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China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6058)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Industrial Securities International Financial Group Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020, with the comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020	2019
		<i>HK\$</i>	<i>HK\$</i>
Commission and fee income from customers	4	343,666,019	358,648,790
Interest revenue	4	209,589,015	535,096,512
Net investment income and gains or losses	4	<u>23,445,137</u>	<u>367,817,965</u>
Total revenue	4	576,700,171	1,261,563,267
Other income	4	110,664,967	131,340,135
Share of result of a joint venture		3,840,787	(7,188,844)
Finance costs		(487,532,792)	(569,952,191)
Commission and fee expenses		(90,921,460)	(72,846,533)
Staff costs	5	(169,962,057)	(232,101,080)
Other operating expenses		(160,608,855)	(175,163,993)
Impairment losses on financial assets	5	(368,491,609)	(874,301,268)
Other gains or losses	5	<u>55,063,772</u>	<u>1,027,010</u>
Loss before taxation	5	(531,247,076)	(537,623,497)
Taxation	6	<u>38,709,493</u>	<u>75,764,050</u>
Loss for the year		<u>(492,537,583)</u>	<u>(461,859,447)</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>(492,537,583)</u></u>	<u><u>(461,859,447)</u></u>
Loss per share			
Basic (<i>expressed in HKD</i>)	7	<u><u>(0.1231)</u></u>	<u><u>(0.1155)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$	2019 HK\$
Non-current assets			
Property and equipment		97,076,576	29,522,322
Intangible assets		11,724,831	6,897,819
Interest in a joint venture		36,186,205	32,345,418
Financial assets at fair value through profit or loss	11	51,235,662	48,004,707
Reverse repurchase agreements		90,799,345	169,074,404
Statutory deposits		26,919,725	12,094,229
Deferred tax assets		124,540,847	84,368,068
Deposits, other receivables, prepayments and other assets		16,820,086	48,187,079
		<u>455,303,277</u>	<u>430,494,046</u>
Current assets			
Accounts receivable	8	3,481,413,395	5,543,114,617
Reverse repurchase agreements		398,139,045	856,955,362
Financial assets at fair value through profit or loss	11	7,965,083,925	9,077,929,636
Statutory deposits		24,096,174	14,133,035
Deposits, other receivables, prepayments and other assets		332,617,739	1,171,699,907
Tax receivable		6,160,483	64,522
Bank balances – trust accounts		3,314,652,509	1,850,331,251
Bank balances – general accounts and cash		2,286,224,348	5,359,950,333
		<u>17,808,387,618</u>	<u>23,874,178,663</u>
Current liabilities			
Accounts payable	9	4,012,906,529	3,411,501,538
Accruals and other payables		172,261,819	179,145,153
Amount due to a fellow subsidiary		1,351,510	5,744,417
Contract liabilities		426,924	179,333
Tax payable		5,949,647	66,906,352
Financial liabilities at fair value through profit or loss		151,539,955	39,401,016
Repurchase agreements		3,235,028,200	3,101,099,261
Bank borrowings		3,823,475,258	6,371,479,379
Other borrowings		766,958,032	196,217,064
Notes		69,769,800	31,302,195
Bonds		–	2,173,672,130
Lease liabilities		35,251,162	13,404,498
Other liabilities		301,753,853	546,215,309
		<u>12,576,672,689</u>	<u>16,136,267,645</u>
Net current assets		<u>5,231,714,929</u>	<u>7,737,911,018</u>

	<i>Notes</i>	2020 HK\$	2019 <i>HK\$</i>
Non-current liabilities			
Financial liabilities at fair value through profit or loss		–	639,840,032
Repurchase agreements		–	340,765,474
Bank borrowings		–	3,348,128,927
Deferred tax liabilities		22,429	28,715
Amount due to the immediate holding company		2,286,899,000	–
Lease liabilities		52,992,444	–
		<u>2,339,913,873</u>	<u>4,328,763,148</u>
Net assets		<u><u>3,347,104,333</u></u>	<u><u>3,839,641,916</u></u>
Capital and reserves			
Share capital	<i>10</i>	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Accumulated loss		(886,810,756)	(394,273,173)
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Equity attributable to owners of the Company		<u><u>3,347,104,333</u></u>	<u><u>3,839,641,916</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a Business
- Amendment to HKFRS 16, Covid-19-Related Rent Concessions

Neither of these amendments to HKFRSs have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

3. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group’s operations are located in Hong Kong.

