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# **PineStone 鼎石**

## **Pinestone Capital Limited**

### **鼎石資本有限公司**

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

**(Stock Code: 804)**

## **ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022**

### **FINANCIAL HIGHLIGHTS**

- For the year ended 31 December 2022, the Group's revenue amounted to a total of approximately HK\$19.5 million, representing a decrease of approximately 22% compared to approximately HK\$25.0 million in 2021. The decrease was driven by the decrease of income generated from various services provided. Commission income from the securities brokerage services decreased to HK\$0.2 million in 2022, compared to HK\$0.5 million as at 31 December 2021. Income generated from securities-backed lending services decreased to HK\$19.2 million, representing a decrease of approximately 20% from approximately HK\$24.2 million in 2021. The Group recorded nil income from placing and underwriting services as compared to an income of approximately HK\$83,000 in 2021.
- For the year ended 31 December 2022, loss before income tax increased to HK\$48.3 million, compared to a loss before income tax of approximately HK\$5.1 million in 2021. Net loss for the year ended 31 December 2022 was HK\$41.5 million, compared to a net loss of HK\$4.9 million in 2021. The loss was mostly attributable to an impairment loss of approximately HK\$49.6 million in respect of trade and loans receivables made related to securities-backed lending services during the year 2022, representing an increase of approximately HK\$37.1 million or approximately 297% increase compared to an impairment loss on trade and loans receivables of approximately HK\$12.5 million for the year ended 31 December 2021.
- If excluding this impairment loss of approximately HK\$49.6 million and deferred tax credit of approximately HK\$7.5 million, the Group would have recorded a net profit of approximately HK\$0.6 million for the year ended 31 December 2022.
- Basic loss per share was HK17.52 cents for the year ended 31 December 2022, compared to basic loss per share of HK2.15 cents (restated) for the year ended 31 December 2021.
- The Directors do not recommend the payment of final dividend for the year ended 31 December 2022.

## CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “**Board**”) of Pinestone Capital Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 together with the comparative figures for the year ended 31 December 2021 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2022*

	<i>Notes</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue</b>	5	<b>19,471</b>	24,973
Other income		<b>88</b>	44
Employee benefit expenses		<b>(10,107)</b>	(9,309)
Depreciation		<b>(1,033)</b>	(1,953)
Impairment losses on trade and loans receivables, net	10&11	<b>(49,568)</b>	(12,499)
Other operating expenses		<b>(7,107)</b>	(6,295)
Finance costs		<b>(89)</b>	(67)
<b>Loss before income tax</b>	6	<b>(48,345)</b>	(5,106)
Income tax credit	7	<b>6,875</b>	173
<b>Loss and total comprehensive income for the year</b>		<b>(41,470)</b>	(4,933)
		<i>HK cents</i>	<i>HK cents</i> <i>(Restated)</i>
<b>Loss per share</b>			
Basic and diluted	9	<b>(17.52)</b>	(2.15)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>1,605</b>	2,925
Intangible asset		<b>500</b>	500
Statutory deposits placed with stock exchange and clearing house		<b>205</b>	205
Deferred tax assets		<b>11,453</b>	3,905
		<b>13,763</b>	7,535
<b>Current assets</b>			
Trade receivables	<i>10</i>	<b>53,187</b>	91,007
Loans receivable	<i>11</i>	<b>68,948</b>	51,321
Other receivables, deposits and prepayments		<b>779</b>	598
Tax recoverable		<b>–</b>	661
Trust bank balances held on behalf of customers		<b>3,125</b>	2,598
Cash and bank balances		<b>30,140</b>	45,580
		<b>156,179</b>	191,765
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>3,119</b>	2,851
Other payables and accruals		<b>748</b>	2,215
Lease liabilities		<b>964</b>	924
Tax payable		<b>12</b>	–
		<b>4,843</b>	5,990
<b>Net current assets</b>		<b>151,336</b>	185,775
<b>Total assets less current liabilities</b>		<b>165,099</b>	193,310
<b>Non-current liability</b>			
Lease liabilities		<b>623</b>	1,587
		<b>623</b>	1,587
<b>Net assets</b>		<b>164,476</b>	191,723
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>5,414</b>	4,512
Reserves	<i>13</i>	<b>159,062</b>	187,211
<b>Total equity</b>		<b>164,476</b>	191,723

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

Pinestone Capital Limited (the “**Company**”) was incorporated as an exempted company in the Cayman Islands with limited liability. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. Its principal place of business is located at Room 1807, 18/F., China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in provision of securities brokerage services, securities-backed lending services, other lending services as well as placing and underwriting services.

The Company’s parent is Ultimate Vantage Group Limited (“**Ultimate Vantage**”), a limited liability company incorporated in the British Virgin Islands (“**BVI**”). In the opinion of the directors, Ultimate Vantage is also the ultimate parent of the Company.

The consolidated financial statements for the year ended 31 December 2022 were approved and authorised for issue by the directors on 24 March 2023.

