*This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the structured products described below.*



**Non-Collateralised Structured Products**

issued by

海通國際
HAITONG

**Haitong International Securities Company Limited**
**("Issuer")**
*(incorporated with limited liability in Hong Kong)*

# Announcement for Publication of Annual Financial Statements

The Issuer has released its financial statements for the year ended 31 December 2021 ("**Annual Financial Statements**") on 29 April 2022. Copies of the Annual Financial Statements and the independent auditor's report on such financial statements are included at the end of this announcement. References to page numbers in the Annual Financial Statements are to pages therein and not to pages in this announcement.

This announcement, which includes the Annual Financial Statements and the independent auditor's report on such financial statements, is also available on our website at www.htiwarrants.com/en/announcement/warrant.

**Haitong International Securities Company Limited**
29 April 2022

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

Reports and Financial Statements
For the year ended 31 December 2021

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

# DIRECTORS' REPORT

The board of directors (the "Board") presents their annual report and the audited financial statements for the year ended 31 December 2021 of Haitong International Securities Company Limited (the "Company").

As the Company is a wholly owned subsidiary of another body corporate in the financial year, the directors have chosen to take the exemption set out in section 388(3) of the Companies Ordinance (Cap.622) from presenting a business review within the directors' report.

## PRINCIPAL ACTIVITIES

During the year ended 31 December 2021, the Company was involved in securities brokerage and dealing, investment holding, the provision of securities margin financing, placing and underwriting services and other consultancy and advisory services.

The Company is licensed under the Securities and Futures Commission to conduct the regulated activities on dealing in securities and advising on securities during the year ended 31 December 2021.

## RESULTS AND DIVIDENDS

The results of the Company for the year ended 31 December 2021 and the financial position at that date are set out in the financial statements on pages 9 to 10.

During the year ended 31 December 2021, an interim dividend of HK$450,000,000 (2020: HK$1,150,000,000) was declared by the Board of the Company. The Board of the Company does not recommend the payment of a final dividend and proposes that the remaining profit for the year be retained.

## PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Company during the year ended 31 December 2021 are set out in the note 23 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company during the year ended 31 December 2021 are set out in the statement of changes in equity on page 11.

## SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 30 to the financial statements. There was no movement in the share capital of the Company during the year ended 31 December 2021.

## DIRECTORS

The directors of the Company during the year ended 31 December 2021 and up to the date of this report were:

| | |
|---|---|
| CHAN Yat Nam Daniel | |
| CHEN Xuan | (resigned on 29 November 2021) |
| LUK Wai Yin | |
| POON Mo Yiu | |
| SHI Ping | (appointed on 17 March 2021) |

In accordance with the article 25 of the articles of association of the Company, the directors hold office for an unlimited period of time and shall not be subject to retirement from office at any general meeting.

## PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that each director of the Company may be entitled to be indemnified out of the assets of the Company against all losses or liabilities, which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. Appropriate directors and officers liability insurance is maintained by Haitong International Securities Group Limited ("Haitong International Securities"), its listed immediate holding company.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts to which the Company or any of its holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2021 or at any time during the year ended 31 December 2021.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2021was the Company or any of its holding companies or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the employee share option schemes of Haitong International Securities, pursuant to which certain share options have been granted to certain directors to subscribe for shares in Haitong International Securities (the "Share Options").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES - continued

Movements of the Share Options during the year ended 31 December 2021 were as follows:

| Name of Directors | At 1 January 2021 | Granted during the year (Note 1) | Adjusted during the year | Exercised during the year | Lapsed during the year (Note 2) | At 31 December 2021 | Date of grant of share options* | Exercise period of share option | Exercise price of share options ** HK$ per share | Price of Haitong International Securities' shares immediately preceding the grant date of share options*** HK$ per share |
|---|---|---|---|---|---|---|---|---|---|---|
| CHAN Yat Nam Daniel | 201,776 | - | - | - | (201,776) | - | 12 May 2016 | 8 December 2016 - 11 May 2021 | 4.635 | 4.25 |
| | 151,064 | - | - | - | - | 151,064 | 10 November 2017 | 7 June 2018 - 9 November 2022 | 5.002 | 4.58 |
| | 50,114 | - | - | - | - | 50,114 | 1 November 2018 | 28 May 2019 - 31 October 2023 | 2.898 | 2.56 |
| CHEN Xuan (resigned on 29 November 2021) | 201,776 | - | - | - | (201,776) | - (as at the date of resignation) | 12 May 2016 | 8 December 2016 - 11 May 2021 | 4.635 | 4.25 |
| | 151,064 | - | - | - | - | 151,064 (as at the date of resignation) | 10 November 2017 | 7 June 2018 - 9 November 2022 | 5.002 | 4.58 |
| | 250,572 | - | - | - | - | 250,572 (as at the date of resignation) | 1 November 2018 | 28 May 2019 - 31 October 2023 | 2.898 | 2.56 |
| | 300,688 | - | - | - | - | 300,688 (as at the date of resignation) | 31 May 2019 | 27 December 2019 - 30 May 2024 | 2.554 | 2.39 |
| | 150,000 | - | - | - | - | 150,000 (as at the date of resignation) | 29 May 2020 | 25 December 2020 - 28 May 2025 | 1.727 | 1.55 |
| | - | 150,000 | - | - | - | 150,000 (as at the date of resignation) | 21 July 2021 | 17 February 2022 - 20 July 2026 | 2.398 | 2.16 |
| LUK Wai Yin | 151,064 | - | - | - | - | 151,064 | 10 November 2017 | 7 June 2018 - 9 November 2022 | 5.002 | 4.58 |
| | 250,572 | - | - | - | - | 250,572 | 1 November 2018 | 28 May 2019 - 31 October 2023 | 2.898 | 2.56 |
| | 150,343 | - | - | - | - | 150,343 | 31 May 2019 | 27 December 2019 - 30 May 2024 | 2.554 | 2.39 |
| | 100,000 | - | - | (100,000) | - | - | 29 May 2020 | 25 December 2020 - 28 May 2025 | 1.727 | 1.55 |
| | - | 150,000 | - | - | - | 150,000 | 21 July 2021 | 17 February 2022 - 20 July 2026 | 2.398 | 2.16 |
| POON Mo Yiu | 706,224 | - | - | - | (706,224) | - | 12 May 2016 | 8 December 2016 - 11 May 2021 | 4.635 | 4.25 |
| | 302,127 | - | - | - | - | 302,127 | 10 November 2017 | 7 June 2018 - 9 November 2022 | 5.002 | 4.58 |
| | 701,604 | - | - | - | - | 701,604 | 1 November 2018 | 28 May 2019 - 31 October 2023 | 2.898 | 2.56 |
| | 350,802 | - | - | - | - | 350,802 | 31 May 2019 | 27 December 2019 - 30 May 2024 | 2.554 | 2.39 |
| | 350,000 | - | - | - | - | 350,000 | 29 May 2020 | 25 December 2020 - 28 May 2025 | 1.727 | 1.55 |
| | - | 400,000 | - | - | - | 400,000 | 21 July 2021 | 17 February 2022 - 20 July 2026 | 2.398 | 2.16 |
| SHI Ping (appointed on 17 March 2021) | 504,446 (as at the date of appointment) | - | - | - | (504,446) | - | 12 May 2016 | 8 December 2016 - 11 May 2021 | 4.635 | 4.25 |
| | 503,545 (as at the date of appointment) | - | - | - | - | 503,545 | 10 November 2017 | 7 June 2018 - 9 November 2022 | 5.002 | 4.58 |
| | 801,833 (as at the date of appointment) | - | - | - | - | 801,833 | 1 November 2018 | 28 May 2019 - 31 October 2023 | 2.898 | 2.56 |
| | 400,917 (as at the date of appointment) | - | - | - | - | 400,917 | 31 May 2019 | 27 December 2019 - 30 May 2024 | 2.554 | 2.39 |
| | 200,000 (as at the date of appointment) | - | - | - | - | 200,000 | 29 May 2020 | 25 December 2020 - 28 May 2025 | 1.727 | 1.55 |
| | - (as at the date of appointment) | 200,000 | - | - | - | 200,000 | 21 July 2021 | 17 February 2022 - 20 July 2026 | 2.398 | 2.16 |

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options referred to above are subject to a 6-month vesting period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Haitong International Securities' share capital.

*** The price of Haitong International Securities shares disclosed at immediately preceding the grant date of the share options is The Stock Exchange of Hong Kong Limited closing price on the trading day immediately prior to the date of the grant of the share options.

Notes:

1. Those shares are granted by Haitong International Securities pursuant to the 2015 share option scheme adopted by Haitong International Securities on 8 June 2015.
2. These share options were lapsed during the year ended 31 December 2021 as a result of expiry of exercise period.

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

AUDITOR

The financial statements for the year ended 31 December 2021 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

POON MO YIU
Chairman of the Board
29 APR 2022

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司
(incorporated in Hong Kong with limited liability)

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Haitong International Securities Company Limited (the "Company") set out on pages 9 to 68, which comprise the statement of financial position as at 31 December 2021, 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 a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 (the "HKICPA") and have been properly prepared in compliance with the Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 820 (Revised) "The Audit of Licensed Corporations and Associated Entities of Intermediaries" 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.

**Report on the Audit of the Financial Statements** - continued

## 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.

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 financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Securities and Futures (Accounts and Audit) Rules.

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

TO THE SOLE MEMBER OF
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED - continued
海通國際證券有限公司
(incorporated in Hong Kong with limited liability)

**Report on the Audit of the Financial Statements** - continued

**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 Companies Ordinance and section 156(1)(b) of the Securities and Futures 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.

In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Securities and Futures (Accounts and Audit) Rules.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED - continued
海通國際證券有限公司
(incorporated in Hong Kong with limited liability)

**Report on the Audit of the Financial Statements** - continued

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

**Report on matters under the Securities and Futures (Keeping of Records) Rules and Securities and Futures (Accounts and Audit) Rules of the Securities and Futures Ordinance**

In our opinion, the financial statements are in accordance with the records kept under the Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Securities and Futures (Accounts and Audit) Rules.

