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中國通海國際金融有限公司

CHINA TONGHAI INTERNATIONAL FINANCIAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 952)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “Board” or the “Directors”) of China Tonghai International Financial Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the “HKFRSs”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Fee and commission income	4	131,532	210,684
Interest income			
— Calculated using the effective interest method	4	145,870	440,076
— Calculated using other method	4	123,530	173,079
Net investment (loss)/gain	4	(578,750)	33,983
Total revenue	4	(177,818)	857,822

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other (loss)/income	5	(73,417)	15,110
Direct costs		(103,824)	(141,838)
Staff costs		(165,883)	(186,178)
Depreciation and amortisation		(41,940)	(45,807)
Expected Credit Loss (“ECL”) net charges		(916,544)	(2,582,604)
Finance costs			
— Interest on borrowings	6	(49,078)	(59,717)
— Interest on lease liabilities	6	(1,277)	(2,725)
Other operating expenses	7	(53,841)	(55,325)
Share of result of an associate		(556)	526
Share of results of joint ventures		—	1,552
		<hr/>	<hr/>
Loss before tax	8	(1,584,178)	(2,199,184)
Tax credit/(expense)	9	514	(61,393)
		<hr/>	<hr/>
Net loss attributable to equity holders of the Company		<u>(1,583,664)</u>	<u>(2,260,577)</u>
Loss per share for net loss attributable to equity holders of the Company		<i>HK cent(s)</i>	<i>HK cent(s)</i>
— Basic and diluted	10	<u>(26)</u>	<u>(37)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net loss attributable to equity holders of the Company	<u>(1,583,664)</u>	<u>(2,260,577)</u>
Other comprehensive loss including reclassification adjustments		
Item that may be reclassified subsequently to profit or loss		
— Exchange (loss)/gain on translation of financial statements of foreign operations	(2,846)	980
Items that will not be reclassified subsequently to profit or loss		
— Capital distribution from investment measured at fair value through other comprehensive income	1,321	—
— Changes in fair value of financial assets measured at fair value through other comprehensive income	<u>—</u>	<u>(3,840)</u>
Other comprehensive loss including reclassification adjustments and net of tax	<u>(1,525)</u>	<u>(2,860)</u>
Total comprehensive loss attributable to equity holders of the Company	<u><u>(1,585,189)</u></u>	<u><u>(2,263,437)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2022			As at 31 December 2021		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
ASSETS							
Cash and cash equivalents		195,206	—	195,206	405,290	—	405,290
Bank balances held on behalf of clients		1,123,090	—	1,123,090	1,178,362	—	1,178,362
Financial assets held for trading		583,802	41,219	625,021	1,026,012	83,082	1,109,094
Financial assets not held for trading		184,279	4,210	188,489	267,612	4,210	271,822
Derivative financial instruments		—	—	—	17,267	—	17,267
Loans to margin clients	12	670,496	—	670,496	1,382,977	—	1,382,977
Advances to customers for corporate actions	13	47,633	—	47,633	189,308	—	189,308
Other loans	14	1,050,267	58,962	1,109,229	1,517,018	81,040	1,598,058
Reverse purchase agreements		2,084	—	2,084	2,050	—	2,050
Accounts receivable	15	494,320	—	494,320	454,165	—	454,165
Prepayments, deposits and other receivables		96,124	—	96,124	84,577	—	84,577
Interest in an associate		—	1,874	1,874	—	2,430	2,430
Goodwill and other intangible assets		—	17,960	17,960	—	20,172	20,172
Other assets		—	22,811	22,811	—	21,517	21,517
Property and equipment and investment property		—	68,536	68,536	—	72,724	72,724
Tax recoverable		—	—	—	15,947	—	15,947
Deferred tax assets		—	15,214	15,214	—	15,525	15,525
TOTAL ASSETS		4,447,301	230,786	4,678,087	6,540,585	300,700	6,841,285
LIABILITIES AND EQUITY							
LIABILITIES							
Bank and other borrowings		905,545	—	905,545	1,502,854	—	1,502,854
Accounts payable	16	1,534,134	—	1,534,134	1,541,785	—	1,541,785
Contract liabilities		5,259	—	5,259	11,004	—	11,004
Lease liabilities		21,701	27,070	48,771	33,572	13,879	47,451
Accruals and other payables		164,036	—	164,036	117,174	—	117,174
Tax payable		5,744	—	5,744	23,362	—	23,362
Deferred tax liabilities		—	2,992	2,992	—	860	860
TOTAL LIABILITIES		2,636,419	30,062	2,666,481	3,229,751	14,739	3,244,490
EQUITY							
Share capital				20,657			20,657
Reserves				1,990,949			3,576,138
TOTAL EQUITY				2,011,606			3,596,795
TOTAL LIABILITIES AND EQUITY				4,678,087			6,841,285
<i>Net current assets</i>				<u>1,810,882</u>			<u>3,310,834</u>

NOTES TO THE AUDITED RESULTS

For the year ended 31 December 2022

1 BASIS OF PREPARATION

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

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

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

Since the second half of 2021, certain connected parties*, including the Company’s immediate holding company, Oceanwide Holdings International Financial Development Co., Limited, intermediate holding company, Oceanwide Holdings Co., Ltd, and a fellow subsidiary, China Oceanwide Holdings Limited, of the Company have experienced a series of credit default events, such as debt defaults and lawsuits, which raise concerns about their liquidity and ability to refinance. The financial difficulties of these parties raised significant concerns over recoverability and/or timing of any repayments of the amounts due from them. These concerns may affect the Group’s ability to raise additional funds or extend its existing bank borrowings and the Group may encounter liquidity issues when and if its creditors take extreme actions.

In light of these circumstances, certain measures have been taken to improve liquidity in 2022, such as issuing a secured private note and unsecured private notes. The Group sought additional borrowings from banks, financial institutions, and other counterparties, including mortgage of its properties, and raised additional financing whenever necessary.

After the end of 2022, the Group has expanded its bank facility and repaid part of the outstanding borrowings. As at end of February 2023, the total borrowings has reduced to HK\$755 million from HK\$906 million as at 31 December 2022. The maturity date of the largest single bank loan of HK\$330 million has also been extended to December 2023.

On 15 September 2022, Quam Tonghai Holdings Limited (the “Offeror”), the Oceanwide Holdings International Financial Development Co., Ltd. (the “Oceanwide Holdings IF”) and the Messrs. Tsui Chi Chiu and So Kit Yee Anita of Ernst & Young Transactions Limited as joint and several receivers over the 4,098,510,000 ordinary shares (the “Sale Shares”) (approximately 66.14% ownership) of the Company have entered into the deed of share purchase pursuant to which the Offeror has conditionally agreed to purchase and the Oceanwide Holdings IF has conditionally agreed to sell the Sales Shares. All the conditions precedent to the deed of share purchase had been

fulfilled and the Completion took place on 3 February 2023. Immediately upon completion, the receivership over the Sale Shares was ceased and the Offeror is interested in 4,098,510,000 ordinary shares (approximately 66.14% ownership) of the Company. Mr. Lu Zhiqiang (“Mr. Lu”), the former ultimate controlling shareholder of the Company, through his controlled corporation, beneficially own approximately 6.37% ownership of the Company. The change of shareholder could remove uncertainty over the future ownership of the Company and restart the relationship with bankers for additional financing raising.

In addition, the Group had net current assets of approximately HK\$1,811 million and net assets of approximately HK\$2,012 million as of 31 December 2022. Also, the directors have reviewed the Group’s cash flow projections cover a period of not less than twelve months from the end of the reporting period. In the opinion of the directors, the Group will have sufficient working capital to finance its operations and to meet its financial obligations when they fall due within the next twelve months from the end of the reporting period. As such, the estimates and underlying assumptions are reviewed on an ongoing basis.