The Group’s reportable and operating segments under HKFRS 8 are as follows:

Brokerage – provision of securities, futures and options and insurance brokerage services;

Loans and financing – provision of margin financing and secured or unsecured loans to customers;

Corporate finance – provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management – provision of fund management, discretionary account management and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group’s accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

For the year ended 31 December 2020

	Brokerage HK\$	Loans and financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result							
Revenue from external customers	184,969,148	150,832,693	129,278,835	29,418,036	58,756,322	-	553,255,034
Net gains on financial products and investments	-	-	-	-	23,445,137	-	23,445,137
Inter-segment revenue	1,085,172	-	-	47,394,508	-	(48,479,680)	-
Segment revenue and net gains on financial products and investments	<u>186,054,320</u>	<u>150,832,693</u>	<u>129,278,835</u>	<u>76,812,544</u>	<u>82,201,459</u>	<u>(48,479,680)</u>	<u>576,700,171</u>
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>576,700,171</u>
Segment results	101,492,721	(404,601,544)	73,249,100	4,220,151	(279,185,690)	-	(504,825,262)
Unallocated expenses							<u>(26,421,814)</u>
Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>(531,247,076)</u>
Other segmental information included in the measure of segment results							
(Reversal)/changes of impairment losses on financial assets	<u>(1,677)</u>	<u>367,846,067</u>	<u>-</u>	<u>1,425,311</u>	<u>(778,092)</u>	<u>-</u>	<u>368,491,609</u>
Depreciation	<u>27,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,256</u>
Unallocated:							<u>44,280,286</u>
							<u>44,307,542</u>
Amortisation	<u>2,480,384</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,480,384</u>
Unallocated:							<u>608,054</u>
							<u>3,088,438</u>
Interest income	<u>56,271,694</u>	<u>150,832,693</u>	<u>355,738</u>	<u>3,090</u>	<u>566,287,587</u>	<u>-</u>	<u>773,750,802</u>
Unallocated:							<u>11,527,048</u>
							<u>785,277,850</u>
Interest expenses	<u>494,367</u>	<u>99,969,831</u>	<u>-</u>	<u>-</u>	<u>327,199,835</u>	<u>-</u>	<u>427,664,033</u>
Unallocated:							<u>59,868,759</u>
							<u>487,532,792</u>
Dividend income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,038,786</u>	<u>-</u>	<u>15,038,786</u>

For the year ended 31 December 2019

	Brokerage HK\$	Loans and financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result							
Revenue from external customers	167,797,427	479,197,671	154,775,270	36,076,093	55,898,841	–	893,745,302
Net gains on financial products and investments	–	–	–	–	367,817,965	–	367,817,965
Inter-segment revenue	2,322,166	–	–	33,468,628	–	(35,790,794)	–
Segment revenue and net gains on financial products and investments	<u>170,119,593</u>	<u>479,197,671</u>	<u>154,775,270</u>	<u>69,544,721</u>	<u>423,716,806</u>	<u>(35,790,794)</u>	<u>1,261,563,267</u>
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							<u>1,261,563,267</u>
Segment results	83,443,930	(776,274,497)	60,512,183	34,530,612	64,203,622	–	(533,584,150)
Unallocated expenses							<u>(4,039,347)</u>
Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income							<u>(537,623,497)</u>
Other segmental information included in the measure of segment results							
Impairment losses on financial assets	<u>–</u>	<u>874,301,268</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>874,301,268</u>
Depreciation	<u>30,723</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>30,723</u>
Unallocated:							<u>44,327,469</u>
							<u>44,358,192</u>
Amortisation	<u>1,493,474</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,493,474</u>
Unallocated:							<u>356,848</u>
							<u>1,850,322</u>
Interest income	<u>67,813,584</u>	<u>479,203,008</u>	<u>601,484</u>	<u>9,428</u>	<u>460,776,508</u>	<u>–</u>	<u>1,008,404,012</u>
Unallocated:							<u>25,948,158</u>
							<u>1,034,352,170</u>
Interest expenses	<u>3,005,764</u>	<u>277,915,931</u>	<u>–</u>	<u>–</u>	<u>298,148,766</u>	<u>–</u>	<u>579,070,461</u>
Unallocated:							<u>(9,118,270)</u>
							<u>569,952,191</u>
Dividend income	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,210,326</u>	<u>–</u>	<u>8,210,326</u>