Deloitte Touche Tohmatsu

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong

29 APR 2022

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

| | NOTES | 2021 HK$ | 2020 HK$ |
|---|---|---|---|
| Revenue | | | |
| Commission and fee income | 5 | 1,274,444,891 | 1,127,712,939 |
| Interest income | 5 | 890,557,816 | 1,196,045,016 |
| Net trading and investment income | 5 | 563,004,574 | 329,277,943 |
| | | 2,728,007,281 | 2,653,035,898 |
| Other income and gains or losses | | 82,040,101 | 23,239,722 |
| | | 2,810,047,382 | 2,676,275,620 |
| Staff costs | 9 | (324,572,502) | (265,426,383) |
| Commission expenses | | (126,534,096) | (247,197,737) |
| Amortisation and depreciation | | (3,437,175) | (2,297,787) |
| Management and service fees to the immediate holding company and fellow subsidiaries | 32(b)&(d)&(e) | (441,178,354) | - |
| Management and service fees to an intermediate holding company and fellow subsidiaries | 32(b)&(d)&(e) | - | (659,806,483) |
| Operating expenses | | (539,772,751) | (499,176,276) |
| | | (1,435,494,878) | (1,673,904,666) |
| Finance costs | 8 | (405,929,515) | (529,299,634) |
| Profit before impairment charges and tax | | 968,622,989 | 473,071,320 |
| Impairment charges, net of reversal | 7 | (500,118,600) | (332,219,354) |
| Profit before tax | 6 | 468,504,389 | 140,851,966 |
| Income tax (expense) credit | 12 | (52,661,989) | 5,105,029 |
| Profit for the year | | 415,842,400 | 145,956,995 |
| Other comprehensive expense that may be classified subsequently to profit or loss | | | |
| Exchange differences on translating foreign operations | | (5,518,869) | (9,605,392) |
| Other comprehensive expense for the year | | (5,518,869) | (9,605,392) |
| Profit and total comprehensive income for the year | | 410,323,531 | 136,351,603 |

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

# STATEMENT OF FINANCIAL POSITION
## AT 31 DECEMBER 2021

| | NOTES | 2021 Current HK$ | 2021 Non-current HK$ | 2021 Total HK$ | 2020 Current HK$ | 2020 Non-current HK$ | 2020 Total HK$ |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Assets | | | | | | | |
| Cash and cash equivalents | 13 | 1,346,369,080 | - | 1,346,369,080 | 648,279,066 | - | 648,279,066 |
| Cash held on behalf of customers | 14 | 14,361,565,457 | - | 14,361,565,457 | 17,921,962,271 | - | 17,921,962,271 |
| Financial assets held for trading and market making activities | 15 | 609,749,353 | - | 609,749,353 | 2,982,054,349 | - | 2,982,054,349 |
| Derivative financial instruments | 16 | 27,195,146 | - | 27,195,146 | 409,818,417 | - | 409,818,417 |
| Advances to customers in margin financing | 17 | 9,138,579,452 | - | 9,138,579,452 | 12,321,942,878 | - | 12,321,942,878 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 18 | 2,052,912,650 | - | 2,052,912,650 | 4,245,238,954 | - | 4,245,238,954 |
| Accounts receivable | 19 | 2,988,605,946 | - | 2,988,605,946 | 2,938,873,456 | - | 2,938,873,456 |
| Investment securities | 20 | 377,280 | - | 377,280 | 795,325 | - | 795,325 |
| Intangible assets | 21 | - | 6,054,345 | 6,054,345 | - | 6,054,345 | 6,054,345 |
| Other assets | 22 | - | 181,325,258 | 181,325,258 | - | 178,991,990 | 178,991,990 |
| Property and equipment | 23 | - | 13,599,322 | 13,599,322 | - | 12,177,217 | 12,177,217 |
| Amounts due from fellow subsidiaries | 27 | 107,490,236 | - | 107,490,236 | 4,016,816,643 | - | 4,016,816,643 |
| Amount due from an intermediate holding company | 27 | - | - | - | 192,049,889 | - | 192,049,889 |
| Amount due from the immediate holding company | 27 | 5,856,433,122 | - | 5,856,433,122 | - | - | - |
| Tax recoverable | | - | - | - | 21,169,124 | - | 21,169,124 |
| Prepayments, deposits and other receivables | | 24,071,545 | - | 24,071,545 | 142,396,764 | - | 142,396,764 |
| Deferred tax assets | | - | 5,876,971 | 5,876,971 | - | 5,311,059 | 5,311,059 |
| Total assets | | 36,513,349,267 | 206,855,896 | 36,720,205,163 | 45,841,397,136 | 202,534,611 | 46,043,931,747 |
| **LIABILITIES AND EQUITY** | | | | | | | |
| Liabilities | | | | | | | |
| Financial liabilities held for trading and market making activities | 24 | 131,111,004 | - | 131,111,004 | 1,869,774,358 | - | 1,869,774,358 |
| Derivative financial instruments | 16 | 296,419,048 | - | 296,419,048 | 750,818,084 | - | 750,818,084 |
| Cash collateral on securities lent and repurchase agreements | 25 | 2,956,261,479 | - | 2,956,261,479 | 7,280,638,232 | - | 7,280,638,232 |
| Accounts payable | 26 | 16,488,795,904 | - | 16,488,795,904 | 19,469,355,811 | - | 19,469,355,811 |
| Amounts due to fellow subsidiaries | 27 | 1,170,366,024 | - | 1,170,366,024 | 87,398,468 | - | 87,398,468 |
| Bank borrowings | 28 | 78,289,792 | - | 78,289,792 | 949,087,235 | - | 949,087,235 |
| Subordinated loans | 29 | 3,400,000,000 | - | 3,400,000,000 | 3,400,000,000 | - | 3,400,000,000 |
| Other payables, accruals and other liabilities | 31 | 20,716,251 | 4,869,253 | 25,585,504 | 45,883,650 | 8,439,534 | 54,323,184 |
| Tax Payable | | 30,516,502 | - | 30,516,502 | - | - | - |
| Total liabilities | | 24,572,476,004 | 4,869,253 | 24,577,345,257 | 33,852,955,838 | 8,439,534 | 33,861,395,372 |
| Equity | | | | | | | |
| Share capital | 30 | | | 11,500,000,000 | | | 11,500,000,000 |
| Reserves | | | | 642,859,906 | | | 682,536,375 |
| Total equity | | | | 12,142,859,906 | | | 12,182,536,375 |
| Total liabilities and equity | | | | 36,720,205,163 | | | 46,043,931,747 |

The associated financial statements on pages 9 to 68 were approved and authorised for issue by the board of directors on 29 APR 2022 and are signed on its behalf by:

POON MO YIU
DIRECTOR

LUK WAI YIN
DIRECTOR

# STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2021

| | Share capital HK$ | Contribution reserve HK$ | Retained earnings HK$ | Exchange reserve HK$ | Total HK$ |
|---|---|---|---|---|---|
| At 1 January 2020 | 11,500,000,000 | 348,497,823 | 1,340,677,544 | 7,009,405 | 13,196,184,772 |
| Profit and total comprehensive income for the year | - | - | 145,956,995 | (9,605,392) | 136,351,603 |
| Dividend declared (Note 11) | - | - | (1,150,000,000) | - | (1,150,000,000) |
| At 31 December 2020 | 11,500,000,000 | 348,497,823 | 336,634,539 | (2,595,987) | 12,182,536,375 |
| Profit and total comprehensive income for the year | - | - | 415,842,400 | (5,518,869) | 410,323,531 |
| Dividend declared (Note 11) | - | - | (450,000,000) | - | (450,000,000) |
| At 31 December 2021 | 11,500,000,000 | 348,497,823 | 302,476,939 | (8,114,856) | 12,142,859,906 |

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
海通國際證券有限公司

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | 468,504,389 | 140,851,966 |
| Adjustments for: | | |
| Interest expenses | 405,929,515 | 529,299,634 |
| Dividend income | (32,299,160) | (7,284,448) |
| Depreciation | 3,437,175 | 2,297,787 |
| Impairment charges, net of reversal | 500,118,600 | 332,219,354 |
| Interest income | (890,557,816) | (1,196,045,016) |
| Operating cash flows before movements in working capital | 455,132,703 | (198,660,723) |
| Increase in other assets | (2,333,268) | (93,809,113) |
| (Increase) decrease in accounts receivable | (50,567,714) | 1,237,559,476 |
| Decrease (increase) in advances to customers in margin financing | 2,682,991,440 | (116,712,357) |
| (Increase) decrease in prepayments, deposits and other receivables | (6,196,544) | 62,679,753 |
| Decrease (increase) in financial assets held for trading and market making activities | 2,372,304,996 | (1,836,659,044) |
| Decrease in investment securities | 418,045 | 645,869,924 |
| (Decrease) increase in financial liabilities held for trading and market making activities | (1,738,663,354) | 1,812,589,815 |
| Increase in derivative financial instruments | (71,775,765) | (8,998,470) |
| Decrease (increase) in cash collateral on securities borrowed and reverse repurchase agreements | 2,192,995,050 | (3,615,841,572) |
| (Decrease) increase in cash collateral on securities lent and repurchase agreements | (4,324,376,753) | 4,410,127,044 |
| Decrease (increase) in cash held on behalf of customers | 3,560,841,798 | (2,780,502,205) |
| (Decrease) increase in accounts payable | (2,980,559,907) | 1,418,153,665 |
| Decrease in other payables and accruals | (28,557,149) | (407,768) |
| Cash generated from operations | 2,061,653,578 | 935,388,425 |
| Dividend received | 32,299,160 | 7,284,448 |
| Interest paid | (409,900,738) | (527,954,154) |
| Interest received | 1,015,079,579 | 1,233,299,967 |
| Tax paid | (1,542,275) | (8,947,965) |
| NET CASH FROM OPERATING ACTIVITIES | 2,697,589,304 | 1,639,070,721 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (3,234,965) | - |
| Decrease in amount due from an intermediate holding company | 192,049,889 | 1,591,836,226 |
| Increase in amount due from the immediate holding company | (6,306,433,122) | - |
| Decrease (increase) in amounts due from fellow subsidiaries | 3,909,326,407 | (3,752,095,951) |
| NET CASH USED IN INVESTING ACTIVITIES | (2,208,291,791) | (2,160,259,725) |

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Net (repayment) drawdown of bank loans | (870,797,443) | 944,087,235 |
| Repayment of lease liabilities | (3,377,612) | (2,186,066) |
| Increase (decrease) in amounts due to fellow subsidiaries | 1,082,967,556 | (427,174,827) |
| NET CASH FROM FINANCING ACTIVITIES | 208,792,501 | 514,726,342 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 698,090,014 | (6,462,662) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 648,279,066 | 654,741,728 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 1,346,369,080 | 648,279,066 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 1,346,369,080 | 648,279,066 |

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

During the year ended 31 December 2021 and 2020, an interim dividend of HK$450,000,000 (2020: HK$1,150,000,000) was payable to Haitong International (BVI) Limited, the former immediate holding company. Under the centralized clearing arrangement of Haitong International Securities Group Limited, the dividend was settled through amount due from the immediate holding company (2020: an intermediate holding company).