### 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards (“**HKFRS**”) which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The consolidated financial statements have been prepared under the historical cost basis.

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

All values are rounded to the nearest thousand except otherwise indicated.

### 3. ADOPTION OF NEW OR REVISED HKFRS

#### (a) Adoption of revised HKFRS – effective 1 January 2022

In the current year, the Group has applied for the first time the following amendments of standards issued by the HKICPA, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2022:

Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	Annual Improvements to HKFRSs 2018-2020
Amendments to HKFRS 3	Reference to Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concession beyond 30 June 2021

These amendments to HKFRS standards had no material impact on the Group's consolidated financial statements.

#### (b) New or revised HKFRS that have been issued but are not yet effective

The following new or revised HKFRS potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>2</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants and related amendments to HK Interpretation 5 (Revised) Presentation of Financial Statements <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

The Group does not expect any other standards issued by the HKICPA, but not yet effective, to have a material impact on the Group.

#### 4. SEGMENT INFORMATION

##### (a) Operating segment information

The information reported to the executive directors of the Company, who are the chief operating decision makers of the Group for the purposes of resources allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRS. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the Group has only one single operating segment which is provision of securities brokerage services, securities-backed lending services, other lending services as well as placing and underwriting services. The executive directors allocate resources and assess performance of the business of the Group on an aggregated basis.

##### (b) Geographical segment information

The Company is an investment holding company and the principal place of the Group's operations is in Hong Kong. Accordingly, management determines that the Group is domiciled in Hong Kong.

All of the revenue from external customers is derived from activities in Hong Kong and all non-current assets of the Group are located in Hong Kong. Accordingly, no geographical information is presented.

##### (c) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, is set out below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer I	4,113	4,600
Customer II	3,842	4,638
Customer III	2,033	N/A
Customer IV	N/A	3,345
Customer V	N/A	3,022

N/A: not applicable as revenue from this customer was less than 10% of the Group's revenue for the year.

## 5. REVENUE

The Group is principally engaged in the provision of securities brokerage services, securities-backed lending services, other lending services as well as placing and underwriting services. Revenue derived from the Group's principal activities comprises the following:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
– Commission income from securities brokerage services	168	525
– Fee income from placing and underwriting services	–	83
– Handling fee income	63	184
	<u>231</u>	<u>792</u>
<b>Revenue from other sources</b>		
– Interest income from margin financing services	11,907	15,633
– Interest from money lending services	7,333	8,548
	<u>19,471</u>	<u>24,973</u>

Revenue from contracts with customers derived by the Group for the year ended 31 December 2022 amounting to HK\$231,000 (2021: HK\$792,000) are recognised at a point in time.

## 6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Depreciation charge		
Owned property, plant and equipment	135	38
Right-of-use assets included in property, plant and equipment	898	1,915
Auditor's remuneration	579	647
Legal and professional fee	4,778	3,617
Loss on disposal of property, plant and equipment	67	–
	<u>67</u>	<u>–</u>

## 7. INCOME TAX CREDIT

The amount of income tax credit in the consolidated statement of comprehensive income represents:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
– tax for the year	<b>673</b>	–
– over-provision in respect of prior years	–	(9)
	<u><b>673</b></u>	<u>(9)</u>
Deferred tax		
– current year	<b>(7,518)</b>	(240)
– attributable to change in applicable tax rate	<b>(30)</b>	76
	<u><b>(7,548)</b></u>	<u>(164)</u>
Income tax credit	<u><b>(6,875)</b></u>	<u>(173)</u>

The Group is subject to Hong Kong Profits Tax.

Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of qualifying entities will be taxed at 8.25% whereas assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of entities not qualifying for the two-tiered profit tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 January 2018.

The income tax expense for the year can be reconciled to the loss before income tax in the consolidated statement of comprehensive income as follows:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss before income tax	<u><b>(48,345)</b></u>	<u>(5,106)</u>
Tax on loss before income tax, calculated at Hong Kong Profits Tax rate of 16.5%	<b>(7,977)</b>	(843)
Effect on adoption of two-tiered profits tax rates regime	<b>1,140</b>	202
Tax effect of expenses not deductible for tax purposes	<b>864</b>	507
Tax effect of temporary difference not recognised	<b>46</b>	(18)
Tax effect of tax losses not recognised	–	455
Utilisation of tax losses previously not recognised	<b>(918)</b>	(543)
Effect on opening deferred tax balances resulting from change in applicable tax rate	<b>(30)</b>	76
Over-provision in respect of prior years	–	(9)
Income tax credit	<u><b>(6,875)</b></u>	<u>(173)</u>

## 8. DIVIDENDS

The directors of the Company do not recommend the payment of final dividend in respect of the year ended 31 December 2022 (2021: nil).