Geographical information

For the years ended 31 December 2020 and 2019, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

Information about major customers

The largest customer and largest 5 customers contribute approximately 3.5% and 11.1% respectively (2019: 2.1% and 7.3% respectively) to the Group's revenue from external customers during the year ended 31 December 2020.

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2020	2019
	<i>HK\$</i>	<i>HK\$</i>
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	163,516,796	137,547,325
Commission and fee income from futures and options brokerage	19,713,674	24,283,654
Commission income from insurance brokerage	1,738,678	5,966,448
	184,969,148	167,797,427
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	50,184,052	62,580,777
– Equity securities	9,315,890	53,820,935
Corporate advisory fee income	3,245,430	830,464
Sponsor fee income	8,750,000	7,800,000
Arrangement fee	57,783,463	29,743,094
	129,278,835	154,775,270

	2020	2019
	HK\$	HK\$
Asset management:		
Asset management fee income	25,527,301	31,834,962
Investment advisory fee income	3,890,735	4,241,131
	<u>29,418,036</u>	<u>36,076,093</u>
	<u>343,666,019</u>	<u>358,648,790</u>
Interest revenue		
Loans and financing:		
Interest income from margin financing	150,832,693	477,843,577
Interest income from money lending activities	–	1,354,094
	<u>150,832,693</u>	<u>479,197,671</u>
Financial products and investments:		
Interest income from reverse repurchase agreements	58,756,322	55,898,841
	<u>209,589,015</u>	<u>535,096,512</u>

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Net investment income and gains or losses		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	468,847,379	372,191,758
Dividend income from financial assets at fair value through profit or loss	15,038,786	8,210,326
Net realised gain on financial assets at fair value through profit or loss	75,017,160	56,272,961
Net unrealised loss on financial assets at fair value through profit or loss	(451,686,634)	(59,186,141)
Interest income from derivatives	7,056,956	10,406,981
Net realised loss on derivatives	(65,668,916)	(66,079,277)
Net unrealised gain on derivatives	4,753,922	26,259,591
Net realised gain/(loss) on financial liabilities at fair value through profit or loss	954,750	(6,365,184)
Net unrealised (loss)/gain on financial liabilities at fair value through profit or loss	<u>(30,868,266)</u>	<u>26,106,950</u>
	<u>23,445,137</u>	<u>367,817,965</u>
Total revenue	<u>576,700,171</u>	<u>1,261,563,267</u>

Timing of revenue recognition for commission and fee income from customers

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
A point in time	298,633,368	308,519,103
Over time	<u>45,032,651</u>	<u>50,129,687</u>
Total	<u>343,666,019</u>	<u>358,648,790</u>

Performance obligations for commission and fee income from customers

(1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group also provide handling service for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed.

The Group provides custodian services for securities, futures and options customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

The Group also provides placement services for insurance and wealth products to customers. Commission income is recognised at a point in time when the placement is completed and is calculated at a certain percentage of the premium paid for certain period of the insurance and wealth products.

(2) Corporate finance

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

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

(3) *Asset management*

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receive and consume the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

Transaction price allocated to the remaining performance obligation for contracts with customers

The following table shows the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partly unsatisfied) as at 31 December 2020 and 2019 and the expected timing of recognising revenue are as follows:

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Within one year	<u><u>10,000,000</u></u>	<u><u>5,000,000</u></u>

This amount represents revenue expected to be recognised in the future from the contracts for sponsoring services. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 months.