Disclosure in relation to the changes in liabilities arising from financing activities are detailed in note 37 to the financial statements.

## 1. GENERAL

Haitong International Securities Company Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 22/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

During the year ended 31 December 2021, the Company was involved in securities brokerage and dealing, investment holding, the provision of securities margin financing, placing and underwriting services and other consultancy and advisory services.

The Company is licensed under the Securities and Futures Commission to conduct the regulated activities on dealing in securities and advising on securities during the year ended 31 December 2021.

In the opinion of the Board of the Company, the parent company of the Company is Haitong International Securities Group Limited, which is incorporated in Bermuda and listed in Hong Kong, and the ultimate holding company of the Company is Haitong Securities Co., Ltd., which is incorporated in the People's Republic of China ("PRC") and listed in both the PRC and Hong Kong.

On 9 August 2021, Haitong International (BVI) Limited, being the sole shareholder of the Company, conducted a reorganisation. The entire shareholding interest in the Company was transferred to Haitong International Securities Group Limited for a consideration of HK$12,062,670,795. The consideration was settled through amount due to the immediate holding company.

Since then, Haitong International Securities Group Limited became the immediate holding company of the Company. As at 31 December 2020, Haitong International Securities Group Limited was an intermediate holding company of the Company.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Company has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the financial statements:

| | |
|---|---|
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform - Phase 2 |

The application of the 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

New and amendments to HKFRSs in issue but not yet effective

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[3] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021[1] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3] |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies[3] |
| Amendments to HKAS 8 | Definition of Accounting Estimates[3] |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3] |
| Amendments to HKAS 16 | Property, Plant and Equipment - Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts - Cost of Fulfilling a Contract[2] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 - 2020[2] |

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the financial statements in the foreseeable future.

**Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)**

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

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

New and amendments to HKFRSs in issue but not yet effective - continued

**Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)** - continued

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Company's outstanding liabilities as at 31 December 2021, including bank borrowings and debt securities in issue, and the related terms and conditions stipulated in the agreements between the Company and the relevant lenders, the application of the amendments will not result in reclassification of the Company's liabilities.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

**Change in presentation of statement of profit or loss**

To better reflect the foreign exchange gain or loss (net) arising from translation of foreign-currency denominated assets and liabilities of the Company (other than those measured at fair value through profit or loss) into the respective functional currencies and to align with the financial statements disclosure of other peers to enhance the comparability, the Company presents the foreign exchange gain or loss (net) from "Operating expenses" to "Other income and gains or losses". Comparative figures are restated to conform the current year's presentation.

**3.1 Basis of preparation of financial statements**

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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.

The financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments which are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

### 3.1 Basis of preparation of financial statements - continued

Fair value

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 share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 "Leases" ("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".

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies**

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 and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the 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.

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

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

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

Description of the Company's performance obligation of main source of income under the scope of HKFRS 15 are as follows:

*(1)* *Brokerage*

The Company provides broking and dealing services for securities, futures and options contracts, and also distribution of over-the-counter products such as investment funds. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Company provides custodian and handling services for securities, futures, options and other types of products. Fee income is recognised when the transaction is executed and service is completed, except for custodian service fee which is recognised over time.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Revenue from contracts with customers - continued

*(2) Corporate finance*

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

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

*Variable consideration*

For contracts that contain variable consideration, such as performance and incentive fee income, the Company estimates the amount of consideration to which it will be entitled using the most likely amount.

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

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

Leases

**Definition of a lease**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts entered into or modified or arising from business combinations, the Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Leases - continued

**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.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

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

The Company applies the short-term lease recognition exemption to leases of billboards that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

*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.

Except for those that are classified as investment properties and measured under fair value model, right-of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Company presents right-of-use assets in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Leases - continued

**The Company as a lessee** - continued

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. Accounting policies for financial instruments are detailed below.

*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 liabilities recognised are included in "Other payable, accruals, and other liabilities".

The lease payments relevant to the Company include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

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

*Lease modifications*

The Company accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Company remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Leases - continued

**The Company as a lessee** - continued

*Lease modifications* - continued

The Company accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the modified 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.

Property and equipment (including leasehold land and building)

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Property and equipment are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives of major categories of fixed assets are as follows:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the lease terms and 2.5% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |
| Furniture, fixtures and equipment | 20% |
| Computer hardware and equipment | 30% |

*Ownership interests in leasehold land and building*

When the Company makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property and equipment.

An item of property 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 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.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

### 3.2 **Significant accounting policies** - continued

Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost 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. The estimated useful lives of computer software and system development of the Company are from 3 to 10 years.

*Derecognition of intangible assets*

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.

Foreign currency translation

*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Hong Kong Dollar, which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss ("FVTPL") are reported as part of the fair value gain or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Employee benefits

*Pension scheme*

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and recognised as expenses when employees have rendered services entitling them to the contributions.

The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Company's employer voluntary contributions, which are refunded to the Company when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. The refunded contribution is recognised in the statement of profit or loss to offset the current year contribution made.

*Paid leave carried forward*

The Company provides paid annual leave to its employees under their employment contracts on a calendar year basis. Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

*Bonus and incentive plans*

The Company recognises a liability and an expense for bonuses and incentives, where appropriate, based on approved formulas that take into consideration the profit attributable to the Company after certain adjustments as necessary. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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 (loss) before tax 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Taxation - continued

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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

Current/deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when they relate to income taxes levied to the same taxation 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.

Impairment on non-financial assets

At the end of the reporting period, the Company reviews the carrying amounts of its property and equipment, right-of-use assets, 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). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Impairment on non-financial assets - continued

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e., the higher of an asset's fair value less costs of disposal and value-in-use). The recoverable amount of tangible 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.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 Company 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 Company 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 Company of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments

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

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

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

**Financial assets**

*Classification and subsequent measurement of financial assets*

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

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

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

- the financial asset is held within a business model whose objective is achieved by both 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 upon initial recognition of an equity instrument that the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial assets** - continued

*Classification and subsequent measurement of financial assets* - continued

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Effective interest method is used for those financial assets measured at amortised cost and debt instruments measured at FVTPL. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial asset but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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 (with the amortised cost being the gross carrying amount less the impairment allowance). 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial assets** - continued

*Classification and subsequent measurement of financial assets* - continued

(ii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss include any dividend and interest income on the financial assets.

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9*

The Company performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to customers in margin financing, amounts due from related companies, cash collateral on securities borrowed and reverse repurchase agreements, accounts receivable, deposits and other receivables, cash and cash equivalents, cash held on behalf of customers), which are subject to impairment 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. Assessment 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.

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

For all other instruments, the Company applies the general approach to measure ECL for all financial assets which are subject to impairment under HKFRS 9. On this basis, 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9* - continued

(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;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecasting 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.

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 (except for advances to customers in margin financing where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Company has reasonable and supportable information that demonstrates otherwise.

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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9* - continued

(ii) Definition of default

The Company considers that default has occurred when the instrument is more than 90 days past due (except for advances to customers in margin financing where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Company has reasonable and supportable information that demonstrates otherwise.

(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) substantial shortfall of the loan balance versus the collateral held by the Company while there is no concrete repayment plan to reduce the shortfall;
(d) 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;
(e) probable event that the borrower will enter bankruptcy or other financial reorganisation; or
(f) the disappearance of an active market for that financial asset because of financial difficulties.

(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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets and other items subject to impairment assessment under HKFRS 9* - continued

(v) Measurement and recognition of ECL

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

Generally, the ECL is the difference between all contractual cash flows that are due to the 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.

Where ECL is measured on a collective basis or cater for cases where evidence for impairment measurement at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Company's accounts receivable, advances to customers, investment securities at amortised cost, cash collateral on securities borrowed and reverse repurchase agreements, deposits and other receivables, cash and cash equivalents and cash held on behalf of customers are each assessed as a separate group);
- Past-due status; and
- External credit ratings where available.

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

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

Except for investment in debt instruments that are measured at FVTOCI, the Company recognises an impairment charges, net of reversal in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to customers and investment securities at amortised cost, where the corresponding adjustment is recognised through a loss allowance account.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant 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.

*Modification of financial assets*

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset are modified, the Company assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Company considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset, after reducing gross carrying amount that has been written off.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial liabilities and equity**

*Classification as debt or equity*

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

*Equity instruments*

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

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

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) those designated as at FVTPL.

Conditions for classifying financial liabilities as held for trading are largely similar as the conditions for classifying financial assets as held for trading.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 34.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial liabilities and equity** - continued

*Financial liabilities at amortised cost*

Financial liabilities including bank borrowings, accounts payable, cash collateral on securities lent and repurchase agreements and other payables are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

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.

*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.

*Derivative financial instruments*

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

*Offsetting a financial asset and a financial liability*

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

**3.2 Significant accounting policies** - continued

Financial instruments - continued

**Financial liabilities and equity** - continued

*Repurchase agreements*

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

*Reverse repurchase agreements*

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "Reverse repurchase agreements" in the statement of financial position. Reverse repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty

**Impairment charges of financial assets at amortised cost**

The directors of the Company estimate the amount of loss allowance for ECL on financial assets at amortised cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk and therefore expected cash flows of the respective financial instrument involves a high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment charges or a material reversal of impairment charges may arise, accordingly. The information about the ECL and the financial assets at amortised cost are disclosed in respective notes to the financial statements.