## 9. LOSS PER SHARE

The calculation of basic loss per share is based on the following data:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Loss</b>		
Loss for the year attributable to owners of the Company	<u>(41,470)</u>	<u>(4,933)</u>
	<b>2022</b> <b>Number of</b> <b>Shares</b> <b>'000</b>	2021 Number of Shares '000 <i>(Restated)</i>
<b>Weighted average number of ordinary shares</b>		
Weighted average number of ordinary shares in issue during the year	<u>236,683</u>	<u>229,881</u>

The weighted average number of ordinary shares for the purposes of calculating the basic loss per share for the year ended 31 December 2022 is based on the weighted average number of shares in issue during the year and adjusted for the bonus element on share consolidation as set out in note 13(1). The weighted average number of ordinary shares for the year ended 31 December 2021 is restated accordingly.

Diluted loss per share is the same as the basic loss per share as there have been no dilutive potential ordinary shares in existence during the year or prior year.

## 10. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables arising from securities dealing and margin financing ( <i>note (a)</i> )		
– Margin clients ( <i>note (b)</i> )	90,802	100,732
– Clearing house ( <i>note (c)</i> )	–	245
	<u>90,802</u>	<u>100,977</u>
Less: Loss allowance ( <i>note (d)</i> )	<u>(37,615)</u>	<u>(9,970)</u>
	<u><b>53,187</b></u>	<u><b>91,007</b></u>

### Notes:

- (a) The settlement term of trade receivables arising from the business of securities dealing are two business days after trade date (“**T+2**”).
- (b) Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. The amount of credit facilities granted to the margin clients is determined with reference to the discounted market value of securities accepted by the Group. Margin loans due from margin clients are either current and repayable on demand for those margin clients subject to margin calls. Except for those disclosed below, no ageing analysis is disclosed for trade receivables from margin clients as, in the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing and margin financing.

To manage the credit risk exposure, when the level of securities collateral in proportion to the outstanding balance due from the margin client (“**collateral ratio**”) has reached an alarming level, the Group will demand the margin clients to deposit additional money or securities to maintain their margin accounts, or to sell their securities collateral to reduce the exposure. Other than the above, the Group may implement other credit enhancement measures including to enter into repayment schedule for a period of normally less than one year with margin clients for settling their outstanding balances by monthly instalment or by depositing cash or securities in equivalent market value.

As at 31 December 2022, gross carrying amount of trade receivables due from margin clients amounting to HK\$29,273,000 (2021: HK\$96,290,000) were current and HK\$61,529,000 (2021: HK\$4,442,000) were repayable on demand. These margin loans were interest bearing at fixed rates ranging from 8% to 24% (2021: 8% to 24%) per annum.

As at 31 December 2022, gross carrying amount of HK\$57,622,000 of the trade receivables due from margin clients were considered as credit impaired (2021: nil).

During the year ended 31 December 2022, the Group had not written off balances due from margin clients (2021: nil).

Subject to certain conditions, the Group is allowed to repledge collateral from margin clients. There was no repledge of collateral from margin clients as at 31 December 2022 (2021: nil).

- (c) Trade receivables from clearing house, i.e. Hong Kong Securities Clearing Company Limited (“HKSCC”), were current which represented pending trades arising from the business of securities dealing and are normally due on “T+2” day in accordance with the requirements of Hong Kong Exchange and Clearing Limited.
- (d) The movements in the loss allowance for trade receivables arising from the business of securities dealing and margin financing are as follows:

	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>9,970</b>	2,777
Impairment losses charged to profit or loss	<b>24,883</b>	7,193
Unwinding of discount	<b>2,762</b>	–
	<u><b>37,615</b></u>	<u>9,970</u>
At 31 December	<b>37,615</b>	9,970

## 11. LOANS RECEIVABLE

	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
Loans receivable arising from money lending ( <i>notes (a) &amp; (b)</i> )	<b>111,447</b>	67,774
Less: Loss allowance ( <i>note (c)</i> )	<b>(42,499)</b>	(16,453)
	<u><b>68,948</b></u>	<u>51,321</u>

### Notes:

- (a) Loans receivable include certain borrowers, which are margin clients of the Group’s securities dealing business, either (i) had entered into securities charge agreement with the Group charging certain securities or securities portfolio as collateral which were deposited in the designated custodian account maintained by the borrower; or (ii) had undertaken to maintain a net assets value at a specified amount in terms of market value of securities held or cash in the designated margin account maintained by the borrower.
- (b) The loans receivable as at 31 December 2022 were interest-bearing at a fixed rate ranging from 12.0% to 15.0% (2021: 12.0% to 15.0%) per annum, of which HK\$38,185,000 (2021: HK\$37,447,000) were current, HK\$41,673,000 (2021: nil) were past due within one year and HK\$31,589,000 (2021: HK\$30,327,000) were past due more than one year but less than two years.

As at 31 December 2022, gross carrying amount of HK\$73,262,000 of the loans receivable balance were considered as credit impaired (2021: nil).