* Immediately following the completion of the sale and purchase of certain Company’s shares took place on 3 February 2023, those connected parties will become former connected parties.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Adoption of new and amended HKFRSs

The Group has applied the following amendments to HKFRSs issued by HKICPA to these financial statements for the current accounting period:

- Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract
- Amendments to HKFRS 3: Reference to the Conceptual Framework
- Amendments to HKFRSs: Annual Improvements to HKFRSs 2018–2020

None of these developments have had a material effect on the Group’s results and financial position for the current or prior accounting periods. The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

2.2 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17, Insurance contracts	1 January 2023
Amendments to HKAS 1, Presentation of financial statements: Classification of liabilities as current or non-current	1 January 2024
Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to HKFRS 16, Lease: Lease liability in a sale and leaseback	1 January 2024
Amendment to HKFRS 10 and HKAS 28, Sales or Contribution of Asset between an Investor and its Associate or Joint Venture	A date to be determined
Amendment to HKAS 1, Non-Current Liabilities with Covenants	1 January 2024

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3 SEGMENT INFORMATION

The executive directors have identified the Group's six service lines as operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

2022	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Brokerage <i>HK\$'000</i>	Interest income <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue							
Fee and commission income	18,676	11,748	92,829	—	—	8,279	131,532
Interest income	—	—	135,201	134,175	24	—	269,400
Net investment loss	—	—	—	—	(578,750)	—	(578,750)
Segment revenue from external customers	18,676	11,748	228,030	134,175	(578,726)	8,279	(177,818)
Inter-segment revenue	6,750	3,615	—	—	—	977	11,342
Reportable segment revenue	25,426	15,363	228,030	134,175	(578,726)	9,256	(166,476)
Reportable segment result	(5,458)	(4,956)	22,427	(886,444)	(698,351)	(6,239)	(1,579,021)
2021	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Brokerage <i>HK\$'000</i>	Interest income <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue							
Fee and commission income	26,287	35,378	139,420	—	—	9,599	210,684
Interest income	—	—	152,925	435,790	24,440	—	613,155
Net investment gain	—	—	—	—	33,983	—	33,983
Segment revenue from external customers	26,287	35,378	292,345	435,790	58,423	9,599	857,822
Inter-segment revenue	1,300	3,690	2,032	—	—	1,594	8,616
Reportable segment revenue	27,587	39,068	294,377	435,790	58,423	11,193	866,438
Reportable segment result	(6,860)	21,003	18,536	(2,230,911)	10,016	(6,246)	(2,194,462)

The totals presented for the Group's operating segments are reconciled to the Group's key financial figures as presented in the consolidated financial statements as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Reportable segment revenue	(166,476)	866,438
Elimination of inter-segment revenue	(11,342)	(8,616)
Consolidated revenue	(177,818)	857,822
Reportable segment result	(1,579,021)	(2,194,462)
Share of result of an associate	(556)	526
Share of results of joint ventures	—	1,552
Unallocated corporate expenses	(4,601)	(6,800)
Consolidated loss before tax	(1,584,178)	(2,199,184)

Geographical information

The Group's operations are substantially located in Hong Kong and substantiating all assets of the Group are located in Hong Kong. Therefore, no detailed analysis of geographical information is required.

The Group's customers include the following with whom transactions have exceeded 10% of the Group's revenue (excluded investment loss/gain):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Former connected parties which included the subsidiaries of Tohigh Holdings Co., Ltd., Oceanwide Holdings Co., Ltd., China Oceanwide Holdings Limited and Minyun Limited*	50,654	353,865

* Revenue from these former connected parties, which are under common control of our former ultimate beneficiary shareholder, is attributable to interest income segment, asset management segment and brokerage segment.

4 REVENUE

Revenue analysis

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Corporate finance business		
<i>Fee and commission income:</i>		
— Placing and underwriting commission income	9,597	11,010
— Financial and compliance advisory services fee income	9,079	15,277
	<u>18,676</u>	<u>26,287</u>
Asset management business		
<i>Fee and commission income:</i>		
— Management fee and performance fee income	11,748	35,378
	<u>11,748</u>	<u>35,378</u>
Brokerage business		
<i>Fee and commission income:</i>		
— Commission on dealings in securities		
— Hong Kong securities	31,421	62,060
— Other than Hong Kong securities	3,065	6,245
— Commission on dealings in futures and options contracts	44,083	49,533
— Handling, custodian and other service fee income	14,260	21,582
	<u>92,829</u>	<u>139,420</u>
Interest income business		
<i>Interest income calculated using the effective interest method:</i>		
— Interest income from other loans	104,990	363,875
— Interest income from bonds measured at amortised cost	29,173	64,014
— Interest income from cash clients receivables	2,951	2,992
— Interest income from trust bank deposits	6,783	2,696
— Interest income from initial public offering loans	—	1,393
— Interest income from house money bank deposits and others	1,973	5,106
<i>Interest income calculated using other method:</i>		
— Interest income from loans to margin clients	122,827	145,717
— Interest income from bonds measured at fair value through profit or loss and others	703	27,362
	<u>269,400</u>	<u>613,155</u>
Investments and others business		
<i>Fee and commission income:</i>		
— Financial media service fee income	8,279	9,599
<i>Net investment (loss)/gain:</i>		
— Net realised and unrealised (loss)/gain on financial assets measured at fair value through profit or loss	(591,215)	9,989
— Dividend income from financial assets measured at fair value through profit or loss	12,465	23,994
	<u>(570,471)</u>	<u>43,582</u>
Total revenue	<u><u>(177,818)</u></u>	<u><u>857,822</u></u>

5 OTHER (LOSS)/INCOME

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Changes in net asset value attributable to other holders of consolidated investment funds		5,463	4,526
Exchange gains, net		419	8,280
Government subsidies	(a)	4,546	825
Sundry income		1,155	1,479
Corporate guarantee	(b)	(85,000)	—
		(73,417)	15,110

Notes:

- (a) In 2022, the Group successfully obtained funding support from the Employment Support Scheme (“E.S.S”) under the Anti-epidemic Fund, set up by the Hong Kong SAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the E.S.S., the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. The Group has complied with requirement set out in the ESS and there is no other unfulfilled obligation relating to the subsidy.
- (b) Pursuant to an investment management agreement and a supplemental agreement entered by the Group in April 2018 and May 2020, respectively, the Group has agreed to provide corporate guarantee for any shortfall from the guaranteed amounts. According to the assessment as at 31 December 2022, the Group has made the corporate guarantee of approximately HK\$85 million as a prudent approach.

6 FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank borrowings	25,935	41,015
Interest on other borrowings	23,143	18,678
Interest on obligations under repurchase agreements	—	24
Interest on lease liabilities	1,277	2,725
	50,355	62,442

7 OTHER OPERATING EXPENSES

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Advertising and promotion expenses		1,503	5,818
Auditor's remuneration		2,450	4,300
Bank charges		1,824	2,014
Consultancy fee		4,165	1,424
Entertainments		1,426	1,497
General office expenses		5,899	5,622
Insurance		2,577	2,943
Legal and professional fee	(a)	16,764	14,268
Short-term leases, rates and building management fee		6,198	6,824
Repairs and maintenance		5,046	4,707
Staff recruitment cost		1,131	675
Travelling and transportation expenses		767	1,039
Others		4,091	4,194
		<u>53,841</u>	<u>55,325</u>

Note:

- (a) During 2022, total legal and professional fee of approximately HK\$16.8 million (2021: HK\$14.3 million) mainly represented HK\$4.5 million (2021: HK\$2.6 million) for the settlement agreement in relation to the very substantial acquisition with connected parties; HK\$1.6 million (2021: Nil) for the mandatory unconditional cash offer as per the Takeovers Code for the issued Company's shares; HK\$1.6 million (2021: HK\$1.9 million) for tax filing and audit fee for PRC wholly foreign-owned enterprise; HK\$1.1 million (2021: HK\$0.1 million) for debt recovery and HK\$0.7 million (2021: HK\$0.2 million) for valuation services.