In response to the requirements of HKFRS 9, the Risk Management Department is responsible for developing and maintaining the processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL; and ensuring that the Company has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

*Incorporation of forward-looking information*

The Company employs internal experts who use external and internal information to generate scenario of future forecast of relevant economic variables. The internal and external information used includes the historical data of the Company and economic data and forecasts published by governmental bodies and monetary authorities respectively. Accordingly, when measuring ECL the Company selects and uses reasonable and supportable forward-looking information available without undue cost or effort in its assessment, which is based on assumptions and estimates for the future movement of different economic drivers and how these drivers will affect each other as well as the correlation.

*Measurement of ECL*

Probability of default ("PD") constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation is based on reasonable and appropriate statistical rating models selected by the management with judgements. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors which includes historical data, assumptions and expectations of future conditions. In current situation of greater economic uncertainties, the directors of the Company have taken into account of the possible worsening economic outlook into certain ECL models by adjusting the probabilities assigned to the multiple economic scenarios (e.g. normal scenario and downside scenario) set in the ECL model with reference to the publicly available information. The management gathers this information and adjust the data to reflect probability-weighted forward-looking information that is reasonable and supportable available without undue cost or effort.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty - continued

**Impairment charges of financial assets at amortised cost** - continued

*Measurement of ECL* - continued

Loss Given Default ("LGD") is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements with significant judgments involved. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, transaction volume of the secured assets and seniority of claim. For unsecured loans, the calculation of LGD includes the judgments in determining the proportion of loan recovered after default and the duration of recovery.

In assessing the lifetime ECL on credit-impaired financial assets classified as stage 3, the Company performs the assessment based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors or borrowers (such as whether there is any guarantor and the financial strength of the guarantor), general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Company also reviews the value of the collateral received from the customers and other types of credit enhancement received during debt collection process in determining the impairment. Generally, the Company reviews the value of collateral depending on the particular type of the collateral received. During the course of business, the Company will receive different types of collateral for financing provided, such as listed shares, shares of unlisted companies or assets such as property, and the Company has developed valuation techniques and policies in valuing different types of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce material differences between loss estimates and actual loss experience.

Relevant information with regard to the exposure to credit risk and expected credit losses are set out in note 34 to the financial statements.

Critical judgements in applying accounting policies

**Significant increase in credit risk in measurement of ECL**

As explained in note 3, the Company monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12m ECL. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Company takes into account qualitative and quantitative reasonable and supportable forward-looking information without undue cost or effort with significant judgments involved. Information that will be taken into account when assessing whatever there is significant increase in credit risks are set out in "Impairment of financial assets" in note 3 and note 34.

## 5. REVENUE

An analysis of revenue is as follows:

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| **Revenue** | | |
| Commission and fee income (Note): | | |
| Commission on securities dealing and broking | 840,525,822 | 872,450,353 |
| Commission on underwriting and placing | 193,896,442 | 49,507,599 |
| Financial advisory and consultancy fee income | 23,836,354 | 4,293,020 |
| Handling, custodian and other service fee income | 216,186,273 | 201,461,967 |
| | 1,274,444,891 | 1,127,712,939 |
| Interest income: | | |
| Interest income from advances to customers in margin financing | 808,414,663 | 1,010,942,582 |
| Interest income from other activities | 82,143,153 | 185,102,434 |
| | 890,557,816 | 1,196,045,016 |
| Net trading and investment income: | | |
| Net income from financial assets held for trading and market making activities | 562,519,441 | 329,154,947 |
| Net gain from investment securities at fair value | 485,133 | 122,996 |
| | 563,004,574 | 329,277,943 |
| | 2,728,007,281 | 2,653,035,898 |

Note: Commission and fee income is the only revenue arising from HKFRS 15, while interest income and net investment gains are under the scope of HKFRS 9.

## 6. PROFIT BEFORE TAX

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| Profit before tax has been arrived at after charging: | | |
| Auditor's remuneration (note i) | 1,384,000 | 692,000 |
| Depreciation on property and equipment (other than right-of-use assets) | 122,574 | 56,491 |
| Depreciation of right-of-use assets | 3,314,601 | 2,241,296 |
| Exchange costs | 123,481,122 | 61,055,820 |
| IT expenses | 129,656,934 | 125,523,633 |
| Settlement costs | 154,863,209 | 175,572,946 |

Note:

(i) Auditor's remuneration for both years are settled by Haitong International Securities Group Limited, the immediate holding company of the Company (2020: an intermediate holding company).

## 7. IMPAIRMENT CHARGES, NET OF REVERSAL

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Impairment charges (reversal of impairment charges) on: | | |
| Advances to customers in margin financing | 500,371,986 | 331,823,396 |
| Accounts receivable and others | (253,386) | 395,958 |
| | 500,118,600 | 332,219,354 |

## 8. FINANCE COSTS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Bank loans and overdrafts | 24,367,465 | 90,411,513 |
| Finance cost to an intermediate holding company (note 32) | - | 409,091,254 |
| Finance cost to the immediate holding company (note 32) | 348,603,505 | - |
| Interest on lease liabilities | 183,373 | 172,723 |
| Repurchase agreements | 30,700,254 | 28,032,863 |
| Others | 2,074,918 | 1,591,281 |
| | 405,929,515 | 529,299,634 |

## 9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Salaries, incentives, bonuses and allowances (Note) | 316,107,972 | 257,300,730 |
| Pension scheme contribution (Note) | 8,464,530 | 8,125,653 |
| | 324,572,502 | 265,426,383 |

Note: The amounts represent the reimbursement of staff cost to a fellow subsidiary.

## 10. DIRECTORS' REMUNERATION

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Salaries and allowances | 8,187,375 | 8,728,854 |
| Pension scheme contribution | 182,181 | 182,580 |
| | 8,369,556 | 8,911,434 |

The directors' emoluments shown above were mainly for their services in connection with management of the affairs of the Company.

Certain directors of the Company received emoluments from its related companies, which amounted to HK$8,642,540 (2020: HK$13,812,250), part of which is in respect of their services to the Company and its holding companies and its fellow subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount among their services to the Company, its holding companies and its fellow subsidiaries.

## 11. DIVIDENDS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Interim dividend of HK$0.0391 (2020: HK$0.1) per ordinary share | 450,000,000 | 1,150,000,000 |

## 12. INCOME TAX EXPENSE (CREDIT)

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Current tax | | |
| - Hong Kong | 50,772,396 | - |
| - Other jurisdictions | 2,348,716 | 960,087 |
| | 53,121,112 | 960,087 |
| Under (over)provision | | |
| - Hong Kong | - | (11,794,402) |
| - Other jurisdictions | 106,789 | 226 |
| | 106,789 | (11,794,176) |
| Deferred tax | | |
| - Hong Kong | (565,912) | 5,729,060 |
| | 52,661,989 | (5,105,029) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits arising in Hong Kong for the current year. No provision has been made for the prior year as there is no assessable profits under Hong Kong Profits Tax.

## 12. INCOME TAX EXPENSE (CREDIT) - continued

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC representative office is 25%.

Under the Law of Macau Special Administrative Region on Complementary Tax, the tax rate of the Macau Branch is 12%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. The tax charge for the year can be reconciled to the profit before tax per the statement of profit or loss and other comprehensive income as follows:

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Profit before tax | 468,504,389 | 140,851,966 |
| Taxation at Hong Kong Profits Tax rate of 16.5% | 77,303,224 | 23,240,574 |
| Tax effect of income not taxable for tax purpose | (41,281,879) | (65,114,975) |
| Tax effect of expenses not deductible for tax purpose | 25,970,840 | 37,965,434 |
| Under (over)provision in respect of prior years | 106,789 | (11,794,176) |
| Effects of tax losses not recognised | - | 10,271,684 |
| Effects of utilisation of tax losses previously not recognised | (10,271,684) | - |
| Effects of different tax rates in foreign jurisdictions | 586,793 | 326,430 |
| Others | 247,906 | - |
| Income tax expense (credit) | 52,661,989 | (5,105,029) |

As at 31 December 2021, the unused estimated tax losses brought forward have been fully utilised to offset taxable profits. As at 31 December 2020, the Company had unused estimated tax losses of approximately HK$62,253,000 available for offset against future profits. No deferred tax asset had been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

## 13. CASH AND CASH EQUIVALENTS

The amount comprises of cash on hands and bank current and savings deposits held by the Company at prevailing market interest rate.

## 14. CASH HELD ON BEHALF OF CUSTOMERS

The Company maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of business.

The Company has classified the clients' monies as cash held on behalf of customers under the current assets section of the statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies.

The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 15. FINANCIAL ASSETS HELD FOR TRADING AND MARKET MAKING ACTIVITIES

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Listed equity investments | 510,003,318 | 882,256,241 |
| Exchange traded funds | 52,619,569 | 65,908,159 |
| Listed debt investments | 47,126,466 | 2,006,963,029 |
| Unlisted debt investments | - | 26,926,920 |
| | 609,749,353 | 2,982,054,349 |

Details of disclosure for fair value measurement is set out in note 34.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| ASSETS | | |
| Listed options/warrants | 27,195,146 | 405,077,066 |
| Listed callable bull/bear contracts | - | 4,741,351 |
| | 27,195,146 | 409,818,417 |
| LIABILITIES | | |
| Listed options/warrants | 79,842,287 | 560,419,826 |
| Listed callable bull/bear contracts | 216,576,761 | 190,398,258 |
| | 296,419,048 | 750,818,084 |

The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial liabilities in the statement of financial position.

Details of disclosure for fair value measurement is set out in note 34.

## 17. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Margin financing | 9,841,496,707 | 13,528,652,134 |
| Less: Impairment allowance | (702,917,255) | (1,206,709,256) |
| | 9,138,579,452 | 12,321,942,878 |

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Company, where the Company maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call with the margin clients having to make good the shortfall. In granting credit facility, other factors such as financial strength, creditworthiness and the past collection statistics are also considered. The Company's Risk Management Department is responsible to monitor credit risk and seek to maintain a strict control over the outstanding loan balance.