During the year ended 31 December 2022, the Group had not written off loans receivable balance (2021: nil).

During the year ended 31 December 2021, the Group entered into debt assignment arrangements, as the assignor, with third parties as assignees for credit risk management purposes. Pursuant to the debt assignment arrangements, the Group agreed to sell and the assignee agreed to purchase, all of the right, title and interest of the remaining balance of certain loans receivable at a discounted consideration of HK\$35,263,000 in total.

Based on the assessment performed by the Group, the debt assignments for loans receivable due from borrowers are regarded as derecognition of financial assets. The gross carrying amount of those loans receivable before debt assignment were HK\$44,079,000 and loss allowance on those loans receivable of HK\$18,671,000 were recognised in profit or loss in prior years. Upon the debt assignments being effective, the Group had written off the remaining loss allowances on loans receivable of HK\$8,816,000 against the balances due from relevant borrowers during the year ended 31 December 2021 as no further cash flows were expected to be realised from the relevant receivables.

- (c) The movements in the loss allowance for loans receivable arising from money lending business are as follows:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	<b>16,453</b>	19,963
Impairment losses charged to profit or loss	<b>24,685</b>	5,306
Unwinding of discount	<b>1,361</b>	–
Amounts written off as uncollectible	–	(8,816)
	<hr/>	<hr/>
At 31 December	<b>42,499</b>	16,453
	<hr/>	<hr/>

## 12. TRADE PAYABLES

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables arising from securities dealing		
– Cash clients	<b>672</b>	639
– Margin clients	<b>2,447</b>	2,212
	<hr/>	<hr/>
	<b>3,119</b>	2,851
	<hr/>	<hr/>

The settlement term of trade payables arising from the business of securities dealing is “T+2”. Trade payables arising from securities trading during the “T+2” period are current whereas those which are outstanding after the “T+2” period are repayable on demand. No ageing analysis is disclosed for trade payables arising from securities dealing as in the opinion of the directors, ageing analysis does not give additional value in view of the business nature.

Margin and cash client payables as at 31 December 2022 and 2021 included balances payable to certain related parties.

### 13. SHARE CAPITAL

#### Authorised and issued shares

	<b>Par value HK\$</b>	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>			
At 1 January 2021, 31 December 2021 and 1 January 2022	<b>0.001</b>	<b>500,000,000,000</b>	<b>500,000</b>
Share Consolidation ( <i>Note (1)</i> )		<u><b>(475,000,000,000)</b></u>	<u><b>–</b></u>
At 31 December 2022	<b>0.020</b>	<u><b>25,000,000,000</b></u>	<u><b>500,000</b></u>
<b>Issued and fully paid:</b>			
At 1 January 2021, 31 December 2021 and 1 January 2022	<b>0.001</b>	<b>4,511,890,000</b>	<b>4,512</b>
Share Consolidation ( <i>Note (1)</i> )		<u><b>(4,286,295,500)</b></u>	<u><b>–</b></u>
	<b>0.020</b>	<b>225,594,500</b>	<b>4,512</b>
Placing of shares ( <i>Note (2)</i> )	<b>0.020</b>	<u><b>45,118,900</b></u>	<u><b>902</b></u>
At 31 December 2022	<b>0.020</b>	<u><b>270,713,400</b></u>	<u><b>5,414</b></u>

#### Notes:

- (1). On 19 October 2022, an ordinary resolution in relation to share consolidation was approved by the shareholders at an extraordinary general meeting held on the same date. Pursuant to the share consolidation, the number of authorized shares of the Company decreased to 25,000,000,000 shares of par value of HK\$0.02 each, of which 4,511,890,000 shares were consolidated into 225,594,500 shares effective from 21 October 2022.
- (2). On 8 November 2022, a total of 45,118,900 Placing Shares have been successfully placed by the Placing Agent to not less than six Placees at Placing Price of HK\$0.32 per Placing Share pursuant to the terms and conditions of the Placing Agreement, representing approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing and the new shares issued rank pari passu with other shares in issue in all respects. The proceeds from the Placing and the net proceeds after deduction of the placing commission and other related expenses, amounted to approximately HK\$14.44 million and HK\$14.22 million, respectively. The Company intends to use such net proceeds for expanding, the existing business.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **MARKET REVIEW**

The world economy had been facing the most challenging years in recent history and continued to be affected by different political and economic issues in the year 2022, including on-going geopolitical tensions in Ukraine, volatility of energy prices and lingering effects of the COVID-19 global pandemic. However, the most apparent issue currently is the rising pressure of inflation which prompted the United States Federal Reserve to raise interest rates drastically. These factors had an obvious effect on the performance of the financial market, where the Hang Seng Index plunged to as low as approximately 14,597 points in October 2022 from a high of approximately 25,050 points in February 2022, representing a drop of approximately 42%. This ultimately worsened investors' sentiments as seen by the decrease in volume of initial public offerings and the average daily turnover in the Hong Kong stocks market, which in turn severely depressed investor attitudes. Although the Hong Kong economy had shown signs of recovery in different aspects, it is still vulnerable as economic prospect remains uncertain and rising interest rates led to tightening of financial conditions of the general public. The market's fluctuation and volatility continue to be the main theme, with investors' confidence being dampened.