8 LOSS BEFORE TAX

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss before tax is arrived at after charging:		
Depreciation and amortisation		
— Other intangible assets	1,644	2,257
— Property and equipment	40,296	43,550
	<u>41,940</u>	<u>45,807</u>
Other items		
— Net losses on disposals of property and equipment	1,502	—
— Expenses relating to short-term leases	40	93

9 TAX (CREDIT)/EXPENSE

The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year ended 31 December 2022, except for a subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime.

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

Taxation for subsidiaries operating in other jurisdictions is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax — Hong Kong Profits Tax		
— Current year	58	14,014
— Over provision in prior years	<u>(3,015)</u>	<u>(2,746)</u>
	(2,957)	11,268
Deferred tax	2,443	50,125
Total tax (credit)/expense	<u><u>(514)</u></u>	<u><u>61,393</u></u>

10 LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to equity holders of the Company is based on the followings:

Loss

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
For purpose of calculating basic and diluted loss per share	<u><u>(1,583,664)</u></u>	<u><u>(2,260,577)</u></u>

Weighted average number of ordinary shares in issue less shares held for Share Award Scheme

	2022	2021
For purpose of calculating basic and diluted loss per share	<u><u>6,145,877,218</u></u>	<u><u>6,145,877,218</u></u>

Loss per share for net loss attributable to equity holders of the Company for the year

	2022 <i>HK cents</i>	2021 <i>HK cents</i>
Basic and diluted	<u><u>(26)</u></u>	<u><u>(37)</u></u>

11 DIVIDENDS

The Board resolved not to declare the payment of a final dividend for the year ended 31 December 2022. (2021: Nil).

12 LOANS TO MARGIN CLIENTS

	As at 31 December 2022 HK\$'000	As at 31 December 2021 HK\$'000
Loans to margin clients, net amount		
— Measured at fair value through profit or loss	<u>670,496</u>	<u>1,382,977</u>

Note:

Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a comprehensive analysis including but not limited to loan-to-market and loan-to-marginable value ratios (“lending ratios”), concentration risk, illiquid collaterals and overall availability of funds. The Group exercises continuous monitoring on outstanding margin loans to see if the actual lending ratios have exceeded the pre-determined levels as a credit risk control mechanism. Any excess in the lending ratios will trigger a margin call where the clients have to make good the shortfall. As at 31 December 2022, the market value of securities pledged by margin clients to the Group as collateral was HK\$4,848 million (31 December 2021: HK\$9,570 million) and the Group is permitted to sell collaterals provided by clients if they fail to fulfil margin calls. Loans to margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread). As at 31 December 2022, the margin loan shortfall in accounting terms amounts to HK\$373 million (31 December 2021: HK\$119 million).

13 ADVANCES TO CUSTOMERS FOR CORPORATE ACTIONS

	As at 31 December 2022 HK\$'000	As at 31 December 2021 HK\$'000
Financial assets measured at amortised cost	186,904	226,759
Less: ECL provisions	<u>(139,271)</u>	<u>(37,451)</u>
	<u>47,633</u>	<u>189,308</u>

As of 31 December 2022 and 2021, the whole balance is classified as current assets.

14 OTHER LOANS

		As at 31 December 2022	As at 31 December 2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other loans			
— Unsecured	(a)	4,008,202	3,773,694
— Secured	(a), (b)	278,615	263,867
		<u>4,286,817</u>	<u>4,037,561</u>
Less: ECL provisions		<u>(3,177,588)</u>	<u>(2,439,503)</u>
	(a)	<u><u>1,109,229</u></u>	<u><u>1,598,058</u></u>
Analysis of the net amount into current and non-current portions:			
Current		1,050,267	1,517,018
Non-current		58,962	81,040
		<u><u>1,109,229</u></u>	<u><u>1,598,058</u></u>

Notes:

- (a) The loans bear interest at fixed rates ranging from 7% to 12% (31 December 2021: 6% to 12%) per annum. The net amount after ECL provisions of unsecured loans of HK\$557 million (31 December 2021: HK\$729 million) are due from fellow subsidiaries of our ultimate beneficiary shareholder.
- (b) As at 31 December 2022 and 2021, the collaterals held by the Group for the secured loans mainly include shares and assets of private companies.

15 ACCOUNTS RECEIVABLE

		As at 31 December 2022	As at 31 December 2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Accounts receivable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	468,195	424,867
— Cash clients	(a)	25,505	22,094
Less: ECL provisions		<u>(11,927)</u>	<u>(10,229)</u>
		<u><u>481,773</u></u>	<u><u>436,732</u></u>
<i>Accounts receivable from asset management, corporate finance and other businesses</i>			
— Clients	(a)	18,289	22,689
Less: ECL provisions		<u>(5,742)</u>	<u>(5,256)</u>
		<u><u>12,547</u></u>	<u><u>17,433</u></u>
Accounts receivable, net	(b)	<u><u>494,320</u></u>	<u><u>454,165</u></u>

Notes:

- (a) Amounts due from brokers, clearing houses and cash clients for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates). Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand (except for the required margin deposits for the trading of futures and options contracts). There are no credit periods granted to clients for its asset management, corporate finance and other businesses. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a higher spread than that of margin client).
- (b) Ageing analysis of accounts receivable based on due date and net of ECL provisions is as follows:

	As at 31 December 2022 <i>HK\$'000</i>	As at 31 December 2021 <i>HK\$'000</i>
Within 30 days	472,466	434,633
31–90 days	1,327	7,233
Over 90 days	20,527	12,299
Accounts receivable, net	<u>494,320</u>	<u>454,165</u>

16 ACCOUNTS PAYABLE

	<i>Notes</i>	As at 31 December 2022 <i>HK\$'000</i>	As at 31 December 2021 <i>HK\$'000</i>
<i>Accounts payable from dealings in securities, futures and options contracts</i>			
— Brokers and clearing houses	(a)	4,485	39,188
— Cash and margin clients	(a)	1,526,761	1,495,810
<i>Accounts payable from other businesses</i>			
— Clients		2,888	6,787
	(b)	<u>1,534,134</u>	<u>1,541,785</u>

Notes:

- (a) Accounts payable to brokers, clearing houses and cash clients are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) except for the required margin deposits received from clients for their trading of futures and options contracts. Accounts payable to margin clients are repayable on demand.
- (b) No ageing analysis in respect of accounts payable is disclosed as, in the opinion of the Board, the ageing analysis does not give additional value in view of the business nature.

17 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 3 February 2023, the deed of share purchase pursuant to which the Offeror has conditionally agreed to purchase and the Oceanwide Holdings IF has conditionally agreed to sell the Sales Shares has been completed. Immediately upon completion, The Offeror is interested in 4,098,510,000 ordinary Shares (approximately 66.14% ownership) of the Company. Mr. Lu, the former ultimate controlling shareholder of the Company, through his controlled corporation, beneficially own approximately 6.37% ownership of the Company. Details of the transaction were set out in the Company's announcement dated on 3 February 2023.

FINAL DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Macro Environment

The geopolitical tensions between Russia and Ukraine in 2022 spiked energy prices pushing inflation rates in Europe and the United States to multi-decade highs. This prompted the central bank of the United States to raise rates seven times in 2022, including four times in super-sized 0.75 percentage point increments in an effort to bring down inflation. That created the most rapid tightening of monetary policy in decades and triggered a downturn in global financial markets. Many major stock markets posted significant negative return, with the S&P 500 and Dow Jones Industrial decreased by about 19.4% and 8.8% respectively.