The loans to margin clients are interest bearing and secured by the underlying pledged securities. As at 31 December 2021, margin financing of HK$9,139 million (31 December 2020: HK$12,322 million) were secured by securities pledged by the customers to the Company as collateral with undiscounted market value of HK$46,961 million (31 December 2020: HK$72,693 million). In determining the allowances for credit impaired loans to margin clients for the current year, the management of the Company also takes into account shortfall by comparing the fair value of securities pledged as collateral and the outstanding balance of loan to margin clients, taking into account factors including subsequent settlements, executable settlement plans and restructuring arrangements, and other types of credit enhancements in assessing the expected credit loss.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 34.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis is not meaningful in view of the revolving nature of the business of securities margin financing.

## 18. CASH COLLATERAL ON SECURITIES BORROWED AND REVERSE REPURCHASE AGREEMENTS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Cash collateral on securities borrowed | 53,679,080 | 677,008,657 |
| Reverse repurchases agreements | | |
| Analysed by collateral type: | | |
| Equities | 426,516,765 | 1,729,354,568 |
| Bonds | 1,572,716,805 | 1,838,875,729 |
| | 2,052,912,650 | 4,245,238,954 |

## 18. CASH COLLATERAL ON SECURITIES BORROWED AND REVERSE REPURCHASE AGREEMENTS - continued

Cash collateral paid under securities borrowing agreements is repayable upon expiry of relevant securities borrowing agreements and the relevant stocks borrowed are returned to the lender. Reverse repurchase agreements are transactions in which the external investors sell a security to the Company and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Company is not exposed to significant credit risks, market risks and rewards of those securities bought. These securities are not recognised in the financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As at 31 December 2021, the fair value of the collateral in respect of reverse repurchase agreements was HK$2,843 million (2020: HK$4,320 million). As at 31 December 2021, included in the reverse repurchase agreements is the reverse repurchase agreement of HK$2,393 million (2020: HK$1,876 million) entered between the Company and fellow subsidiaries.

Details of stock borrowing and lending are set out in note 36.

## 19. ACCOUNTS RECEIVABLE

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Accounts receivable from: | | |
| - Clients | 1,843,206,358 | 1,344,146,050 |
| - Brokers, dealers and clearing house | 1,077,257,244 | 1,028,890,109 |
| - Clients for subscription of new shares in IPO | - | 562,717,085 |
| - Others | 68,142,344 | 3,120,212 |
| | 2,988,605,946 | 2,938,873,456 |

Details of impairment assessment for current and prior years are set out in "credit risk and impairment assessment" in note 34.

The following is an ageing analysis of the accounts receivable based on trade date/invoice date at the reporting date:

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Between 0 and 3 months | 2,977,917,320 | 2,933,691,462 |
| Between 4 and 6 months | 5,829,166 | 2,868,200 |
| Between 7 and 12 months | 596,474 | 495,563 |
| Over 1 year | 4,262,986 | 1,818,231 |
| | 2,988,605,946 | 2,938,873,456 |

## 19. ACCOUNTS RECEIVABLE - continued

Accounts receivable from clients, brokers, dealers and clearing houses arising from the business of dealing in securities are repayable on demand subsequent to settlement date. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and that of accounts receivable arising from the business of dealing in futures, options and securities trading in Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are one day after trade date.

Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 31 December 2021, there are no accounts receivable from clients arising from financing of IPO subscriptions. As at 31 December 2020, the settlement dates are in the range of 2 to 7 days.

Normal settlement terms of accounts receivable from corporate finance are determined in accordance with the contract terms. These accounts receivable are usually repaid within one year after the services have been provided.

For accounts receivable from clients that are overdue, the management ensures that the available cash balance, listed equity securities, listed debt investments and exchange traded funds belonging to clients which the Company holds as custodian are sufficient to cover the amounts due to the Company.

## 20. INVESTMENT SECURITIES

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Investment securities at fair value through profit or loss | | |
| Listed equity investments | 377,280 | 795,325 |
| Less: Non-current portion | - | - |
| Current portion | 377,280 | 795,325 |

Details of disclosure for fair value measurement are set out in note 34.

## 21. INTANGIBLE ASSETS

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| Cost (gross carrying amount) | 9,075,000 | 9,075,000 |
| Accumulated amortisation | (3,020,655) | (3,020,655) |
| Net carrying amount | 6,054,345 | 6,054,345 |

Upon the adoption of HKAS 38 "Intangible Assets" in 2005, the Company's eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited of net carrying amount of HK$6,054,345 (31 December 2020: HK$6,054,345) are considered to have indefinite lives, which are not amortised, as the trading rights have no expiry date. The accumulated amortisation is brought forward from prior years before the adoption of HKAS 38.

The trading rights held by the Company are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the cash generating units relating to brokerage business, whereby these trading rights are allocated to, using a value in use calculation, exceed the carrying amounts. Accordingly, there is no impairment on the trading rights as at 31 December 2021 and 31 December 2020.

## 22. OTHER ASSETS

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| At cost: | | |
| Deposits with the Stock Exchange: | | |
| - Compensation fund | 650,000 | 650,000 |
| - Fidelity fund | 350,000 | 350,000 |
| - Mainland securities and settlement deposit | 80,847,677 | 78,593,742 |
| Stamp duty deposits | 500,000 | 500,000 |
| Contributions to The Central Clearing and Settlement System Guarantee Fund | 92,804,201 | 93,540,650 |
| Admission fees paid to Hong Kong Securities Clearing Company Limited | 300,000 | 300,000 |
| Reserve fund with The SEHK Options Clearing House Limited | 5,186,755 | 4,370,973 |
| Compensation fund paid to The Shenzhen Stock Exchange Co., Ltd. | 300,000 | 300,000 |
| Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation | 386,625 | 386,625 |
| | 181,325,258 | 178,991,990 |

## 23. PROPERTY AND EQUIPMENT

| 31 December 2021 | Leasehold land and buildings HK$ | Leasehold improvements HK$ | Computer equipment HK$ | Furniture, fixtures and equipment HK$ | Total HK$ |
|---|---|---|---|---|---|
| At 1 January 2021 | | | | | |
| Cost | 17,770,614 | 19,243,306 | 2,758,520 | 548,053 | 40,320,493 |
| Accumulated depreciation | (5,593,397) | (19,243,306) | (2,758,520) | (548,053) | (28,143,276) |
| Net carrying values | 12,177,217 | - | - | - | 12,177,217 |
| At 1 January 2021, net of accumulated depreciation | 12,177,217 | - | - | - | 12,177,217 |
| Addition - Right-of-use assets under HKFRS 16 | 1,758,560 | - | - | - | 1,758,560 |
| Additions | - | 138,659 | 1,853,210 | 1,243,096 | 3,234,965 |
| Exchange adjustment | (133,677) | (319) | (1) | (248) | (134,245) |
| Depreciation | (3,362,445) | (29,093) | (3,694) | (41,943) | (3,437,175) |
| At 31 December 2021, net of accumulated depreciation | 10,439,655 | 109,247 | 1,849,515 | 1,200,905 | 13,599,322 |
| At 31 December 2021 | | | | | |
| Cost | 19,529,174 | 19,381,965 | 4,611,730 | 1,791,149 | 45,314,018 |
| Accumulated depreciation | (9,089,519) | (19,272,718) | (2,762,215) | (590,244) | (31,714,696) |
| Net carrying values | 10,439,655 | 109,247 | 1,849,515 | 1,200,905 | 13,599,322 |

| 31 December 2020 | Leasehold land and buildings HK$ | Leasehold improvements HK$ | Computer equipment HK$ | Furniture, fixtures and equipment HK$ | Total HK$ |
|---|---|---|---|---|---|
| At 1 January 2020 | | | | | |
| Cost | 9,113,805 | 19,243,306 | 2,758,520 | 548,053 | 31,663,684 |
| Accumulated depreciation | (3,304,258) | (19,237,618) | (2,756,697) | (546,916) | (25,845,489) |
| Net carrying values | 5,809,547 | 5,688 | 1,823 | 1,137 | 5,818,195 |
| At 1 January 2020, net of accumulated depreciation | 5,809,547 | 5,688 | 1,823 | 1,137 | 5,818,195 |
| Additions - Right-of-use assets under HKFRS 16 | 8,656,809 | - | - | - | 8,656,809 |
| Depreciation | (2,289,139) | (5,688) | (1,823) | (1,137) | (2,297,787) |
| At 31 December 2020, net of accumulated depreciation | 12,177,217 | - | - | - | 12,177,217 |
| At 31 December 2020 | | | | | |
| Cost | 17,770,614 | 19,243,306 | 2,758,520 | 548,053 | 40,320,493 |
| Accumulated depreciation | (5,593,397) | (19,243,306) | (2,758,520) | (548,053) | (28,143,276) |
| Net carrying values | 12,177,217 | - | - | - | 12,177,217 |

23. PROPERTY AND EQUIPMENT - continued

Notes:

(i) As at 31 December 2021, included in the carrying amount of leasehold land and buildings is right-of-use assets of HK$9,796,096 (2020: HK$11,485,814).

(ii) For the year ended 31 December 2021, the total cash outflow for leases amounts to HK$3,560,985 (2020: HK$2,358,789).

For both years, the Company leases various offices for its operations. Lease contracts are entered into for fixed term of 2 years and 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Company applies the definition of a contract and determines the period for which the contract is enforceable.

24. FINANCIAL LIABILITIES HELD FOR TRADING AND MARKET MAKING ACTIVITIES

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Listed equity investments (Note) | 58,050,371 | 84,813,133 |
| Listed debt investments (Note) | 73,060,633 | 1,784,961,225 |
| | 131,111,004 | 1,869,774,358 |

Note: Balance represents the fair value of equity and debt securities from short selling activities.

Details of disclosure for fair value measurement are set out in note 34.