### **BUSINESS REVIEW**

#### **Securities Brokerage Services**

Commission income of the securities brokerage services is highly correlated to the overall market sentiment and the demand from our customers. In 2022, our securities brokerage services marked a decrease in total transaction value to HK\$89.7 million, compared to HK\$247.6 million in 2021. Commission income from securities brokerage services for the year ended 31 December 2022 decreased to HK\$0.2 million from HK\$0.5 million for the year ended 31 December 2021.

## Securities-backed Lending Services

In 2022, securities-backed lending services remained our core-profit generator for the Group. Our securities-backed lending services include two major businesses, margin financing and money lending services. Interest income from securities-backed lending services for the year ended 31 December 2022 decreased by approximately 20% to HK\$19.2 million, compared to approximately HK\$24.2 million in 2021. Interest income from margin financing services decreased by HK\$3.7 million or approximately 24% to HK\$11.9 million in 2022 while money lending services decreased by HK\$1.2 million or approximately 14% to HK\$7.3 million in 2022.

For margin financing services, there is no fixed term of repayment for trade receivables while the term to maturity of the loan receivables range from approximately 5 months to 1 year. The interest rates of the aforementioned receivables range from approximately 8% to 24% per annum. The Group provides margin financing and/or money lending services after the relevant client has passed the Group's credit assessment and other applicable internal control procedures. Where collaterals are required, such loans are generally secured by listed securities as collaterals. Due diligence performed by the Group on our margin financing and money lending clients generally involves know your client ("KYC") procedures including obtaining information as to source and amount of income, proof of other net assets, ID copy, address proof, etc.

As at 31 December 2022, our largest borrower in the securities-backed lending segment had outstanding receivables of approximately HK\$33 million (31 December 2021: HK\$40 million), representing approximately 16% (2021: 24%) of the Group's total trade and loan receivables. The five largest borrowers (in aggregation with loans granted to persons connected with each of them, if any) had outstanding receivables of approximately HK\$130 million (2021: HK\$128 million) as at 31 December 2022, representing approximately 66% (2021: 76%) of the Group's total trade and loan receivables as at 31 December 2022.

During the year, the Group has exploited more resources and business opportunities for the scope of the Group's existing money lending services (the "**Money Lending**") from securities-backed lending services to other secured lending services. The Board believes that the Money Lending services would extend the scope of the Group's existing business and diversify its business scope with a view to broadening the Group's revenue basis to enhance its profitability and achieving better return of the shareholders.

(A) *Margin Financing*

Our margin financing services are generally provided to individual and corporate investors. Upon completion of relevant account opening, KYC procedures and the deposit of sufficient collateral and/or cash, the Group would grant a margin facility to such individual investors for the purpose of trading stocks. The Group generates interest income from such margin financing as revenue. Interest income from margin financing services decreased to approximately HK\$11.9 million in 2022, representing a decrease of approximately 24% from approximately HK\$15.6 million in 2021. As at 31 December 2022, the Group recorded a total loan balance of approximately HK\$90.8 million, representing a decrease of approximately 10% from a total loan balance of approximately HK\$100.7 million as at 31 December 2021.

(B) *Money Lending*

Our money lending services are also provided to individual and corporate borrowers. Upon completion of relevant account opening, KYC and credit assessment procedures, the Group would grant a loan facility to such borrowers for their own financing needs. The Group generates interest income from such loan facility as revenue. The Group recognised interest income of approximately HK\$7.3 million from money lending service in 2022, representing a decrease of approximately 14% as compared to HK\$8.5 million in 2021. As at 31 December 2022, the Group recorded total loan receivables attributable to our money lending clients of approximately HK\$111.4 million, representing an increase of approximately 64% when compared to HK\$68 million as at 31 December 2021. In September and October 2022, the Group had successfully granted two substantial corporate lending loans to third party borrowers with total amount of approximately HK\$20 million and HK\$18 million respectively. Charging interest rates are approximately 15.0% per annum of each loan with the borrowing period of 12 months.

**Placing and Underwriting Services**

Our placing and underwriting services are generally offered to listed companies, placing agents and/or the investors of listed companies with a focus on small-cap IPOs (including GEM). The business of this service depends on the demand or requests from our customers. No revenue was generated from placing and underwriting services for the Group in 2022, compared to an income of approximately HK\$83,000 derived in 2021.