In Mainland China, the economy was weighed down by stringent pandemic controls and regulatory tightening on the real estate, internet, and financial sectors. Mainland authorities introduced a number of targeted policies to address highly specific challenges throughout 2022. The Mainland China economy grew by just 3.0% in 2022 as opposed to the targeted 5.5%.

Hong Kong Market Review

The Hong Kong stock market was under pressure since the beginning of 2022 as sentiment was hurt by combined effect of geopolitical tensions in Ukraine, aggressive rate hike by US driven by elevated inflation, widening COVID outbreak and pandemic control as well as property market weakness in mainland China. The market recouped some of the losses since the lowest point of Hang Seng Index of 14,687 points in October 2022 to recent high of Hang Seng Index of 22,689 points in January 2023. In 2022, the Hang Seng Index and the Hang Seng China Enterprises Index were down 15.5% and 18.6% respectively. The average daily turnover in Hong Kong securities market amounted to HK\$124.9 billion in 2022, decreased by 25.1% year-on-year. Hong Kong's IPO market also suffered, recording a total of 90 new issuers as compared to 98 in 2021. Total funds raised by these IPOs stood at HK\$104.6 billion representing a decrease of 68.4% compared to 2021. The market capitalisation of the securities market reached HK\$35,667 billion at the end of 2022, down 15.8% year-on-year.

Results and Overview

For the year ended 31 December 2022, the Group recorded net loss of approximately HK\$1,584 million (2021: HK\$2,261 million). Such loss mainly arises from ECL on certain loans and investment losses. The ECL was about HK\$0.9 billion (2021: HK\$2.6 billion) and being shown as an expense item in consolidated statement of profit and loss.

Our fair value loss on investment in financial assets and margin loans are shown as a negative figure in revenue in consolidated statement of profit and loss. Besides, when loans passed maturity without due repayment and renewal, we will stop recording the interest income. There was a loss in investments in financial assets of HK\$325 million (2021: HK\$78 million gain) due to the price drop of certain financial investment assets which falls on the backdrop of the declining market in 2022. There was also a loss on margin loans of HK\$254 million (2021: HK\$44 million) due to price drop of our margin clients collateral (where the collateral market value falls below the outstanding margin loan, counted on client-by-client basis). The above factors contributed to the huge difference of the total revenue across the two years. The Group does not recommend the payment of any final dividend for 2022 (2021: Nil).

Business Review

If we exclude investment and other business revenue and interest income other than margin loans, the adjusted operating revenue in 2022 is HK\$247 million, which has dropped roughly 29% from HK\$346 million in 2021. The drop was contributed to the decrease in revenue of the four businesses as described below.

Financial Review

As the financial performance from investments and other loans business are subject to high volatility, we have presented the following analysis of revenue of our licensed businesses to better understand our core operating businesses:

Revenue	2022 <i>HK\$ million</i>	2022 <i>Proportion</i>	2021 <i>HK\$ million</i>	2021 <i>Proportion</i>	<i>Change</i>
Corporate finance business	19	7%	26	8%	(27%)
Asset management business	12	5%	35	10%	(66%)
Brokerage business	93	38%	139	40%	(33%)
Margin loan interest income business	123	50%	146	42%	(16%)
Total adjusted operating revenue	<u>247</u>	<u>100%</u>	<u>346</u>	<u>100%</u>	(29%)

Total revenue from the above four businesses dropped by 29% compared to 2021. The proportion of revenue from corporate finance business, asset management business and brokerage business decreased from 8%, 10% and 40% in 2021 to 7%, 5% and 38% in 2022 respectively. The proportion of revenue from margin loan interest income business increased from 42% in 2021 to 50% in 2022.

Corporate Finance Business

The Group's corporate finance business primarily comprises sponsorship for listing, financial advisory, financing consultation service, and equity capital market. Revenue from corporate finance business decreased by approximately 27% from HK\$26 million in 2021 to HK\$19 million in 2022. The drop was mainly due to the drop in sponsorship fee income and advisory service income as compared to 2021.

Asset Management Business

In 2022, total revenue from asset management business was about HK\$12 million, representing a decrease of 66% from HK\$35 million in 2021. Apart from a reduction of asset under management, the drop of performance fee in 2022 caused such reduction of revenue across two years.

Brokerage Business

In 2022, total income from brokerage business was about HK\$93 million, a decrease of 33% from HK\$139 million in 2021. The drop was mainly due to the decrease in commission income from dealing in Hong Kong securities decreased by 50% from HK\$62 million in 2021 to HK\$31 million in 2022, which had been affected by the overall securities market performance and negative influence on business arising from the financial difficulties of our then controlling shareholder.

Margin Loan Interest Income Business

The interest income from loans to margin clients has dropped by 16% from HK\$146 million in 2021 to HK\$123 million in 2022 mainly due to a drop in average outstanding margin loan to clients.

Expenses

In 2022, direct costs were about HK\$104 million, representing a 27% decrease from HK\$142 million in 2021. The decrease was mainly due to the decrease in commission expense of our brokerage business as a result of reduction in gross commission. In 2022, staff costs recorded HK\$166 million, representing a 11% decrease from HK\$186 million in 2021 as a result of reduced discretionary bonuses and proactive cost-saving schemes.

Expected Credit Loss (“ECL”) net charges on amortised loans and bonds has decreased about 64% from HK\$2,583 million in 2021 to HK\$917 million in 2022. Most of the impairment loss in 2021 came from loans to former connected parties. In 2021, we had adopted a higher ECL provision rate on them than that applied to 2020. The increase in ECL provision rate on the former connected parties loans and bonds in 2022 was less significant than that in 2021, and therefore ECL charges in 2022 has decreased significantly as compared to 2021. The ECL provision rates for them in 2021 were ranged 69%–73%, while in 2022, they ranged 75%–85%.

Finance costs in 2022 was HK\$50 million, representing a 19% drop from HK\$62 million in 2021 as a result of substantial repayment of bank borrowings and active treasury operations to reduce cost.

Impairment Loss

(A) Details of other loans, unlisted debt securities and advances to customers for corporate actions with material impairment

In 2022, the Group recognised net charge of ECL provisions of approximately HK\$917 million. The Company listed out the loans with material asset impairment, which with reference to over 1% of total asset value of HK\$4,678 million of the Group as at 31 December 2022 (i.e. over HK\$47 million). The Company consider that such materiality level is appropriate for this purpose. As such, total ECL charges of HK\$751 million (82%), the HK\$578 million for other loans with material ECL charges, HK\$71 million to unlisted debt securities, HK\$102 million to advances to customers for corporate actions and out of total ECL charges of HK\$917 million was explained below.

(a) *Details of other loans with material ECL charges of HK\$578 million in 2022*

There was on ECL charge of HK\$177 million to former connected parties and HK\$401 million to independent third parties, totalling HK\$578 million in 2022.

(1) Unsecured and unguaranteed other loans to former connected parties

The borrowers below are the subsidiaries of Tohigh Holdings Co., Ltd.# (通海控股有限公司), Oceanwide Holdings Co., Ltd.# (泛海控股股份有限公司), and China Oceanwide Holdings Limited which are former connected parties of the Company.

“#” denotes an English translation of a Chinese name and is for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

Identities of borrowers	Principal amount HK\$ million	Net	Impairment loss for the year 2022 HK\$ million	Interest rate	Loans granted date	Tenure	Ultimate beneficial owners	Latest status of repayment
		amount as at 31 December 2022 HK\$ million						
1 China Oceanwide International Investment Company Limited and Minyun Limited	1,166	319	39	7.88%-12%	5 Dec 2019- 1 Jan 2022	Within 2 years	Mr. LU	Overdue
2 Oceanwide Holdings International Development III Co., Ltd	691	155	55	11%-12%	1 Jan 2021- 1 Jul 2021	Within 1 year	Mr. LU	Overdue
3 China Oceanwide Holdings Limited	480	83	83	12%	22 Dec 2020- 1 Apr 2021	Within 1 year	Mr. LU	Overdue
	<u>2,337</u>	<u>557</u>	<u>177</u>					

No additional loan was granted to the above former connected parties and we received repayment of interest from China Oceanwide International Investment Company Limited amounted to HK\$8 million in 2022.