25. CASH COLLATERAL ON SECURITIES LENT AND REPURCHASE AGREEMENTS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Cash collateral on securities lent | 1,089,380,809 | 1,736,436,910 |
| Repurchase agreements | | |
| *Analysed by collateral type:* | | |
| Equities | 1,070,947,200 | 4,782,352,600 |
| Bonds | 795,933,470 | 761,848,722 |
| | 2,956,261,479 | 7,280,638,232 |

## 25. CASH COLLATERAL ON SECURITIES LENT AND REPURCHASE AGREEMENTS - continued

Cash collateral received under securities lending agreement are repayable upon expiry of relevant securities lending agreements and the relevant stocks lent are returned by the borrower. Repurchase agreements are transactions in which the Company sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Company is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Company retains substantially all the risks and rewards of these securities.

As at 31 December 2021, the Company entered into repurchase agreements with financial institutions to sell equities and bonds recognised as financial assets at FVTPL with carrying amount of HK$2,202 million (2020: HK$6,547 million), which were subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

As at 31 December 2021, repurchase agreements of HK$349 million (2020: HK$596 million) were entered between the Company and a fellow subsidiary.

Details of stock borrowing and lending are set out in note 36.

## 26. ACCOUNTS PAYABLE

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Accounts payable to: | | |
| - Clients | 14,934,844,297 | 18,160,853,841 |
| - Brokers, dealers and clearing house | 1,486,535,212 | 770,238,047 |
| - Others | 67,416,395 | 538,263,923 |
| | 16,488,795,904 | 19,469,355,811 |

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

The Company has a practice to satisfy all the requests for payments immediately within the credit period.

Except for the accounts payable to clients which bear interest at 0.001% as at 31 December 2021 (31 December 2020: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in segregated accounts with authorised institutions of HK$14,362 million (31 December 2020: HK$17,922 million) and Stock Exchange Options Clearing House totalling HK$46 million (31 December 2020: HK$46 million).

## 27. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from related companies are unsecured, repayable on demand and non-interest bearing.

As at 31 December 2021 and 31 December 2020, the directors have reviewed and assessed the amounts due from related companies using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact are considered as immaterial.

The amounts due to related companies are unsecured, non-interest bearing and repayable on demand.

## 28. BANK BORROWINGS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Current liabilities | | |
| - Secured bank loans (Note) | 78,289,792 | 949,087,235 |

Note: As at 31 December 2021, bank loans of HK$78 million (31 December 2020: HK$949 million) were secured by the listed shares (held by the Company as security for advances to customers in margin financing with the customers' consent) of HK$2,437 million (31 December 2020: HK$4,934 million) at fair value held by the Company.

As at 31 December 2021 and 2020, there is no current portion of unsecured bank loans which are not repayable within one year from the end of the reporting period but contain a repayment on demand clause.

## 29. SUBORDINATED LOANS

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Subordinated loans from | | |
| - an intermediate holding company | - | 3,400,000,000 |
| - the immediate holding company | 3,400,000,000 | - |

The loans are unsecured, interest bearing at Hong Kong prime rate minus 1.5% per annum and repayable on demand with a notice period of one month and subject to the approval by the Securities and Futures Commission.

Subject to the overriding provision that, if the Company becomes insolvent or unable to meet the liquid capital requirements set out in the Securities and Futures (Finance Resources) Rules, the repayment of the loans is subordinated to the prior repayment of all other creditors of the Company.

## 30. SHARE CAPITAL

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of shares | Amounts HK$ | Number of shares | Amounts HK$ |
| Issued and fully paid: | | | | |
| Ordinary shares with no par value at beginning of the year | 11,500,000,000 | 11,500,000,000 | 11,500,000,000 | 11,500,000,000 |
| Ordinary share with no par value at end of the year | 11,500,000,000 | 11,500,000,000 | 11,500,000,000 | 11,500,000,000 |

There was no movement in the Company's share capital for both years.

## 31. OTHER PAYABLES, ACCRUALS AND OTHER LIABILITIES

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| Other payables, accruals and other liabilities | 25,585,504 | 54,323,184 |
| Less: Non-current portion | (4,869,253) | (8,439,534) |
| Current portion | 20,716,251 | 45,883,650 |

Notes:

(i) Other payables are non-interest bearing.

(ii) As at 31 December 2021, included in other payables, accruals and other liabilities are lease liabilities of HK$9,983,895 (31 December 2020: HK$11,602,947).

## 32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material transactions and balances with the related parties:

| | 2021 HK$ | 2020 HK$ |
|---|---|---|
| Intermediate holding company | | |
| - Management fees charged (Note b) | - | (519,531,641) |
| - Interest expense (Note c) | - | (409,091,254) |
| Immediate holding company | | |
| - Management fees charged (Note b) | (277,712,819) | - |
| - Interest expense (Note c) | (348,603,505) | - |
| Fellow subsidiaries | | |
| - Management fees charged (Note b) | (76,436,677) | (50,522,352) |
| - Services fees received (Note d) | - | 9,986,130 |
| - Services fees charged (Note d) | (3,594,594) | (27,579,724) |
| - IT expenses charged (Note e) | (83,434,264) | (62,172,766) |
| - Research fees charged to Haitong Bank, S.A. ("Haitong Bank") (Note a) | (44,096,510) | (49,705,000) |
| - Research fees received from Haitong Bank (Note a) | 6,783,334 | 5,228,000 |

32. RELATED PARTY TRANSACTIONS - continued

Notes:

(a) During the year ended 31 December 2019, the Company has entered into a framework collaboration agreement (the "Agreement") with Haitong Bank, a subsidiary of Haitong International Holdings Limited, an intermediate holding company of the Company, pursuant to which Haitong Bank and the Company would provide equity trading service and research service to each other, depending the domicile of the clients within or outside the European Union. During the current year, income received from Haitong Bank in connection to such services amounted to EUR747,183 (equivalent to HK$6,783,334) (2020: EUR587,000 (equivalent to HK$5,228,000)) and expenses paid by the company in connection to such services amounted to EUR4,890,526 (equivalent to HK$44,096,510) (2020: EUR5,323,000 (equivalent to HK$49,705,000)). The relevant income and expense are based on the terms as set out in the Agreement.

(b) During the year, management fees of HK$213,094,587 (2020: HK$456,606,985) were charged by Haitong International Securities Group Limited. It is related to general administrative services provided by Haitong International Securities Group Limited and fellow subsidiaries and were charged on a proportionate basis by reference to revenue and asset size of certain fellow subsidiaries.

During the year, management fees of HK$141,054,909 (2020:HK$113,447,008) were recharged by Haitong International Securities Group Limited and fellow subsidiaries in relation to equity trading service and research service to each other's external clients.

(c) Interest expense of HK$119,000,001 (2020: HK$119,326,028) was charged at Hong Kong prime rate minus 1.5% per annum on subordinated loans from Haitong International Securities Group Limited and the remaining interest expense of HK$229,603,504 (2020: HK$289,765,226) was arising from external funding sources of Haitong International Securities Group Limited by bank borrowings which were used by the Company and the relevant finance costs were recharged by Haitong International Securities Group Limited accordingly at prevailing market interest rate.

(d) Service fees were determined with reference to the actual expenses incurred by fellow subsidiaries or by the Company.

(e) IT expenses charged were determined with reference to the actual expenses incurred by fellow subsidiaries with 5% mark-up.

## 33. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to the sole shareholder through the optimisation of the debt and equity balance. The capital structure of the Company consists of issued share capital and retained earnings. The directors review the capital structure by considering the cost of capital and the risks associated with the capital. The Company's overall strategy remains unchanged throughout the year.

The Company is regulated by the Securities and Futures Commission and is required to comply with the financial resources requirements according to the Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management closely monitors, on a daily basis, the Company's liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Company has complied with the capital requirements imposed by SF(FR)R throughout the year.

## 34. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| *Financial assets* | | |
| Amortised cost (including cash and cash equivalents) | 36,056,933,508 | 42,606,389,067 |
| Fair value through profit or loss | | |
| Held for trading and market making activities | 609,749,353 | 2,982,054,349 |
| Derivative financial instruments | 27,195,146 | 409,818,417 |
| Investment securities | 377,280 | 795,325 |
| | 36,694,255,287 | 45,999,057,158 |
| *Financial liabilities* | | |
| Amortised cost | 24,108,942,809 | 31,214,149,096 |
| Fair value through profit or loss | | |
| Held for trading and market making activities | 131,111,004 | 1,869,774,358 |
| Derivative financial instruments | 296,419,048 | 750,818,084 |
| | 24,536,472,861 | 33,834,741,538 |

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Company's major financial instruments are advances to customers in margin financing, accounts receivable, amounts due from/to related companies, deposits and other receivables, other assets, financial assets/liabilities held for trading and market making activities, investment securities, cash and cash equivalents, cash held on behalf of customers, cash collateral on securities borrowed and reverse repurchase agreements, accounts payable, other payables, bank borrowings, subordinated loans, cash collateral on securities lent and repurchase agreements, derivative financial instruments and lease liabilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Company's exposures to market risk include price risk, currency risk and interest rate risk.

**Price risk**

Price risk is the risk that the fair values of equity investments, debt investments, exchange traded funds and derivatives decrease as a result of changes in the levels of equity indices and the value of individual investment.

The Company is mainly exposed to price risk arising from equity investments and exchange traded funds that are classified as financial assets/liabilities held for trading and market making activities and investment securities measured at FVTPL. Haitong International Securities Group Limited, the immediate holding company of the Company, has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Asset and Liabilities Management Committee and the Risk Management Committee which is for the purposes of monitoring the positions of its investment trading activities of Haitong International Securities Group Limited and its subsidiaries.

In addition, the Company's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Compliance Department and the Legal Department.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Price risk** - continued

*Listed equity investments and exchange traded funds*

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Company's profit after tax for the year. The analysis is based on the assumption that the equity indices had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index.

Hong Kong Hang Seng Index and other relevant indices

| | 2021 Impact on profit after tax HK$ | 2020 Impact on profit after tax HK$ |
|---|---|---|
| Increase by 10% | 42,163,308 | 72,156,240 |
| Decrease by 10% | (42,163,308) | (72,156,240) |

*Listed debt investments*

For sensitivity analysis purpose of debt investments, if the prices of listed debt investments had been 2% higher/lower, the profit after tax for the year ended 31 December 2021 would have decreased/increased by approximately HK$433,101 (2020: increased/decreased by HK$3,707,430).