## **Major Customers and Major Suppliers**

During the year, the Group's five largest customers accounted for approximately 66% (2021: 72%) of the total revenue of the Group and the largest customer of the Group accounted for approximately 21% (2021: 19%) of the total revenue. None of the Directors or any of its close associates, or any shareholder (which to the knowledge of the Directors own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers. The Group's principal activities are securities brokerage services, securities-backed lending services and placing and underwriting services. In the Board's opinion, the Group has no major suppliers due to the nature of the Group's principal activities.

## **Share Consolidation**

On 21 October 2022, the Company underwent a share consolidation for twenty (20) Existing Shares of par value HK\$0.001 each in the issued and unissued share capital of the Company be consolidated into one (1) Consolidated Share of par value HK\$0.02. The Board considers that the Share Consolidation will enable the Company to comply with the trading requirements at the extremities under the Listing Rules and reduce the overall transaction and handling costs of dealings in the Shares.

## **Placing of 45,118,900 new Shares under the General Mandate**

On 8 November 2022, the Company successfully placed 45,118,900 new shares, representing approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares immediately upon completion of the Placing, at the placing price of HK\$0.32 (the "**2022 Placing**") per share. The gross and net proceeds from the Placing, after deduction of the placing commission and other related expenses, were approximately HK\$14.44 million and HK\$14.22 million, respectively. The Company intended to use such net proceeds for expanding the existing business of the Group.

## Total Assets

Unit (HK\$'million)/Year	2022	2021
Total Assets (HK\$'million)	169.9	199.3
Trust Bank Balances (HK\$'million)	3.1	2.6
Cash and Bank Balances (HK\$'million)	30.1	45.6
Trade Receivables (HK\$'million)	53.2	91.0
Loans Receivable (HK\$'million)	68.9	51.3
Trade Payables (HK\$'million)	(3.1)	(2.9)
Net Assets (HK\$'million)	<u>164.5</u>	<u>191.7</u>

As at 31 December 2022, the total assets of the Group decreased to approximately HK\$169.9 million, representing a decrease of approximately 15% from approximately HK\$199.3 million as at 31 December 2021. The decrease was mainly attributable to a decrease of cash and bank balances of HK\$15.5 million, representing a decrease of approximately 34% to HK\$30.1 million at 31 December 2022 compared to HK\$45.6 million as at 31 December 2021. As at 31 December 2022, the amount of trade payables amounted to HK\$3.1 million, representing an increase of approximately 7% compared to HK\$2.9 million on a year-on-year basis of 2021. As at 31 December 2022, loans receivable increased to approximately HK\$68.9 million, representing an increase of approximately 34% from HK\$51.3 million in 2021. Trade receivables decreased by approximately 42% to HK\$53.2 million as at 31 December 2022 from approximately HK\$91.0 million as at 31 December 2021. Such decrease was partially attributable to the decrease in turnover of the margin financing. As at 31 December 2022, net assets of the Group decreased by approximately 14% to HK\$164.5 million from HK\$191.7 million in 2021.

## Net Loss for the Year

In 2022, the Group's consolidated net loss for the year was approximately HK\$41.5 million when compared to a net loss of HK\$4.9 million in 2021. Such substantial loss is primarily attributable to the recognition of impairment losses of approximately HK\$49.6 million in respect of trade and loans receivables relating to securities-backed lending services for the year ended 31 December 2022, representing an increase of approximately HK\$37.1 million or approximately 297% increase compared to an impairment losses on trade and loans receivables of approximately HK\$12.5 million for the year ended 31 December 2021. If excluding this impairment loss of approximately HK\$49.6 million and deferred tax credit of approximately HK\$7.5 million, the Group would have recorded a net profit of approximately HK\$0.6 million for the year ended 31 December 2022.

## FINANCIAL REVIEW

### Revenue

Total revenue in 2022 amounted to HK\$19.5 million, representing a decrease of approximately 22% from HK\$25.0 million in 2021. All our segment of services have been adversely affected by the sluggish economy and the lackluster performance of the Hong Kong stock market. Commission income from securities brokerage services decreased to HK0.2 million in 2022, compared to HK\$0.5 million in 2021. Interest income from securities-backed lending services decreased to HK\$19.2 million in 2022, representing a decrease of approximately 20% from HK\$24.2 million in 2021. For the placing and underwriting services, no revenue was generated for the Group in 2022 as compared to an income of HK\$83,000 in 2021.

### Employee Benefit Expenses

Employee benefit expenses accounted for approximately 14% (2021: 31%) out of the total expenses in 2022, which is a major expense item for the Group. Employee benefit expenses include staff salaries, allowances, benefits, directors' emoluments and contribution to defined contribution retirement scheme. Employee benefit expenses recorded an increase of approximately 9% to approximately HK\$10.1 million in 2022 from approximately HK\$9.3 million in 2021. The increase was mostly attributable to general increases for staff salaries and directors' emoluments.