Other Income

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Interest income from financial institutions	99,784,500	116,656,919
Sundry income	<u>10,880,467</u>	<u>14,683,216</u>
	<u><u>110,664,967</u></u>	<u><u>131,340,135</u></u>

5. LOSS BEFORE TAXATION

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Loss before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' emoluments and five highest paid employees' emoluments) (<i>note a</i>)	169,962,057	232,101,080
Salaries and bonuses	166,113,413	227,654,163
Contribution to the MPF Scheme	3,405,662	3,323,910
Other staff costs	442,982	1,123,007
Auditor's remuneration	1,750,000	2,200,000
Legal and professional fee	16,658,126	16,665,860
Amortisation of intangible assets	3,088,438	1,850,322
Depreciation of property and equipment	44,307,542	44,358,192
Telephone and postage	4,312,710	4,258,286
Maintenance fee	25,814,004	19,869,431
Transportation expenses	3,229,758	6,376,466
Entertainment expenses	2,900,928	7,243,039
Impairment losses on financial assets	368,491,609	874,301,268
Impairment losses on secured margin loans (<i>note c</i>)	367,846,067	874,471,268
Impairment losses on accounts receivable (except for secured margin loans)	1,194,560	–
Reversal of impairment losses on loans receivable	–	(170,000)
Reversal of impairment losses on reverse repurchase agreements	(778,092)	–
Impairment losses on bank balances – trust accounts	229,074	–
Other gains or losses	(55,063,772)	(1,027,010)
Exchange (gains)/losses, net	(32,827,599)	28,271,494
Other gains (<i>note b</i>)	(22,236,173)	(29,298,504)

Notes:

- (a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance.
- (b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK\$22,236,173 (2019: net gain of HK\$29,298,504).

- (c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK\$367,846,067 (2019: HK\$874,471,268) were made for the year, including (i) impairment losses recognised of HK\$371,619,445 (2019: HK\$942,528,700); net of (ii) reversal of impairment losses of HK\$36,517,721 (2019: HK\$33,527,296); and (iii) impairment losses upon the derecognition of guarantees amounted to HK\$32,744,343 (2019: reversal of impairment losses upon the recognition of guarantees amounted to HK\$34,530,136).

6. TAXATION

	2020	2019
	HK\$	HK\$
Hong Kong Profit Tax:		
Current year	1,574,092	5,026,863
(Over)/under provision in prior year	(104,520)	602,558
	1,469,572	5,629,421
Deferred Tax:		
Current year	(40,179,065)	(81,393,471)
	(38,709,493)	(75,764,050)

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one 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 2019.

The provision for Hong Kong Profits Tax for 2020 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019-20 subject to a maximum reduction of \$20,000 for each business (2019: a maximum reduction of \$20,000 was granted for the year of assessment 2018-19 and was taken into account in calculating the provision for 2019).

The tax credit for the years ended 31 December 2020 and 2019 can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Loss before taxation	<u><u>(531,247,076)</u></u>	<u><u>(537,623,497)</u></u>
Notional tax on loss before taxation, calculated at 16.5% (2019: 16.5%)	(87,655,767)	(88,707,877)
Tax effect of expenses not deductible for tax purpose	13,462,983	24,205,817
Tax effect of income not taxable for tax purpose	(17,457,169)	(29,274,620)
Tax at concessionary tax rate of 8.25% (2019: 8.25%)	(165,000)	(165,000)
Tax effect of deductible temporary difference not previously provided for	35,111,060	849,429
Tax effect of tax losses not recognised	28,865,599	16,198,609
Utilisation of tax losses previously not recognised	(8,795,303)	(30,660)
(Over)/under provision in prior years	(104,520)	602,558
Others	<u>(1,971,376)</u>	<u>557,694</u>
Tax credit for the year	<u><u>(38,709,493)</u></u>	<u><u>(75,764,050)</u></u>

7. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Loss (<i>HK\$</i>)		
Loss for the purpose of basic loss per share:		
Loss for the year attributable to owners of the Company	<u><u>(492,537,583)</u></u>	<u><u>(461,859,447)</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u><u>4,000,000,000</u></u>	<u><u>4,000,000,000</u></u>

For each of the years ended 31 December 2020 and 2019, there were no potential ordinary shares in issue, thus no diluted loss per share is presented.