*Derivative financial instruments - held for trading*

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 2%, the fair value of derivative financial instruments held for trading and profit after tax would be subject to an estimated HK$4,496,000 decrease/increase (2020: HK$5,695,000 decrease/increase). In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Price risk** - continued

*Interest rate risk*

*Fair value interest rate risk*

The Company's fair value interest rate risk relates primarily to financial assets/liabilities held for trading and market making activities all carried at fixed interest rates.

At 31 December 2021, if market interest rates had been 25 basis points (2020: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$54,138 (2020: increased/decreased by HK$519,639).

*Cash flow interest rate*

The Company's cash flow interest rate risk relates primarily to the Company's advances to customers in margin financing, cash held on behalf of customers, cash and cash equivalents, bank borrowings and subordinated loans with floating interest rates. The Company's exposure to cash flow interest rate risk arising from the interest-bearing assets can be offset against the Company's interest-bearing liabilities. Management of the Company actively monitors the Company's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Company is always in a net interest-bearing asset position and derives net interest income. The directors of the Company considered that there is no concentration of interest risk exposure.

| | 2021<br>HK$ | 2020<br>HK$ |
|---|---|---|
| Advances to customers in margin financing | 9,138,579,452 | 12,321,942,878 |
| Cash held on behalf of customers | 6,028,570,337 | 8,537,359,782 |
| Cash and cash equivalents | 1,346,369,080 | 648,279,066 |
| Bank borrowings | (78,289,792) | (949,087,235) |
| Subordinated loans | (3,400,000,000) | (3,400,000,000) |
| | 13,035,229,077 | 17,158,494,491 |

At 31 December 2021, if market interest rates had been 25 basis points (2020: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have increased/decreased by HK$27,211,000 (2020: increased/decreased by HK$35,818,000). In the opinion of the management the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Currency risk**

The Company's foreign currency risk arises principally from provision of corporate advisory services denominated in currencies other than Hong Kong dollars ("HKD"). Despite of this foreign exchange exposure, the majority of the Company's assets and liabilities are denominated in HKD, Renminbi ("RMB"), Japanese yen ("JPY"), Australian dollars ("AUD") and Singapore dollars ("SGD"). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

As at 31 December 2021, if RMB strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$15,012,000 higher/lower (2020: HK$23,095,000 higher/lower).

As at 31 December 2021, if JPY strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$4,746,000 higher/lower. As at 31 December 2020, the currency risk arising from JPY was immaterial.

As at 31 December 2021, if AUD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$1,502,000 higher/lower. As at 31 December 2020, the currency risk arising from AUD was immaterial.

As at 31 December 2021, if SGD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$3,332,000 higher/lower (2020: HK$3,330,000 higher/lower).

**Credit risk and impairment assessment**

As at 31 December 2021 and 31 December 2020, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

Apart from the exposure to the concentration of credit risk from bank balances, the Company has no other significant concentration of credit risk. The major sources of credit risk exposure of the Company are as follows:

*Amounts due from related companies and bank deposits*

In the opinion of the directors, the amounts due from related companies are considered to have minimal credit and default risk. Bank balances are placed in various authorised institutions and the directors consider the credit risk of such authorised institutions is low.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Advances to customers for margin financing*

In order to manage the credit risk, the Credit Committee of the Company has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of advances to customers and credit risk monitoring of advances to customers.

For margin lending, the Company adopts a proprietary developed credit scoring framework which is approved by the Credit Committee for calculating applicable margin ratios for individual stocks at acceptable collateral. The acceptable share list will be updated and approved quarterly and/or when deemed necessary by a working group consisted of Risk Management Department and relevant business units and support functions. The Credit Committee also prescribes the maximum margin limits on both Company level and individual account level for margin lending against a single client (or a group of connected margin clients) and/or a single stock from time to time to avoid over-concentration of risk.

The Risk Management Department of the Company is responsible for overall monitoring of the credit risk of its customers. It will closely monitor the financial position of the debtors and guarantors and for the loans with collateral pledged to the Company. The deficiency reports and customers' account portfolios are monitored on a daily basis to ensure that sufficient collateral are received to maintain an acceptable loan to collateral value ratio. Accounts with margin deficit is subject to margin calls, failure to meet margin calls may result in forced liquidation of part or all positions of the account.

In this regard, the directors consider that the Company's credit risk is significantly reduced.

Advances to customers in margin financing are backed by collateral. The Company only accepts collateral in the form of cash and liquid stocks. Concentration risk of advances to customers in margin financing is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding customers, including corporate entities and individuals at 31 December 2021 was HK$4,366 million (31 December 2020: HK$5,964 million) which were secured by collateral.

*Accounts receivable*

Majority of the settlement terms of accounts receivable attributable to dealing in securities and equity options transactions are two days after the trade date.

Accounts receivable from brokers, dealers and clearing house are attributable to dealing in futures and options transactions which are with the exchange houses and reputable international financial institutions. The risk of default is considered to be minimal.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Accounts receivable* - continued

There is no concentration of credit risk with respect to the receivables, as the Company has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

The Company's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Financial assets at amortised cost |
|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | 12-month ECL |
| Watch list | The counterparty has past due amounts but the payment has not been past due for 5 days (advance to customers in margin financing: no shortfall) | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (advance to customers in margin financing: shortfall outstanding between 1 and 30 days) | Lifetime ECL - not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (advance to customers in margin financing: shortfall outstanding for over 30 days) | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery | Amount is written off |

## 34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

*Accounts receivable* - continued

The tables below detail the credit risk exposures of the Company's financial assets, which are subject to ECL assessment:

| 2021 | Notes | External credit rating | Internal credit rating | 12-month or lifetime ECL | 2021 Gross carrying amount HK$ | HK$ | 2020 Gross carrying amount HK$ | HK$ |
|---|---|---|---|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | | | | | |
| Advances to customers in margin financing | 17 | N/A | Low risk | 12-month ECL | 8,022,602,438 | | 9,569,352,267 | |
| | | | Watch list | 12-month ECL | 46,331,867 | | 1,458,948,463 | |
| | | | Doubtful | Lifetime ECL (not credit-impaired) | 542,593,613 | | 475,564,938 | |
| | | | Loss | Lifetime (credit-impaired) | 1,229,968,789 | 9,841,496,707 | 2,024,786,466 | 13,528,652,134 |
| Cash and cash equivalents (Note) | 13 | Above Baa2 (Moody)/ BBB (S & P) | N/A | 12-month ECL | | 1,346,474,255 | | 648,359,121 |
| Cash held on behalf of customers (Note) | 14 | Above Baa2 (Moody)/ BBB (S & P) | N/A | 12-month ECL | | 14,362,415,743 | | 17,923,257,541 |
| Accounts receivable (Note) | 19 | N/A | Low risk | 12-month ECL | | 2,928,885,827 | | 2,940,902,858 |
| Cash collateral on securities borrowed and reverse repurchase agreements (Note) | 18 | Above Baa2 (Moody)/ BBB (S&P) | N/A | 12-month ECL | | 2,052,983,167 | | 4,245,978,218 |

Note: The directors of the Company consider the impacts of the ECL are immaterial to the Company and no reconciliation of gross carrying amount and impairment allowances have been prepared.

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, including macroeconomic data such as GDP growth, unemployment rates and benchmark interest rates. The identification of internal credit rating for individual financial assets regularly reviewed by management to ensure relevant information about specific financial assets is updated.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount from the beginning of the subsequent reporting period.

Movement in the allowances for impairment that has been recognised for advances to customers in margin financing are as follows:

31.12.2021

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2021 | 29,819,130 | 7,435 | 1,176,882,691 | 1,206,709,256 |
| Changes due to financial instruments recognised as at 1 January 2021: | | | | |
| - Net remeasurement of ECL without transfer of stage | (55,543) | - | 496,283,400 | 496,227,857 |
| - Repayments (note iv) | (150,817) | (106) | (5,245,690) | (5,396,613) |
| - Transfer from/to 12-month ECL to/from lifetime ECL | (7,913,829) | 8,135,974 | (222,145) | - |
| - Net remeasurement of ECL arising from transfer of stage (note i) | (245,544) | 5,016,718 | 4,039,542 | 8,810,716 |
| - De-recognition (note v) | - | (379) | (1,004,163,608) | (1,004,163,987) |
| New lending (note ii) | 724,631 | 5,165 | 230 | 730,026 |
| As at 31 December 2021 (note iii) | 22,178,028 | 13,164,807 | 667,574,420 | 702,917,255 |

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk and impairment assessment** - continued

31.12.2020

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2020 | 30,372,459 | 33,991,200 | 810,522,201 | 874,885,860 |
| Changes due to financial instruments recognised as at 1 January 2020: | | | | |
| - Net remeasurement of ECL without transfer of stage | (2,197,250) | - | 250,049,507 | 247,852,257 |
| - Repayments (note iv) | (152,545) | (290) | - | (152,835) |
| - Transfer from/to 12-month ECL to/from lifetime ECL | 20,972,068 | (33,518,388) | 12,546,320 | - |
| - Net remeasurement of ECL arising from transfer of stage (note i) | (19,866,515) | (465,087) | 103,764,663 | 83,433,061 |
| New lending (note ii) | 690,913 | - | - | 690,913 |
| As at 31 December 2020 (note iii) | 29,819,130 | 7,435 | 1,176,882,691 | 1,206,709,256 |

Notes:

(i) Financial assets with a gross carrying amount of HK$368 million (2020: HK$554 million) were assessed as becoming credit-impaired. Additional impairment allowance of HK$4 million (2020: HK$103 million) was made under lifetime ECL in respect of these assets.

(ii) Impairment allowance of HK$1 million (2020: HK$1 million) made under 12m ECL is in relating to new financial assets with gross amount of HK$1,148 million (2020: HK$1,795 million). During the current year, these advances to customers in margin financing had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) In determining the allowances for credit-impaired advances to customers in margin financing, the management of the Company also takes into account shortfall by comparing the fair value of securities pledged as collateral, other types of credit enhancement and the outstanding balance of loan to margin clients individually taking into account subsequent settlement or executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provisions for both years are appropriate.

