886	175,886
Debt investments at fair value through other comprehensive income	-	4,751,211	46,875	-	4,939,575	-	-	9,737,661	9,623,266
	<u>493,134</u>	<u>6,855,515</u>	<u>3,170,653</u>	<u>71,540,817</u>	<u>132,631,729</u>	<u>5,773,734</u>	<u>-</u>	<u>220,465,582</u>	<u>193,666,997</u>
Financial liabilities									
Loans due to the Parent Bank	-	-	31,358,692	84,861,889	-	-	-	116,220,581	113,860,825
Lease liabilities	-	61,288	111,312	225,274	162,710	-	-	560,584	544,737
Provision for reinstatement costs	-	-	-	-	128,400	-	-	128,400	124,727
Other payables	-	9,169	-	96,350	-	-	-	105,519	105,519
	<u>-</u>	<u>70,457</u>	<u>31,470,004</u>	<u>85,183,513</u>	<u>291,110</u>	<u>-</u>	<u>-</u>	<u>117,015,084</u>	<u>114,635,808</u>
Net liquidity gap	<u>493,134</u>	<u>6,785,058</u>	<u>(28,299,351)</u>	<u>(13,642,696)</u>	<u>132,340,619</u>	<u>5,773,734</u>	<u>-</u>	<u>103,450,498</u>	<u>79,031,189</u>
Off balance sheet position	<u>-</u>	<u>2,561,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,561,983</u>	<u>-</u>

7. FINANCIAL RISK MANAGEMENT - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

31 December 2022

	<u>On demand</u> US\$	<u>Repayable</u> <u>within</u> <u>1 month</u> US\$	<u>Repayable</u> <u>after</u> <u>1 month</u> <u>but within</u> <u>3 months</u> US\$	<u>Repayable</u> <u>after 3</u> <u>months</u> <u>but within</u> <u>1 year</u> US\$	<u>Repayable</u> <u>after 1 year</u> <u>but within</u> <u>5 years</u> US\$	<u>Repayable</u> <u>in more than</u> <u>5 years</u> US\$	<u>Undated</u> US\$	<u>Total</u> <u>undiscounted</u> <u>cashflows</u> US\$	<u>Total</u> <u>carrying</u> <u>amount</u> US\$
Financial assets									
Bank balances with the Parent Bank and other financial institutions	1,767,721	87,615	-	-	-	-	-	1,855,336	1,855,336
Loans and advances to customers	-	888,910	10,584,152	52,361,731	100,393,283	9,209,198	-	173,437,274	156,606,635
Other receivables	-	-	-	23,351	146,533	-	-	169,884	169,884
Debt investments at fair value through other comprehensive income	-	132,706	-	5,083,055	4,717,451	-	-	9,933,212	9,710,320
	<u>1,767,721</u>	<u>1,109,231</u>	<u>10,584,152</u>	<u>57,468,137</u>	<u>105,257,267</u>	<u>9,209,198</u>	<u>-</u>	<u>185,395,706</u>	<u>168,342,175</u>
Financial liabilities									
Loans due to the Parent Bank	-	-	21,593,349	73,652,010	-	-	-	95,245,359	93,406,456
Lease liabilities	-	55,402	110,803	452,042	240,991	-	-	859,237	851,776
Provision for reinstatement costs	-	-	-	-	128,399	-	-	128,399	122,207
Other payables	-	5,994	-	124,195	-	-	-	130,189	130,189
	<u>-</u>	<u>61,396</u>	<u>21,704,152</u>	<u>74,228,246</u>	<u>369,390</u>	<u>-</u>	<u>-</u>	<u>96,363,185</u>	<u>94,510,628</u>
Net liquidity gap	<u>1,767,721</u>	<u>1,047,835</u>	<u>(11,120,000)</u>	<u>(16,760,110)</u>	<u>104,887,877</u>	<u>9,209,198</u>	<u>-</u>	<u>89,032,521</u>	<u>73,831,547</u>
Off balance sheet position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the 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 exposures to changes in interest rates and exchange rates.