### Other Operating Expenses

<b>Unit: (HK\$'million)/Year</b>	<b>2022</b>	<b>2021</b>
Other operating expenses ( <i>note a</i> )	<b>7.1</b>	6.3
Impairment losses on trade and loans receivables, net ( <i>note b</i> )	<b>49.6</b>	12.5
Total other operating expenses	<b>56.7</b>	18.8

*Note a:* Other operating expenses in 2022 amounted to HK\$7.1 million, compared to HK\$6.3 million in 2021 (excluding charge for impairment losses on trade and loans receivables) which accounted for about 41% (2021: 40%) of the total expenses (which only included employee benefit expenses and other operating expenses). The increase was mostly attributable to the increase in compliance, professional and administrative expenses incurred during the year.

*Note b:* For the year ended 31 December 2022, net impairment losses of HK\$49.6 million (the “**Impairments**”) (31 December 2021: HK\$12.5 million) were recognised under expected credit loss (“**ECL**”) model required under HKFRS 9, of which HK\$24.9 million were attributable to trade receivables from margin clients whereas the remaining HK\$24.7 million were attributable to loans receivables. For the year ended 31 December 2021, net impairment losses of HK\$12.5 million were recognised, of which HK\$7.2 million were attributable to trade receivables from margin clients whereas the remaining HK\$5.3 million were attributable to loans receivables.

### **Income Tax Expenses/Credit**

The income tax credit for 2022 was approximately HK\$6.9 million (2021: income tax credit of HK\$173,000) and such charges were consistent with an increase in adjusted losses under Hong Kong Profits Tax.

### **Loss for the Year**

For the year ended 31 December 2022, the Group recorded loss before income tax of approximately HK\$48.3 million and a net loss of approximately HK\$41.5 million, as compared to a loss before income tax of approximately HK\$5.1 million and a net loss of approximately HK\$4.9 million in 2021. The loss was mostly attributable to impairment losses of HK\$49.6 million made in respect of trade and loans receivables relating to the securities-backed lending services, in which HK\$24.9 million were attributable to trade receivables from margin clients and the remaining HK\$24.7 million were attributable to loans receivables for the year ended 31 December 2022. Such impairment losses of HK\$49.6 million represented an increase of approximately HK\$37.1 million or 297% of impairment losses on trade and loans receivables of approximately HK\$12.5 million for the year ended 31 December 2021.

## **Dividend**

Directors did not recommend the payment of final dividend for the year ended 31 December 2022 (2021: nil). Total dividend payout by the Company for the year ended 31 December 2022 was nil (2021: nil).

## **Capital Structure**

As at 31 December 2022, the Group did not have any bank borrowings. As at 31 December 2022, other payables and accruals plus lease liabilities were HK\$2.3 million compared to HK\$4.7 million in 2021. The Group maintained a healthy cash position with total cash and bank balances amounted to HK\$30.1 million as at 31 December 2022 (2021: HK\$45.6 million). As at 31 December 2022, the Group had total amount of non-current lease liabilities of HK\$0.6 million (2021: HK\$1.6 million) and did not have capital commitments. The Group's long term debt to equity ratio has remained low at approximately 1% in 2022 (2021: 1%).

To strengthen the Company's financial position and exploit more business opportunities, the Company placed 45,118,900 new shares at the placing price of HK\$0.32 each to raise approximately HK\$14.22 million (net proceed) on 8 November 2022. The proceeds have been used for expanding the business of the Group.

During 2022, the Group's operations, capital expenditure and other capital requirements were funded by cash generated from operations and working capital. The Directors are of the view that at the date hereof, the Group's financial resources are sufficient to support its business and operations. Notwithstanding this, the Group may consider other financing activities when appropriate business opportunities arise under favourable market conditions.

## Liquidity and Financial Resources

	<b>As at 31 December 2022 HK\$'000</b>	As at 31 December 2021 HK\$'000
Current assets	<b>156,179</b>	191,765
Trade receivables	<b>53,187</b>	91,007
Cash and bank balances	<b>30,140</b>	45,580
Current liabilities	<b>4,843</b>	5,990
Trade payables	<b>3,119</b>	2,851
Lease liabilities	<b>964</b>	924
Non-current lease liabilities	<b>623</b>	1,587
Current Ratio (times)	<b>32.25</b>	32.01
Gearing Ratio (times) <sup>#</sup>	<b>0.01</b>	0.01

<sup>#</sup> Long-term debts (including non-current lease liabilities) over total equity

## Foreign Currency Exposure

The Company's functional and presentation currency is Hong Kong dollar ("HK\$"). During the years ended 31 December 2022 and 2021, the Group's transactions were denominated in HK\$. The Group had no material exposure to foreign currency risk. The Group has not used any derivatives to hedge against its exposure to foreign exchange risks.

## Contingent Liabilities

As at 31 December 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

## Significant Investments

The Group did not acquire or hold any significant investment during the year 2022 (2021: nil).

## Pledge of Assets

As at 31 December 2022, the Group did not pledge any of its assets (31 December 2021: nil).

## **Capital Commitments**

As at 31 December 2022, the Group did not have any significant capital commitments (31 December 2021: nil).