(iv) During the current year, loans with gross carrying amounts of HK$190 million (2020: HK$58 million) were repaid (with a corresponding reversals of impairment).

(v) During the current year, loans with gross carrying amounts of HK$1,004 million were written off.

34. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. To manage the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand or less than 3 months HK$ | Over 3 months to 1 year HK$ | Over 1 year to 5 years HK$ | Total HK$ | Repayable on demand or less than 3 months HK$ | Over 3 months to 1 year HK$ | Over 1 year to 5 years HK$ | Total HK$ |
| Accounts payable | 16,488,795,904 | - | - | 16,488,795,904 | 19,469,355,811 | - | - | 19,469,355,811 |
| Other payables | 5,245,715 | - | - | 5,245,715 | 16,066,403 | - | - | 16,066,403 |
| Amounts due to fellow subsidiaries | 1,170,366,024 | - | - | 1,170,366,024 | 87,398,468 | - | - | 87,398,468 |
| Bank borrowings | 78,333,977 | - | - | 78,333,977 | 949,087,235 | - | - | 949,087,235 |
| Subordinated loans | 3,400,000,000 | - | - | 3,400,000,000 | 3,400,000,000 | - | - | 3,400,000,000 |
| Derivative financial instruments | 296,419,048 | - | - | 296,419,048 | 750,818,084 | - | - | 750,818,084 |
| Financial liabilities held for trading and market making activities | 131,111,004 | - | - | 131,111,004 | 1,869,774,358 | - | - | 1,869,774,358 |
| Cash collateral on securities lent and repurchase agreements | 2,956,261,479 | - | - | 2,956,261,479 | 7,280,638,232 | - | - | 7,280,638,232 |
| Lease liabilities | 1,355,226 | 4,065,679 | 4,983,759 | 10,404,664 | 786,200 | 2,590,512 | 8,792,487 | 12,169,199 |
| | 24,527,888,377 | 4,065,679 | 4,983,759 | 24,536,937,815 | 33,823,924,791 | 2,590,512 | 8,792,487 | 33,835,307,790 |

## 34. FINANCIAL INSTRUMENTS - continued

### Fair value

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

An analysis of the Company's financial assets and financial liabilities measured at fair value as at 31 December 2021 and 31 December 2020 are as follows:

| | Fair value as at 31 December 2021 HK$ | Fair value as at 31 December 2020 HK$ | Fair value hierarchy | Basis of fair value measurement/ valuation techniques and key inputs |
|---|---|---|---|---|
| Recurring fair value measurements: | | | | |
| Financial assets held for trading and market making activities/investment securities at FVTPL | | | | |
| - Listed equity investments | 510,380,598 | 883,051,566 | Level 1 | Note (a) |
| - Exchange traded funds | 52,619,569 | 65,908,159 | Level 1 | Note (a) |
| - Listed debt investments | 47,126,466 | 2,006,963,029 | Level 2 | Note (c) |
| - Unlisted debt investments | - | 26,926,920 | Level 2 | Note (c) |
| Derivative financial assets | | | | |
| - Listed options/warrants | 27,195,146 | 405,077,066 | Level 2 | Note (b) |
| - Listed callable bull/bear contracts | - | 4,741,351 | Level 2 | Note (b) |
| Financial liabilities held for trading and market making activities | | | | |
| - Listed equity investments | 58,050,371 | 84,813,133 | Level 1 | Note (a) |
| - Listed debt investments | 73,060,633 | 1,784,961,225 | Level 2 | Note (c) |
| Derivative financial liabilities | | | | |
| - Listed options/warrants | 79,842,287 | 560,419,826 | Level 2 | Note (b) |
| - Listed callable bull/bear contracts | 216,576,761 | 190,398,258 | Level 2 | Note (b) |

Notes:

(a) Quoted price in active markets.

(b) The fair value is determined based on option pricing model with market observable financial parameters, such as quoted market price, dividend yield, volatility, foreign exchange rate, as key parameters.

(c) The fair values of listed debt investments and unlisted debt investments are determined with reference to market observable broker/financial institution quotes.

As at 31 December 2021 and 31 December 2020, no non-financial assets or liabilities were carried at fair value.

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

## 35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Company's statement of financial position.

Under the agreement of continuous net settlement made between the Company and Hong Kong Securities Clearing Company Limited ("HKSCC"), Clearing Participant of China Securities Depository and Clearing Corporation Limited ("CSDC") and brokers, the Company has a legally enforceable right to set off the money obligation receivable and payable with HKSCC, CSDC and brokers on the same settlement date and the Company intends to set off on a net basis.

In addition, the Company has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Company intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, CSDC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Company, deposit placed with HKSCC, CSDC and brokers do not meet the criteria for offsetting in the statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 December 2021

| | Gross amounts of recognised financial assets after impairment | Gross amounts of recognised financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not set off in the statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| Financial assets | | | | | | |
| Accounts receivable from clients, brokers, dealers and clearing houses | 7,386,107,239 | (4,397,501,293) | 2,988,605,946 | (165,205,317) | (1,708,519,154) | 1,114,881,475 |
| Deposit placed with clearing houses | 181,325,258 | - | 181,325,258 | - | - | 181,325,258 |
| Advances to customers in margin financing | 9,138,579,452 | - | 9,138,579,452 | (159,685,222) | (8,243,849,417) | 735,044,813 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 2,052,912,650 | - | 2,052,912,650 | (404,476,011) | (1,648,436,639) | - |

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the statement of financial position | Net amount of financial liabilities presented in the statement of financial position | Related amounts not set off in the statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral pledged | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| Financial liabilities | | | | | | |
| Accounts payable clients, brokers, dealers and clearing houses | (20,886,297,197) | 4,397,501,293 | (16,488,795,904) | 324,890,540 | - | (16,163,905,364) |
| Financial liabilities held for trading and market making activities | (131,111,004) | - | (131,111,004) | - | 131,111,004 | - |
| Cash collateral on securities lent and repurchase agreements | (2,956,261,479) | - | (2,956,261,479) | 404,476,011 | 2,551,785,468 | - |

## 35. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING - continued

As at 31 December 2020

| | Gross amounts of recognised financial assets after impairment HK$ | Gross amounts of recognised financial liabilities set off in the statement of financial position HK$ | Net amounts of financial assets presented in the statement of financial position HK$ | Related amounts not set off in the statement of financial position: Financial instruments HK$ | Collateral received HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Accounts receivable from clients, brokers, dealers and clearing houses | 8,319,864,252 | (5,380,990,796) | 2,938,873,456 | (179,129,931) | (1,120,276,891) | 1,639,466,634 |
| Deposit placed with clearing houses | 178,991,990 | - | 178,991,990 | - | - | 178,991,990 |
| Advances to customers in margin financing | 12,321,942,878 | - | 12,321,942,878 | (383,547,627) | (11,024,156,766) | 914,238,485 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 4,245,238,954 | - | 4,245,238,954 | (819,185,312) | (3,426,053,642) | - |

| | Gross amounts of recognised financial liabilities HK$ | Gross amounts of recognised financial assets set off in the statement of financial position HK$ | Net amount of financial liabilities presented in the statement of financial position HK$ | Related amounts not set off in the statement of financial position: Financial instruments HK$ | Collateral pledged HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Accounts payable clients, brokers, dealers and clearing houses | (24,850,346,607) | 5,380,990,796 | (19,469,355,811) | 562,677,558 | - | (18,906,678,253) |
| Financial liabilities held for trading and market making activities | (1,869,774,358) | - | (1,869,774,358) | - | 1,869,774,358 | - |
| Cash collateral on securities lent and repurchase agreements | (7,280,638,232) | - | (7,280,638,232) | 819,185,312 | 6,461,452,920 | - |

## 36. STOCK BORROWING AND LENDING ARRANGEMENT

Under the normal course of business, the Company may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers for stock lending business.

During the process, the Company receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

As at 31 December 2021, the market value of the equity securities borrowed from external financial institutions and the equity securities lent to customers are HK$46 million (31 December 2020: HK$653 million) and HK$1,037 million (31 December 2020: HK$1,707 million) respectively while the cash collateral held by financial institutions and cash collateral received from customers for the stock borrowing and lending are HK$48 million (31 December 2020: HK$674 million) and HK$1,089 million (31 December 2020: HK$1,735 million) respectively.

Under the stock borrowing and lending arrangement, the Company is principally liable to repay the borrowed securities in case of any default by the customers.

As at 31 December 2021, cash collateral on securities lent of HK$6 million (2020: HK$157 million) is received from fellow subsidiaries.

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows from financing activities. Interest payments in relation to below liabilities are included in other payables and accruals and presented in operating cash flow.

| | Lease liabilities HK$ | Subordinated loans HK$ | Bank loans HK$ | Amounts due to fellow subsidiaries HK$ | Total HK$ |
|---|---|---|---|---|---|
| At 1 January 2021 | 11,602,947 | 3,400,000,000 | 949,087,235 | 87,398,468 | 4,448,088,650 |
| Financing cash flows | (3,377,612) | - | (870,797,443) | 1,082,967,556 | 208,792,501 |
| New leases entered | 1,758,560 | - | - | - | 1,758,560 |
| At 31 December 2021 | 9,983,895 | 3,400,000,000 | 78,289,792 | 1,170,366,024 | 4,658,639,711 |

| | Lease liabilities HK$ | Subordinated loans HK$ | Bank loans HK$ | Amounts due to fellow subsidiaries HK$ | Total HK$ |
|---|---|---|---|---|---|
| At 1 January 2020 | 5,132,204 | 3,400,000,000 | 5,000,000 | 514,573,295 | 3,924,705,499 |
| Financing cash flows | (2,186,066) | - | 944,087,235 | (427,174,827) | 514,726,342 |
| New leases entered | 8,656,809 | - | - | - | 8,656,809 |
| At 31 December 2020 | 11,602,947 | 3,400,000,000 | 949,087,235 | 87,398,468 | 4,448,088,650 |

## 38. CONTINGENCIES

The Company may become, or has become, a subject of litigation or arbitration in relation to its normal course of business. Any situation will be reviewed in conjunction with the Company's legal advisors. The Company considers that the eventual impact on the financial statements in terms of possible outflow of economic benefits will not be significant.