There are negative net liquidity gaps shown at the end of the reporting periods including "repayable after 1 month but within three months" and "repayable after 3 months but within one year". This is largely caused by the loans due to the Parent Bank. As the immediate holding company has committed to continually provide financial support to meet the Company's financial obligations, this loan is expected to be rolled over. Liquidity risk is therefore considered to be minimal.

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8. INTEREST INCOME AND INTEREST EXPENSE

	<u>2023</u> US\$	<u>2022</u> US\$
Interest income arising from:		
Bank balances with the Parent Bank	18	85
Loans and advances to customers	10,996,133	5,111,548
Debt investments at fair value through other comprehensive income	<u>275,469</u>	<u>176,753</u>
	<u>11,271,620</u>	<u>5,288,386</u>
Interest expenses on financial liabilities measured at amortised cost:		
Loans due to the Parent Bank wholly repayable within one year	5,638,597	1,751,121
Lease liabilities	10,981	6,510
Provision for reinstatement costs	<u>2,520</u>	<u>2,475</u>
	<u>5,652,098</u>	<u>1,760,106</u>

Interest income earned from financial assets not designated as at fair value through profit or loss, by category of assets, is as follows:

	<u>2023</u> US\$	<u>2022</u> US\$
Bank balances with the Parent Bank	18	85
Loans and advances to customers	10,996,133	5,111,548
Debt investments at fair value through other comprehensive income	<u>275,469</u>	<u>176,753</u>
	<u>11,271,620</u>	<u>5,288,386</u>

9. FEE INCOME

	<u>2023</u> US\$	<u>2022</u> US\$
Arrangement fee on loans	1,320,573	2,104,953
Arrangement fee on debt securities	-	45,000
Brokerage income	2,337,231	1,828,022
Others	<u>89,508</u>	<u>107,168</u>
	<u>3,747,312</u>	<u>4,085,143</u>
Timing of recognition		
At a point in time	<u>3,747,312</u>	<u>4,085,143</u>
	<u>3,747,312</u>	<u>4,085,143</u>

10. STAFF COSTS

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

	<u>2023</u> US\$	<u>2022</u> US\$
Employees' remuneration		
Benefits and compensation	1,215,523	1,442,416
Contributions to retirement benefits scheme	34,864	36,498
Directors' remuneration		
Fees	51,124	51,088
Salaries	149,890	122,550
Other emoluments	125,587	103,033
Bonus	-	-
Contributions to retirement benefits scheme	-	-
	<u>1,576,988</u>	<u>1,755,585</u>

11. PROFIT BEFORE TAXATION

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

	<u>2023</u> US\$	<u>2022</u> US\$
Depreciation of property and equipment (note 16)	133,579	135,105
Depreciation of right-of-use assets (note 16)	718,445	705,420
Interest expense on lease liabilities (note 16)	10,981	6,510
Lease payments not included in the measurement of lease liabilities	89,240	87,808
Auditor's remuneration	96,350	91,509
Net foreign exchange (gain)/loss	<u>(7,297)</u>	<u>17,329</u>

12. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. The first HK\$2,000,000 (2022: HK\$2,000,000) of assessable profits are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

	<u>2023</u> US\$	<u>2022</u> US\$
Provision for the year	958,470	668,871
Under provision in prior year	3,201	1,632
Deferred tax credit	(65,292)	(14,847)
	<u>896,379</u>	<u>655,656</u>

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

	<u>2023</u> US\$	<u>2022</u> US\$
Profit before taxation	<u>5,703,754</u>	<u>4,197,942</u>
Tax at statutory income tax rate of 16.5% (2022: 16.5%)	941,119	692,660
Under provision in prior year	3,201	1,632
Tax effect of expenses not deductible for tax purpose	31,657	20,871
Tax effect of income not taxable for tax purpose	(58,469)	(37,870)
Income tax at concessionary rate	(21,120)	(21,169)
Others	(9)	(468)
Income tax expense for the year	<u>896,379</u>	<u>655,656</u>

The movement in deferred tax assets (liabilities) during the year are as follows:

	<u>Depreciation allowance in excess of related depreciation</u> US\$	<u>Impairment allowance</u> US\$	<u>Total</u> US\$
At 1 January 2022	(2,464)	20,377	17,913
Deferred tax credited to the statement of profit or loss during the year	<u>2,464</u>	<u>12,383</u>	<u>14,847</u>
At 31 December 2022 and 1 January 2023	-	32,760	32,760
Deferred tax credited to the statement of profit or loss during the year	<u>32,073</u>	<u>33,219</u>	<u>65,292</u>
At 31 December 2023	<u>32,073</u>	<u>65,979</u>	<u>98,052</u>

13. LOANS AND ADVANCES TO CUSTOMERS

	<u>2023</u> US\$	<u>2022</u> US\$
Gross loans and advances to customers	182,849,561	156,712,550
Less: Allowances for expected credit losses		
- Stage 1	(380,849)	(105,524)
- Stage 2	(19,021)	(391)
- Stage 3	-	-
	<u>182,449,691</u>	<u>156,606,635</u>

The gross loans and advances to customers classified at different stages are analysed as follows:

	<u>2023</u> US\$	<u>2022</u> US\$
Gross loans and advances to customers		
- Stage 1	168,447,404	155,698,605
- Stage 2	14,402,157	1,013,945
- Stage 3	-	-
	<u>182,849,561</u>	<u>156,712,550</u>

An analysis of changes in the gross amounts and the corresponding ECL allowances is, as follows:

	<u>Stage 1</u> US\$	<u>Stage 2</u> US\$	<u>Stage 3</u> US\$	<u>Total</u> US\$
Gross amount as at 1 January 2023	155,698,605	1,013,945	-	156,712,550
Transfer from Stage 1 to Stage 2	(14,056,831)	14,056,831	-	-
Change arising from exposures transferred	-	89,925	-	89,925
New assets originated	85,179,711	-	-	85,179,711
Assets repaid	(58,374,081)	(758,544)	-	(59,132,625)
At 31 December 2023	<u>168,447,404</u>	<u>14,402,157</u>	<u>-</u>	<u>182,849,561</u>
ECL allowance as at 1 January 2023	105,524	391	-	105,915
Transfer from Stage 1 to Stage 2 ¹	(18,170)	18,170	-	-
Change arising from exposures transferred ²	-	115	-	115
Other re-measurement of loss allowance	293,495	345	-	293,840
At 31 December 2023	<u>380,849</u>	<u>19,021</u>	<u>-</u>	<u>399,870</u>

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13. LOANS AND ADVANCES TO CUSTOMERS - continued

	<u>Stage 1</u> US\$	<u>Stage 2</u> US\$	<u>Stage 3</u> US\$	<u>Total</u> US\$
Gross amount as at 1 January 2022	165,588,448	5,581,331	-	171,169,779
New assets originated	18,547,197	-	-	18,547,197
Assets repaid	(28,437,040)	(4,567,386)	-	(33,004,426)
At 31 December 2022	<u>155,698,605</u>	<u>1,013,945</u>	<u>-</u>	<u>156,712,550</u>
ECL allowance as at 1 January 2022	120,364	3,131	-	123,495
Other re-measurement of loss allowance	(14,840)	(2,740)	-	(17,580)
At 31 December 2022	<u>105,524</u>	<u>391</u>	<u>-</u>	<u>105,915</u>

¹ Represents movements prior to re-measurement.

² Represents the change in the year-end ECLs of exposures that were transferred from one stage to another during the year.

14. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2023</u> US\$	<u>2022</u> US\$
Debt investments at fair value through other comprehensive income listed outside: Hong Kong	<u>9,623,266</u>	<u>9,710,320</u>
	<u>2023</u> US\$	<u>2022</u> US\$
Analysis by type of issuers as follows: Banks	<u>9,623,266</u>	<u>9,710,320</u>

All debt investments were measured subsequent to initial recognition at Level 2. There were no transfers between Levels 1, 2 and 3 in the current and prior years.

14. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
- continued

The above debt investments were irrevocably designated at fair value through other comprehensive income as the Company considers these investments to be strategic in nature. Movements are as follows:

	US\$
At 1 January 2022	10,009,277
Amortisation	(63,397)
Net changes in fair value	<u>(235,560)</u>
At 31 December 2022 and 1 January 2023	9,710,320
Redemption	(5,000,000)
New investments purchased	4,761,310
Amortisation	(21,447)
Net changes in fair value	<u>173,083</u>
At 31 December 2023	<u><u>9,623,266</u></u>

During the year ended 31 December 2023, the gross gain in respect of the Company's debt investments at fair value through other comprehensive income recognised in other comprehensive income amounted to US\$173,083 (2022: gross loss of US\$235,560), of which US\$630 was reclassified from other comprehensive income to profit or loss (2022: nil).

The Company applies the general approach to provide for expected credit losses prescribed by HKFRS 9. Movements in the loss allowance for debt investments at fair value through other comprehensive income are as follows:

	<u>Stage 1</u> US\$
At 1 January 2022	3,207
Net reversal of impairment allowance during the year	<u>(104)</u>
At 31 December 2022 and 1 January 2023	3,103
Net charges of impairment allowance during the year	<u>100</u>
At 31 December 2023	<u><u>3,203</u></u>

KEB HANA GLOBAL FINANCE LIMITED

15. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Right-of-use assets			Property and equipment				Total US\$
	Office premises and staff quarters US\$	Motor vehicle US\$	Total US\$	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$	Total US\$	
COST								
At 1 January 2022	1,989,052	40,475	2,029,527	406,623	86,871	296,005	789,499	2,819,026
Additions	1,003,483	-	1,003,483	-	-	4,860	4,860	1,008,343
Termination of lease contracts/disposals	(1,595,466)	-	(1,595,466)	-	-	-	-	(1,595,466)
At 31 December 2022 and 1 January 2023	1,397,069	40,475	1,437,544	406,623	86,871	300,865	794,359	2,231,903
Additions	369,086	-	369,086	-	-	10,432	10,432	379,518
Termination of lease contracts/disposals	(278,860)	-	(278,860)	-	-	(528)	(528)	(279,388)
At 31 December 2023	1,487,295	40,475	1,527,770	406,623	86,871	310,769	804,263	2,332,033
ACCUMULATED DEPRECIATION								
At 1 January 2022	1,436,954	2,313	1,439,267	137,500	44,009	203,150	384,659	1,823,926
Provided for the year	691,532	13,888	705,420	67,756	21,727	45,622	135,105	840,525
Written back on termination of lease contracts/disposals	(1,594,697)	-	(1,594,697)	-	-	-	-	(1,594,697)
At 31 December 2022 and 1 January 2023	533,789	16,201	549,990	205,256	65,736	248,772	519,764	1,069,754
Provided for the year	704,590	13,855	718,445	67,597	21,135	44,847	133,579	852,024
Written back on termination of lease contracts/disposals	(278,718)	-	(278,718)	-	-	(528)	(528)	(279,246)
At 31 December 2023	959,661	30,056	989,717	272,853	86,871	293,091	652,815	1,642,532
Net book value at 31 December 2022	863,280	24,274	887,554	201,367	21,135	52,093	274,595	1,162,149
Net book value at 31 December 2023	527,634	10,419	538,053	133,770	-	17,678	151,448	689,501

15. PROPERTY AND EQUIPEMENT AND LEASES - continued

Notes:

- (a) The Company's right of use of office premises and staff quarters represents future lease payments for office premise and staff residences. The office premise is held for own use and the staff residences are held for home staff housing. The office premise is held on a medium-term lease expiring on 31 May 2024 and the staff residences are held on a medium-term leases expiring from 11 August 2023 to 30 September 2024.
- (b) The Company leases its office used in its operations. Lease for this asset is negotiated for terms of two years with no extension option and all the lease payments are fixed.

Maturity profile of lease liabilities

	<u>2023</u> US\$	<u>2022</u> US\$
Within one year	397,873	618,246
After one year but within five years	162,711	240,991
Lease liabilities (undiscounted)	560,584	859,237
Discount amount	(15,847)	(7,461)
Lease liabilities (discounted)	<u>544,737</u>	<u>851,776</u>

The fair value was determined by discounting the expected future cash flows at prevailing interest rates. The weighted average incremental borrowing rate applied to the lease liabilities recognised at 31 December 2023 was 4.12% (2022: 1.11%) per annum.