The Group had provided loans to former connected parties in accordance with the terms of the Framework Agreements. The Framework Agreements and the relevant annual caps of the continuing connected transactions were approved by the then independent Shareholders at the special general meetings of the Company held on 20 November 2017, 11 October 2019 and 26 February 2021. The provision of loans to former connected parties falls within the limit of the respective maximum daily outstanding balances of financial assistance. The Board has considered, among other things, the following factors to assess the recoverability of the Group's loans from former connected parties before extension of existing loan and granting a new loan to former connected parties:

- due diligence on the financials of former connected parties, such as the net asset value and gearing ratio;
- the credit and repayment history of the former connected parties; and
- any litigation or bankruptcy record of the former connected parties.

(2) Unsecured loans to independent third parties

Identities of borrowers	Principal amount <i>HK\$ million</i>	Net	Impairment	Interest rate	Loans granted date	Tenure	Details of personal guarantee	Their ultimate beneficial owners	Latest status of repayment
		amount as at 31 December 2022 <i>HK\$ million</i>	loss for the year 2022 <i>HK\$ million</i>						
Corporate Client 1	308	91	175	8%-9.75%	24 Aug 2021– 1 Apr 2022	Within 1 year	Principal of HK\$234 million was guaranteed by Mr. HAN Lei (<i>note 1</i>)	Mr. HAN Lei	Principal of HK\$74 million and interest receivable of HK\$17 million were overdue
Corporate Client 2	275	80	157	8.75%-9.75%	20 Dec 2021– 1 Apr 2022	Within 1 year	Principal of HK\$250 million was guarantee by Mr. Wong Pui Hoi (<i>note 2</i>)	Mr. Wong Pui Hoi	Principal of HK\$65 million and interest receivable of HK\$6 million were overdue
Corporate Client 3	105	31	69	9%-10%	19 Oct 2021– 10 Jan 2022	Within 1 year	N/A	Mr. MO Li Jun (<i>note 3</i>)	Principal of HK\$45 million and interest receivable of HK\$2 million were overdue
	<u>688</u>	<u>202</u>	<u>401</u>						

Note 1: The ultimate beneficial owner and the personal guarantor of Corporate Client 1 were set out in the page 22 of the Company's respective circular dated 27 May 2022.

Note 2: The ultimate beneficial owner and the personal guarantor of Corporate Client 2 were set out in the page 19 of the Company's respective circular dated 27 May 2022.

Note 3: The ultimate beneficial owner of Corporate Client 3 was set out in the page 4 of the Company's respective announcement dated 10 January 2022.

No additional loan was granted to Corporate Client 1 and 2 while additional loan of HK\$60 million was granted to Corporate Client 3 in early 2022. We received repayments of interest from Corporate Client 1

and 2 amounted to HK\$13 million and HK\$11 million respectively and repayment of principal from Corporate Client 3 amounted to HK\$15 million in 2022.

(b) Details of the unlisted debt securities with ECL charge of HK\$71 million in 2022

Identity of borrower	Principal amount		Net amount as at 31 December 2022	Impairment loss for the year 2022	Coupon rate	Date of subscription	Tenure	Ultimate beneficial owners	Latest status of repayment as at 31 December 2022
	US\$ million	HK\$ million	HK\$ million	HK\$ million					
Oceanwide Holdings International Development III Co., Ltd	103	803	184	71	11.80%	2 Jun 2021– 26 Apr 2022	Within 1 year	Mr. LU	Principal of HK\$94 million and interest receivable of HK\$98 million were overdue

No additional debt was granted to the above former connected party and we received repayment of interest amounted to HK\$42 million in 2022.

(c) Details of advances to customers for corporate actions with ECL charge of HK\$102 million

Identity of borrower	Principal amount		Net amount as at 31 December 2022	Impairment loss for the year 2022	Interest rate	Loans granted date	Tenure	Details of personal guarantee	Details of secured assets	Ultimate beneficial owners	Latest status of repayment
	HK\$ million	HK\$ million	HK\$ million	HK\$ million							
Corporate Client 4	133	48	102		12%	8 March 2019	Within 2 year	by Mr. Zhang Zhixiang (note 1)	Secured by listed shares and other asset	Independent third party	Overdue

Note 1: The personal guarantor of Corporate Client 4 was set out in the page 16 of the Company's respective circular dated 27 May 2022.

No additional advance was granted to the Corporate Client 4 and we received repayment of principal and interest amounted to HK\$40 million in 2022.

(B) Reasons for the impairment

The Group adopted the requirements in respect of ECL assessment set forth in HKFRS 9 issued by the HKICPA in determining the impairment loss allowance for its loan receivables.

The Group has taken into account the following factors on the impairment assessment for the outstanding loans and unlisted debt securities due from the former connected parties and independent third parties in accordance with the HKFRS 9:

- (i) the probability of default and the likelihood that the borrowers may fail to pay back the loans. The Group will perform due diligence on the financial statements and consider the macro-environment and the latest announcements of the borrowers. The repayment history of the borrowers will also be taken into account;
- (ii) the loss given default and the expected cash shortfall between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The Group will consider the value of the collaterals pledged for the loans, if any; and
- (iii) forward-looking market data such as gross domestic product will also impact to the recoverability of the loans.

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

(C) Key assumptions and basis in determining the amount of the impairment

For the purpose of impairment assessment, other loans, unlisted debt securities and advances to customers for corporate actions of the Group are classified as stage 1, 2 and 3. According to the prevailing accounting standard, stage 1 are loans with no significant increase in credit risk of the financial instrument since their initial recognition. Stage 2 are loans with increase in credit risk of the financial instrument since their initial recognition. Stage 3 loans has significant increase in credit risk of the financial instrument since initial recognition and considered as credit-impaired. Impairment was assessed for each of the loans and the ECL model for internal impairment assessment has taken into account the following: 1) expected life and contractual terms of a financial instrument; 2) market probability of default; 3) market loss given default or discounted recovery rate; and 4) forward-looking market data.

Details of accumulative provision rates for the above other loans, unlisted debt securities and advances to customers for corporate actions are summarized below:

Identities of borrowers	Gross amount <i>HK\$ million</i>	Accumulated provision	Net	Accumulative ECL %	Stage
		as at 31 December 2022 <i>HK\$ million</i>	amount as at 31 December 2022 <i>HK\$ million</i>		
1 China Oceanwide International Investment Company Limited and Minyun Limited	1,292	(973)	319	75%	3
2 Oceanwide Holdings International Development III Co., Ltd	1,691	(1,352)	339	80%	3
3 China Oceanwide Holdings Limited	539	(456)	83	85%	3
4 Corporate Client 1	331	(240)	91	73%	3
5 Corporate Client 2	296	(216)	80	73%	3
6 Corporate Client 3	113	(82)	31	73%	3
7 Corporate Client 4	187	(139)	48	74%	3
	<u>4,449</u>	<u>(3,458)</u>	<u>991</u>		

All the above loans, unlisted debt securities and advances to customers for corporate actions are classified as stage 3 in ECL model

In regarding loan to Corporate Client 1, 2, and 3, the loans were classified as stage 3 as part of the loans were overdue and all the due interests were not timely and fully settled as at year end 31 December 2022 and up to the date of annual result announcement. The loans were considered as default.

Regarding the loan to Corporate Client 4, the loan was previously assigned to an independent party by a deed of assignment. However, during the year the assignee had paid 20% of the total consideration only on or before the long stop date of the assignment. Pursuant to the arrangement under the deed of assignment, we shall only assign 20% the present and future rights of the loan to the assignee. The outstanding loan has been overdue since March 2021 according to the original contract and is considered as default.