8. ACCOUNTS RECEIVABLE

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	2,765,621,831	4,248,656,051
Less: impairment allowance	<u>(740,912,592)</u>	<u>(405,810,868)</u>
	2,024,709,239	3,842,845,183
Clearing houses	609,551,677	1,148,102,205
Cash clients	117,777,671	126,836,285
Brokers	42,646,443	57,056,336
Clients for subscription of new shares in IPO	274,018,530	30,302
Less: impairment allowance	<u>(329,249)</u>	<u>(560,000)</u>
	1,043,665,072	1,331,465,128
	3,068,374,311	5,174,310,311
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing houses	18,610,148	36,125,995
Brokers	281,876,004	129,540,770
Less: impairment allowance	<u>(88,000)</u>	<u>(88,000)</u>
	300,398,152	165,578,765
Accounts receivable arising from the business of corporate finance	<u>4,424,533</u>	<u>17,695,697</u>
Accounts receivable arising from the business of asset management	5,961,061	28,823,967
Less: impairment allowance	<u>(1,938,178)</u>	<u>(512,867)</u>
	4,022,883	28,311,100
Accounts receivable arising from the business of financial products and investments:		
Brokers	<u>104,193,516</u>	<u>157,218,744</u>
	3,481,413,395	5,543,114,617

Secured margin loans

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The Group seeks to maintain strict control over its outstanding receivables, and rigorously monitors credit risks. To minimise exposure to credit risk, the Group evaluates customers' credit rating, financial background and repayment abilities. Management of the Group has set up credit limit for each individual customer, the application for which shall be subject to the Group's authorisation mechanism and submitted to the internal control department and senior management for approval. The maximum credit limit granted for each customer is based on the customer's creditworthiness, financial strength, the past collection statistic and the quality of related collateral. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group and other factors.

As at 31 December 2020 and 2019, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2020	2019
	<i>HK\$</i>	<i>HK\$</i>
Non credit-impaired secured margin loans		
– Gross amount	1,510,248,226	3,172,077,966
– Carrying amount	1,501,916,085	3,152,414,321
Credit-impaired secured margin loans		
– Gross amount	1,255,373,605	1,076,578,085
– Carrying amount	522,793,154	690,430,862
Market value of securities pledged in respect of all margin loans	8,756,853,000	13,969,953,000

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the margin value of securities deposited. The Group has obtained additional guarantee arrangements for margin clients who had repayment difficulties.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. As at 31 December 2020 and 2019, no bank borrowings were secured by charges over client's pledged securities.

During the year ended 31 December 2019, the Group has issued structured notes to third parties to transfer the cash flows of margin loans amounting to HK\$1,876 million at a consideration of HK\$1,339 million. Substantially all the risks and rewards have been transferred to the third party investors as the Group will pass all collected cash without material delay and is not obliged to pay if no cash is received by the Group. As a result, the related margin loans have been derecognised. The difference between consideration received and the carrying value of the relevant margin loans has been recognised as an impairment loss in the consolidated statement of profit or loss and other comprehensive income. The issued structured notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

During the years ended 31 December 2020 and 2019, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

Accounts receivable (except for secured margin loans)

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this “mark-to-market” settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice at the reporting date:

Corporate finance clients

	2020	2019
	HK\$	HK\$
Less than 31 days	422,502	11,886,520
31–60 days	1,124,069	–
61–90 days	1,627,962	116,807
91–180 days	1,250,000	–
Over 180 days	–	5,692,370
	4,424,533	17,695,697

Asset management clients

	2020	2019
	HK\$	HK\$
Less than 31 days	1,941,120	18,434,772
31–60 days	671,293	1,549,502
61–90 days	544,145	1,362,061
91–180 days	953,008	3,034,312
Over 180 days	1,851,495	4,443,320
	5,961,061	28,823,967

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously.

9. ACCOUNTS PAYABLE

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Accounts payable arising from the business of dealing in securities:		
Clearing house	33,721,689	15,699,420
Brokers	7,282,756	8,448,927
Clients	<u>3,437,314,808</u>	<u>2,988,451,031</u>
	<u>3,478,319,253</u>	<u>3,012,599,378</u>
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	<u>534,574,034</u>	<u>324,921,275</u>
Accounts payable arising from the business of financial products and investments:		
Brokers	<u>13,242</u>	<u>73,980,885</u>
	<u>4,012,906,529</u>	<u>3,411,501,538</u>

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

The Group has accounts payable arising from the business of dealing in securities of HK\$78,718,717 due to the immediate holding company as at 31 December 2020 (2019: HK\$98,718,717).