Movements of carrying amounts of lease liabilities as at 31 December 2023 and 2022

	US\$
At 1 January 2022	576,237
Additions	1,003,483
Amortisation	6,510
Payments	(733,685)
Termination of lease contracts	(769)
At 31 December 2022 and 1 January 2023	<u>851,776</u>
Additions	369,086
Amortisation	10,981
Payments	(686,964)
Termination of lease contracts	(142)
At 31 December 2023	<u>544,737</u>

15. PROPERTY AND EQUIPEMENT AND LEASES - continued

Amounts recognised in the statement of profit or loss and other comprehensive income

	<u>2023</u> US\$	<u>2022</u> US\$
Depreciation charges of right-of-use assets	718,445	705,420
Interest expense on lease liabilities	10,981	6,510
Expense relating to short-term leases (included in staff costs)	8,240	10,248
Expense relating to leases of low-value assets (included in other operating expenses)	81,000	77,560
	<u>818,666</u>	<u>799,738</u>

The Company had total cash outflows for leases of US\$686,964 in 2023 (2022: US\$733,685). The Company also had non-cash additions of right-of-use assets and lease liabilities of US\$369,086 in 2023 (2022: US\$1,003,483).

The future lease payments for these non-cancellable lease contracts are US\$397,874 within one year (2022: US\$618,246), US\$162,711 after one year but within five years (2022: US\$240,991).

16. INTANGIBLE ASSETS

Intangible assets represent club debentures carried at cost less any subsequent accumulated impairment losses and are amortised on the straight-line basis over their useful lives. For the purpose of impairment testing on club debentures, the recoverable amount has been determined based on its fair value less costs to sell, which is estimated based on prices quoted in the secondary market.

17. PROVISION FOR REINSTATEMENT COSTS

	<u>2023</u> US\$	<u>2022</u> US\$
At 1 January	122,207	119,732
Amortisation	2,520	2,475
At 31 December	<u>124,727</u>	<u>122,207</u>

18. SHARE CAPITAL

	<u>2023</u> US\$	<u>2022</u> US\$
Issued and fully paid: 50,000,000 (2022: 50,000,000) shares	<u>50,000,000</u>	<u>50,000,000</u>

18. SHARE CAPITAL - continued

There is no movement in the Company's share capital during the year.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

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

The directors do not recommend the payment of a dividend for the year (2022: nil).

19. REGULATORY RESERVE

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes and is distributable to owners of the Company subject to consultation with the Hong Kong Monetary Authority. Changes in the amount are made directly through retained profits.

20. 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.

21. RELATED PARTY TRANSACTIONS

During the year, the Company entered transactions with related parties in the ordinary course of its business. In the opinion of the directors, the transactions were conducted on an arm's length basis. Transactions entered into by the Company during the year and balances with related parties as at 31 December 2023 and 2022 were as follows:

Balances with the Parent Bank

	<u>2023</u> US\$	<u>2022</u> US\$
Bank balances with the Parent Bank	1,104,020	248,397
Loans due to the Parent Bank (note)	<u>113,860,825</u>	<u>93,406,456</u>

Note: Loans due to the Parent Bank are unsecured, and bear interest at the weighted average rate of 5.94% per annum (2022: 5.20% per annum) and will mature in the first half of 2024 (2022: first quarter of 2023).

21. RELATED PARTY TRANSACTIONS - continued

Transactions with the Parent Bank

	<u>2023</u> US\$	<u>2022</u> US\$
Interest expenses	5,638,597	1,751,121
Interest income	18	85
Brokerage income	122,041	255,426
Sundry commission paid	581	466
Arrangement fee income for debt securities issued by the Parent Bank	-	45,000
Investment advisory services fee	31,766	33,330
Recharge of information system maintenance and license fee	34,389	-
	<u>34,389</u>	<u>-</u>

Compensation of key management personnel

The remuneration of directors, who are also the key management during the year, has been disclosed in note 10 to the financial statements.

The remuneration of directors and other key management is determined by the performance of individuals and market trends.