## **Employees and Remuneration Policy**

The remuneration of the executive directors is subject to review by the Remuneration Committee and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company. The Group's remuneration policies are in line with prevailing market practice. The Group's employees are remunerated according to their performance, working experience and market conditions. In 2022, the Group has hired nine new employees with five employees left. As at 31 December 2022, the Group had 17 employee (31 December 2021: 13 employees). Apart from basic salaries, other staff benefits include discretionary bonus, provident funds and medical scheme.

## **Outlook**

Global and local economic activity are on the road to recovery as the COVID-19 global pandemic gradually stabilizes on a global scale and social distancing measures are further relaxed or cancelled. However, the likelihood of a global recession has increased as the recovery's momentum is being battered by persistently high inflation, which resulted in interest rates rising. This will increase borrowing costs and have a negative impact on the value of various assets. The Group continues to proceed prudently to navigate through these times of uncertainty. Looking forward, the Group will continue to improve and diversify our financial position, seek for strategic business opportunities to further develop our businesses, broaden our business reach in the financial market by cultivating corporate alliances collaborations and position the Group's business for further and sustainable growth in the long term.

## **Sufficiency of Public float**

Based on the information that is publicly available and within the knowledge of the Directors of the Company, the Company has maintained sufficient public float of 25% issued shares which are worth more than HK\$30 million under the Listing Rules 17.38A as at the latest practicable date and prior to the issue of this announcement.

## **Events after the reporting period**

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2022 and to the date of this announcement.

## **Corporate Governance Code**

Good corporate governance practices improve transparency of the Company, optimize the Company's performance, and help to enhance stakeholders' confidence and support. The board of directors (the "**Board**") of the Company is committed to achieve good corporate governance practices and procedures. During the year under review, the Company has complied with the code provisions prescribed in the establishment and implementation of the Corporate Governance Code ("**CG Code**"), set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), to ensure that the decision making processes and business operations are regulated in a proper manner. The Company will continuously review its corporate governance practices as to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the shareholders and prospective investors. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be assigned for the same person. In the Company, Mr. Cheung Yan Leung Henry has acted as chairman and Mr. Lee Chun Tung has acted as chief executive. The Board currently consists of six members including one executive Director, two non-executive Directors and three independent non-executive Directors. The independent non-executive Directors, all of whom are independent of the Group's businesses, are highly experienced professionals with substantial experience in areas such as management, legal, accounting and finance. The management of the Company is of the view that the membership of the Board represents rich and diversified background and industry expertise to oversee, advise and safeguard the interests of various stakeholders of the Company.

## **Review of this Final Results Announcement**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

## **Annual General Meeting**

The annual general meeting (“AGM”) for the financial year 2022 of the Company will be held on Wednesday, 31 May 2023 and a notice of AGM will be published and despatched in due course.

## **Closure of Register of Members to Ascertain Shareholders’ Entitlement to Attend and Vote at the Annual General Meeting**

The register of members of the Company for the annual general meeting will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the annual general meeting to be held on Wednesday, 31 May 2023, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 24 May 2023.

## **Competing Interest**

The Directors are not aware of any business that they themselves are currently conducting or is being conducted by connected or related parties during the year.

## **Purchase, Sale or Redemption of the Listed Shares of the Company**

During the year ended 31 December 2022, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company.

## **Annual Results**

The Audit Committee has been established with written terms of reference in compliance with Appendix 16 of the Listing Rules and code provision C.3.3 of the Corporate Governance Code. The Audit Committee currently comprises a total of three members, all of whom are independent non-executive Directors. Mr. Cheng Man Pan is a fellow member of the Association of Chartered Certified Accountants. The other members are Mr. Lau Kelly and Mr. Wong Chun Peng Stewart respectively. The primary duty of the Audit Committee is to review and supervise the Company's financial reporting process, the internal control systems of the Group and the monitoring of continuing connected transactions. Pursuant to C.3.3 of the Code on Corporate Governance Practices, the Audit Committee has reviewed the annual results and the consolidated accounts of the Group for the year ended 31 December 2022 and confirmed that the preparation of such complied with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

## **Publication of Final Results and Annual Report**

A copy of this announcement will be found on Pinestone Capital Limited's website ([www.pinestone.com.hk](http://www.pinestone.com.hk)) and the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)). The Annual Report 2022 will be made available on the respective websites of Pinestone Capital Limited and the Stock Exchange in due course.

By order of the Board  
**Pinestone Capital Limited**  
**Lee Chun Tung**  
*Executive Director*

Hong Kong, 24 March 2023

*As at the date of this announcement, the Board comprises Mr. Lee Chun Tung as the executive Director; Mr. Cheung Yan Leung Henry and Mr. Yau Tung Shing as non-executive Directors; and Mr. Lau Kelly, Mr. Wong Chun Peng Stewart and Mr. Cheng Man Pan as independent non-executive Directors.*