In regarding loans to former connected parties, namely, China Oceanwide International Investment Company Limited, Minyun Limited, Oceanwide Holdings International Development III Co., Ltd and China Oceanwide Holdings Limited, with reference to the announcements of Oceanwide Holdings Co., Ltd published on the website of the Shenzhen Stock Exchange, they experienced a series of credit default events such as debt defaults and lawsuit since the year of 2021, which indicated concerns about their liquidity and ability to refinance. They were classified as stage 3 in year 2021 and 2022.

The Company announced on 24 August 2021 that the settlement arrangements have been entered with Oceanwide Holdings Co., Ltd and China Oceanwide Holdings Limited which constituted a very substantial acquisition and connected transaction. The long stop date of the settlement arrangements has been extended to 30 June 2023. For the purpose of assessing the ECL of those loans and unlisted debt securities under the settlement arrangements, the Company did not take the settlement arrangements into account because it has not yet been completed then.

The settlement arrangements enable the Company to fully recover the other loans and unlisted debts securities due from Oceanwide Holdings International Development III Co., Ltd and other loans due from China Oceanwide Holdings Limited with shares of a limited liability company incorporated in the PRC. The financial position of the Company will be improved after the settlement arrangements, as such recovery will reduce loan receivables from former connected parties and eliminate the credit exposure of the debts.

Upon the completion of the settlement arrangements, it is expected that a gain will be recognised for settlement arrangements which amounts to the accumulative provision made on the other loans and unlisted debts securities. The amount of the other loans and unlisted debts securities will become the investment costs for the shares of the PRC company under the acquisition.

For the year of 2022, independent impairment assessment was performed for stage 3 loans by an independent valuer, Masterpiece Valuation Advisory Limited which is a professional business consulting company established in Hong Kong with a branch office in the Greater China area. The consulting teams are formed by experienced professionals from accounting, finance and real estate with well-recognized qualifications including but not limited to HKICPA, Chartered Financial Analyst, The Hong Kong Institute of Chartered Secretaries (now known as The Hong Kong Chartered Governance Institute), member of the Hong Kong Institute of Surveyors, Registered Professional Surveyors, Financial Risk Manager and Certified Public Valuer.

All the above loans to former connected parties and Corporate Clients 1 to 4 were treated as default loans and 100% was used as the probability of default in the ECL model. Hence, in applying the accounting standard, the below formula was used in assessing their respective ECL provisions:

$$ECL = EAD \times PD \times (1 - PV \text{ of } (Recovery \text{ Rate} \times FLF))$$

1. Exposure at Default (the “EAD”) is the principal and interest outstanding that are at risk of default.
2. Probability of Default (the “PD”) of 100% is used as the counterparties defaulted or very likely to default.
3. Recovery Rate sourced from “Average debt recovery rates measured by ultimate recoveries” published by Moody’s, a reputable credit agency.
4. Forward-looking factor (the “FLF”) is served as adjustment to recovery rate basing on the recent and forecasted data related to assets of the borrowers. GDP growth data were selected as the appropriate macro factor (“Z”) according to the assets location of the counterparties. And for counterparties located in PRC, broad measure of money supply (M2) was also included to make relevant forward-looking adjustments to Recovery rate.

5. Present Value (“PV”) of $(\text{Recovery Rate} \times \text{FLF}) = (\text{Recovery rate} \times \text{FLF}) / (1 + \text{effective interest rate})^{\text{Time to Recover}}$. For loans from former connected parties, time to recover is prolonged to be 5 years from the reporting date, after considering the reasonable time for potential assets swap and unfreezing assets. For loans from Corporate Clients 1 to 4, time to recover is expected to be 3 years from the reporting date, based on the management’s expected time on repayment pattern.

	EAD	PD	Recovery Rate	Interest Rate	Time to Recover	FLF	Recovery Rate × FLF	PV of (Recovery Rate × FLF)	ECL	Accumulated ECL%
	A	B	C	D	E	F	G=C×F	H=G/(1+D) ^E	I=A×B×(1-H)	J=I/A
	<i>HKS million</i>									
China Oceanwide International Investment Company Limited and Minyun Limited	1,292	100%	39.93%	7.88%–12%	5 years	88.00%	35.14%	19.94%–26.04%	973	73.96%–80.06%
Oceanwide Holdings International Development III Co., Ltd	1,691	100%	39.93%	11%–12%	5 years	88.00%	35.14%	19.94%–20.85%	1,352	79.15%–80.06%
China Oceanwide Holdings Limited	539	100%	39.93%	12%	5 years	88.00%	35.14%	15.48%	456	84.52%
Corporate Client 1	331	100%	39.93%	8%–9.75%	3 years	89.67%	35.81%	27.09%–28.42%	240	71.58%–72.91%
Corporate Client 2	296	100%	39.93%	8.75%–9.75%	3 years	89.67%	35.81%	27.09%–27.84%	216	72.16%–72.91%
Corporate Client 3	113	100%	39.93%	9%–10%	3 years	89.67%	35.81%	26.90%–27.65%	82	72.35%–73.10%
Corporate Client 4	187	100%	39.93%	12%	3 years	89.67%	35.81%	25.49%	139	74.51%

For stage 1, 2 and 3 loans, there were no changes in valuation method and assumptions compared to previous year.

The Group’s debtors were affected by the overall downturn of the economy and real estate industry and the recoverability of the corresponding loan receivables were undermined. The credit risk and default risks of loans would inevitably increase.

Key parameters input including probability of default and expected recovery rate from loss given default rate are adjusted to reflect the current and future conditions and attribute to the increase of the ECL as at 31 December 2022 by comparing previous year.

- Probability of default:

The adopted probability of default for both years were derived from “Average cumulative issuer-weighted global default rates by Alphanumeric Rating”, Corporate Default and Recovery Rates, published by Moody’s. For defaulted counterparties, 100% was adopted as at 31 December 2022.

Certain counterparties were treated as defaulted for the year 2022 as the principals and interests were overdue.

- Expected recovery rate from loss given default rate:

The expected recovery rate for both years were derived from “Average debt recovery rates measured by ultimate recoveries” published by Moody’s and further adjusted with the security status of the Loans (secured/unsecured) and the future assets recoverability of the counterparties, if any.

Given the deteriorating economy and the property market is vulnerable to the changes in general economic fundamental factors and asset prices would fluctuate and become more volatile as compared to previous periods, the expected recovery decreased compared to previous period.

(D) Recovery Actions

Loans to former connected parties

For loans to former connected parties, the Group sent payment reminders to former connected parties before the maturity date, and further payment reminders were sent to former connected parties every 2–3 months afterwards when they failed to repay on maturity date. The risk management department monitors the risk level of the loan portfolio regularly and provide updates to executive Directors on a monthly basis. The Company learnt the difficulties of former connected parties’ liquidity and discuss with former connected parties on the terms for loan renewal and the extension on interest repayment.

For loans to Oceanwide Holdings International Development III Co., Ltd and China Oceanwide Holdings Limited, as mentioned above, there was a plan to recover the debts by way of settlement arrangements announced on 24 August 2021. For loans to China Oceanwide International Investment Company Limited and Minyun Limited, other than sending payment reminders, the Company negotiated with the borrowers with a view to reduce the credit risk through various means including credit enhancement through pledging of assets and/or reduction of amount of loans by way of cash repayment and/or asset transfer. No definitive agreement has eventually been entered. The Company is still in regular and frequent discussions with former connected parties on how to recover those loans.

Corporate Client 1, Corporate Client 2 and Corporate Client 3

The Group sent payment reminder to Corporate Client 1, 2 and 3 before maturity date and further payment reminders were sent following the one month overdue.

Corporate Client 4

After the long stop date of the assignment, the Company negotiated with the borrower for settlement and the discussion is still ongoing.

For all loans (including to loans to former connected parties), the risk management department monitors the risk level of the loan portfolio regularly and provide updates to executive Directors on a monthly basis. Senior management has frequently discussed, at least on monthly basis, with the Executive Committee on the recovery actions.

Money Lending

(i) Company's money lending business and credit risk assessment policy

The Company's money lending business offers both secured and unsecured loans to borrowers comprising individuals and corporations. The money lending business generates revenue and profit by way of providing loans to earn interest income.

The Company has adopted a credit risk policy to manage its money lending business which includes compliance with all applicable laws and regulations, credit assessment on potential borrower and his/its assets, the credibility of the potential borrower, the necessity in obtaining collaterals, assessment of the use of proceeds and the source of repayment.

The scope of money lending services provided by the money lending business generally includes personal loans, business loans and mezzanine loans. The Company try to diversify the loan portfolio by providing to different borrowers to lower the concentration risk. We do not have a pre-defined risk appetite and set of criteria for loan acceptance. The credit risk assessment was made in case-by-case basis by reviewing the financials of borrowers, considering the borrower's repayment history and evaluating whether the borrowers are in bankruptcy, receivership or liquidation. Within a loan category, the interest rates, the duration of the loan and repayment terms of the loan vary. The determination of the loan terms reflects the risk level of the provision of loan and ensure the risk is at a controllable level.

Provision of loans is one of the principal businesses of the Group. Management's discussion on the movements in material loans for renewal of existing loan or newly granting of the loans have been disclosed in the announcement or circular. For loans to former connected parties, they have to fall within the Framework Agreements and the relevant annual caps of the continuing connected transactions were approved by the then independent Shareholders at the special general meetings of the Company held on 20 November 2017, 11 October 2019 and 26 February 2021. For material loans to independent third parties, the summary of relevant Company's announcement and circular made in the year of 2022 were set out below:

Identities of borrowers	Loan amounts disclosed in announcement or circular <i>HK\$ million</i>	Respective announcement or circular
Sunny Chance Investment Limited	181	Pages 2–5 of announcement dated on 12 May 2022
Oceanic Vanguard Investments Limited	275	Pages 2–6 of announcement dated on 12 May 2022
Grand Profit International Investment Limited	234	Pages 2–5 of announcement dated on 12 May 2022

(ii) Major terms of loans granted (including details of the collaterals), size and diversity of clients and concentration of loans on major clients

To diversify the clients and lower the concentration of loans portfolio, our borrowers included individuals, listed companies and companies from different industries such as securities investment, real estate and consultation service. As at 31 December 2022, the Group has 21 borrowers, of which 17 unlisted corporate borrowers, 1 listed corporate borrower and 3 individual borrowers.

As at 31 December 2022, the Group has 44 loans with principal amounts ranged from HK\$2 million to HK\$678 million with interest rate ranged from 7% to 12%. The loans portfolio fell with the following bands:

Loan size of principal amount	Number of loans fall into the band
Above HK\$500 million–HK\$1,000 million	1
Above HK\$100 million–HK\$500 million	13
Above HK\$50 million–HK\$100 million	6
Above HK\$10 million–HK\$50 million	16
Above HK\$5 million–HK\$10 million	3
HK\$0–HK\$5 million	5
	<hr/>
	44
	<hr/> <hr/>

Out of the 44 loans, 3 loans were secured by shares and assets of private companies with personal guarantee (6% of the total principal amount of the Group's loan portfolio), 2 were secured by assets of private companies and unguaranteed (1% of the total principal amount of the Group's loan portfolio), 11 unsecured loans with personal guarantee (47% of the total principal amount of the Group's loan portfolio) and the remaining 28 loans are unsecured and unguaranteed (46% of the total principal amount of the Group's loan portfolio).

As at 31 December 2022, the top five borrowers constituted 73% of the total principal amount of the Group's loan portfolio.

(iii) Reasons for loan impairments (and write-offs)

Management's discussion and the underlying reasons for the movements in loan impairments are that the ECL recognized primarily represented the credit risk involved in collectability of certain loans determined under the Company's loan impairment policy, with reference to factors including the credit history, financial conditions of the borrowers and forward-looking information. In accordance with the Group's loan impairment policy, the Group will apply the prevailing accounting standard to make such impairment. Therefore, the amount of ECL is updated at each reporting date to reflect the changes in credit risk on loan receivables since initial recognition.

As at 31 December 2022, the gross amounts of other loans have increased by HK\$249 million from HK\$4,038 million at 2021 year ended to HK\$4,287 million. The net amount after ECL provisions of other loan has changed from HK\$1,598 million at 2021 year ended to HK\$1,109 million at 2022 year end.

(iv) Internal controls measures

Credit Approval

The Company's money lending business follows a stringent procedure. Due diligence and credit assessments are performed by the respective lending department to assess the credit quality of the potential borrowers. These assessments include the identity, creditability, and financial background of the borrowers, and the value and characteristics of the collaterals to be pledged.

A loan proposal is then prepared by the designated loan officer and submitted to the Risk Management Department (RMD) for their comment. This comment is attached to the final submission of the proposal and presented to the Business Assessment Committee (BAC) either through a physical meeting or in an email for their approval.

The BAC may comment, add pre-conditions, or improve the terms and conditions before giving their final approval. A Transaction Approval Form (TAF) is signed off by the Department Head of the respective lending department, the approval members, and the Chief Operating and Risk Officer to complete the approval process and for company record.

Subject to the size of the loan, different approval authority is applied, where higher authority is required for the approval of larger loans. The Company has long established this hierarchy of Approval Authority, the details of which are stated below:

Loan size (HK\$)	Approval authority
Above HK\$1,000 million	Board of Directors
Above HK\$500 million– HK\$1,000 million	Executive Committee (ExCom.)
Above HK\$100 million– HK\$500 million	3 members in ExCom. (must include Chairman of ExCom.)
Above HK\$50 million– HK\$100 million	Business Assessment Committee (BAC)
Above HK\$10 million– HK\$50 million	3 members of BAC (must include Chief Executive Officer)
Above HK\$5 million– HK\$10 million	3 members of BAC (must include Chief Financial Officer or Chief Operating and Risk Officer)
Above HK\$0 million– HK\$5 million	2 members of BAC (must include Chief Financial Officer or Chief Operating and Risk Officer)

Note:

- 1) Business Assessment Committee comprises of Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, Chief Operating and Risk Officer and Deputy Risk Officer.

Continuous loan monitoring

The Company has the designated loan officer to closely monitor its loan portfolio, include regular communication with the borrowers of their financial position, through which the Company will be able to keep updated with the latest credit profile and risk associated with each individual borrower and could take appropriate actions for recovery of a loan at the earliest time.

Also, risk management department of the Company will review the risk level of each of the loans on a daily basis and submit written report to the Executive Committee at least on a monthly basis on their recommendation. From time to time, risk management department will alert our senior management and/or the Executive Committee on certain events (e.g. failed repayment) and advise the Company to take appropriate actions. Our accounts department and treasury department will also keep track of the repayment schedule constantly and make alerts to senior management in case of failed or late repayment.

Recoverability and Collection

At each month end, the designated loan officer will check if there is overdue balances or late payment and risk management department will perform an independent review on the loans portfolio and closely monitor the status and report to the senior management.

Usually there would be internal discussions on a case-by-case basis on what recovery actions to be taken so that the Company could recover the most in a timely fashion. Means like phones calls, seizure of collaterals, statutory demand letter and further legal actions would be discussed. Reminder letter and statutory demand letter will be issued to the borrower when consider appropriately if there is overdue repayment. Where appropriate, legal action will be initiated against the borrower for the recovery of the amount due and taking possession of the collateral pledged. Seizure of collaterals and realization of underlying collaterals would also be taken if necessary. Where appropriate, the Company will also petition to the court for winding-up of the borrower and/or guarantor. Again, the recovery and collection decisions and processes are included in the monthly risk management report to the Executive Committee.

Other Information

Capital Structure, Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow as well as through the utilization of banking facilities and short-term loans and notes from non-bank entities. The Group's cash level at the end of 2022 was around HK\$195 million (2021: HK\$405 million).

At the end of 2022, the Group's total borrowings amounted to HK\$906 million, decreased by 40% from HK\$1,503 million at the end of 2021. As at end of February 2023, the total borrowings has further reduced to HK\$755 million. Borrowings mainly consisted of two components.

- The first component was utilized bank facilities of around HK\$543 million (2021: HK\$1,187 million), of which the Group had available aggregate banking facilities of around HK\$837 million (2021: HK\$1,888 million).
- The second component was private notes issued by our listed company and loans from other parties (mainly non-bank financial institutions), which amounted to HK\$363 million at the end of 2022 (2021: HK\$316 million).

At the end of 2022, the net assets of the Group was HK\$2,012 million (2021: HK\$3,597 million) the Group's gearing ratio (leverage) was 45% (2021: 42%), being calculated as total borrowings over net assets. The increase in gearing ratio was due to the reduction in net assets as a result of the loss in 2022.

The management has applied prudent risk and credit management on the borrowing. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of bank borrowings in the securities margin lending business.

Material acquisitions, disposals and significant investments

For 2022, the Group had not made any material acquisitions and disposals of subsidiaries and associated companies other than that has been announced. As at the end of 2022, the Group did not hold any significant investments.

Charges on the Group's assets

At the end of 2022, assets of HK\$441 million (2021: HK\$985 million) were charged to banks and other lender for facilities.

Employees and remuneration policies

On 31 December 2022, the Group had 190 full time employees (2021: 222) in Hong Kong and 23 full time employees (2021: 33) in Mainland China. In addition, the Group has 82 self-employed sales representatives (2021: 85). Competitive total remuneration packages are offered to employees by reference to industry remuneration research reports, prevailing market practices and standards and individual merit. Salaries are reviewed annually, and discretionary bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme, medical and health insurance.

Risk management

The Group's business is closely related to the economy and market fluctuations of Hong Kong and China, and indirectly affected by financial markets across the globe. To cope with unpredictable market fluctuations and minimize risks, the Group takes preventive measures and established a three-tier risk management system.

At the front line, there are the relevant business departments who conduct the initial risk assessments. The Risk Management Department and Legal & Compliance Department then reviews and provide comments on identified risks, if any. The Risk Management Department of the Group is responsible for risk identification and analysis, the setting and monitoring of risk limits and parameters, and produce timely risk reports to the senior management. The Legal & Compliance Department also comment and monitor the legal risks involved as required. The Internal Audit Department conduct thorough checks periodically to ensure that any procedural and potential risks can be eradicated, concluding the final stem of our Group's comprehensive risk control.

Credit risk

Credit risk is the potential risk in respect of loss arising from incompetence of a borrower, counterparty or issuer of financial instruments to meet its obligation, or potential deterioration of credit ratings. The Group has an established Credit Approval Policy and Procedure for pre-lending approval and a post-lending monitoring system in place for all business applications and proposals with potential credit risks. The credit risks of the Group mainly arise from five business areas: corporate finance business, asset management business, brokerage business, interest income business and propriety investment business. Advance IT systems are also utilized by the Group to conduct daily monitoring on credit and concentration risk limits.

Market risk

Market risk refers to potential losses due to market price movement of investment positions held, which includes interest rates risk, equity prices risk and foreign exchange rates risk. Risk Management Department is responsible for setting up market risk limits and investment guidelines for the Group's various business functions and their investment activities. Investments with potential market risks are, where appropriate, assessed and approved by Risk Management Department. Monitoring and assessments of market risks positions are conducted timely, and significant risks are reported to senior management to ensure the market risks of the Group are controlled within an acceptable level. The Group continues to modify the market risk models through periodic back-testing and stress scenarios tests.

Liquidity risk

Liquidity risk refers to the risk that the Group might face in obtaining sufficient capital and funds in a timely manner to meet its payment obligations and capital requirements for normal business activities. Treasury Department is responsible for the sourcing, management and allocation of funds for the Group. Finance Department has a monitoring system to ensure compliance to relevant rules, including Financial Resources Rules (“FRR”) and financial covenants of lending banks. In addition, the Group has maintained good relationships with banks to secure stable channels for short-term financing such as borrowings and repurchases. The Group may also raise short-term working capital through public and private offerings of corporate bonds. The Group has also established a liquidity system to ensure it has sufficient liquid assets to meet any emergency liquidity needs.

Operational risk

Operational risk is the risk of financial loss arises mainly from negligence or omission of internal procedural management, information system failures or personnel misconduct of staffs. The Group actively schedules briefing sessions to improve risk awareness amongst employees, and instructs all departments to establish internal procedural and control guidelines. There is an Operational Risk Events Reporting procedure to ensure that all risk events are timely reported to the Risk Management, Legal & Compliance and IT Department for immediate implementation of remedial action. The Group has a Business Continuity Policy and has a special committee to deal with whatever emergency situations may arise which could pose operational risks to us.

Regulatory compliance risk

As a financial group operating regulated businesses, we endeavor to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor interest protection and market integrity and stability maintenance. Our Legal & Compliance team works continuously to monitor, review, and reduce the regulatory risks of the Group.

Prospects

The outlook for 2023 is mixed. Hong Kong has relaxed all COVID restriction measures and the Hong Kong economy is expected to stage a visible rebound in 2023. However, the global economic outlook is still challenging following the recent failures of certain banks, the interest rate trend and battle against inflation.

Nonetheless, the negative influence on our business resulting from the financial difficulties is now removed and we can now strive to strengthen our recurring brokerage, corporate finance and asset management businesses, and improving our system efficiency and service quality. We will also closely monitor our loan portfolio and focus on loan recovery. As much important as it is to deliver our services in good quality, that is crucial too to deliver a decent return to the Company and our shareholders as a whole.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

The Board considers that the Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Listing Rules, titled “Corporate Governance Code”, throughout the year ended 31 December 2022 and subsequent period up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under Appendix 10 of the Listing Rules. The code of conduct is also updated from time to time in order to keep abreast with the latest changes in the Listing Rules. It has also been extended to specific employees of the Company who are likely to be in possession of unpublished price sensitive information in respect of their dealings in the securities of the Company.

In response to specific enquiry, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by the Directors adopted by the Company throughout the year ended 31 December 2022.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company (which comprises a non-executive director and five independent non-executive directors) has reviewed the audited annual results of the Company for the year ended 31 December 2022.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, HLB Hodgson Impey Cheng Limited ("HLB"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB on this announcement.

PUBLICATION OF THE AUDITED RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The audited results announcement of the Group for the year ended 31 December 2022 is published on the websites of HKExnews at www.hkexnews.hk and the website of the Company at www.tonghaifinancial.com respectively. The Annual Report for the year ended 31 December 2022 of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

On behalf of the Board
China Tonghai International Financial Limited
HAN Xiaosheng
Chairman

Hong Kong, 28 March 2023

As at the date of this announcement, the Board of the Company comprises:

Executive Directors:

Mr. HAN Xiaosheng (*Chairman*)
Mr. FANG Zhou (*Deputy Chairman*)
Mr. LIU Hongwei
Mr. Kenneth LAM Kin Hing

Independent Non-executive Directors:

Mr. Roy LO Wa Kei
Mr. KONG Aiguo
Mr. LIU Jipeng
Mr. HE Xuehui
Mr. HUANG Yajun

Non-executive Directors:

Mr. LIU Bing
Mr. ZHAO Yingwei
Mr. ZHAO Xiaoxia