10. SHARE CAPITAL

Details of the movement of share capital for both years are as follows:

	Number of ordinary shares of HK\$0.10 each	Share capital HK\$
Authorised:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
As at 1 January 2019, 31 December 2019 and 31 December 2020	<u>4,000,000,000</u>	<u>400,000,000</u>

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 <i>HK\$</i>	2019 <i>HK\$</i>
Equity securities		
– Listed in Hong Kong	124,351,852	137,131,620
– Listed outside Hong Kong	200,123,632	196,490,625
– Unlisted (<i>note a</i>)	82,391,034	241,171,753
Debt securities (<i>note b</i>)		
– Listed in Hong Kong	4,384,119,985	4,939,309,654
– Listed outside Hong Kong	937,408,369	512,412,359
– Unlisted	1,399,740,028	2,887,543,807
Foreign currency forward contracts (<i>note c</i>)	–	3,936,218
Credit derivative (<i>note d</i>)	–	1,183,320
Funds		
– Listed in Hong Kong	–	101,311,650
– Unlisted	101,334,311	69,242,666
Convertible bonds		
– Listed outside Hong Kong	–	36,200,671
– Unlisted	785,125,589	–
Forward contract (<i>note f</i>)	1,724,787	–
	8,016,319,587	9,125,934,343
Analysed as		
Current	7,965,083,925	9,077,929,636
Non-current (<i>note e</i>)	51,235,662	48,004,707
	8,016,319,587	9,125,934,343

Notes:

- (a) For the years ended 31 December 2020 and 2019, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.
- (b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK\$1,115,652,535 at 31 December 2020, to non-bank financial institutions as collaterals to obtain borrowings. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2020 as the Group retains significant risks and rewards of the transferred debt securities. There was no such arrangement at 31 December 2019. Apart from this, there were arrangements to sell debt securities under a repurchase agreement during the year ended 31 December 2020 and 2019.
- (c) For the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US\$400,505,697 with a non-bank financial institution. The foreign currency forward contracts sell USD and buy HKD at forward rate USD:HKD at 1:7.834 and buy USD and sell HKD weighted average rate USD:HKD at 1:7.814. The maturity date of the foreign currency forward contracts is within one year.
- (d) As at 31 December 2019, notional amount of credit derivative contract with a non-bank financial institution was US\$100,000,000.
- (e) As at 31 December 2020 and 2019, included in the non-current portion is an unlisted investment fund that the directors of the Group do not expect to realise within twelve months after the reporting period.
- (f) For the year ended 31 December 2020, the Group entered into an agreement with third party to issue a structured note in February 2021 with a consideration of US\$5.7 million.

12. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2020	2019
	<i>HK\$</i>	<i>HK\$</i>
2019 Final – HK\$Nil (2019: 2018 Final – HK\$0.023) per share	<u>–</u>	<u>92,000,000</u>

Subsequent to the end of the reporting period, the directors of the Company did not recommend any payment of final dividend in respect of the year ended 31 December 2020 (2019: did not recommend any payment of final dividend in respect of the year ended 31 December 2019) and is subject to approval by the shareholders in the forthcoming general meeting.

13. COMMITMENTS

Investment commitments

In the normal course of business, the Group had no investment commitments contracted as at 31 December 2020 (2019: HK\$451,494,998).

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

MANAGEMENT DISCUSSION AND ANALYSIS

HONG KONG CAPITAL MARKET REVIEW

In the past year, the Hang Seng Index was swayed by overseas market fluctuations. As at the end of December 2020, the Hang Seng Index closed at 27,231, which was 958 points or 3.4% lower than the close of 28,189 at the end of December 2019. Although the global initial public offering market was affected by the ongoing COVID-19 pandemic, the Hong Kong initial public offering market showed great resilience and vitality. In the primary market, the total amount of proceeds raised in 2020 was HK\$743.7 billion, up 64.53% from HK\$452 billion in 2019 and of which HK\$397.5 billion was raised from IPOs, up 27.05% from HK\$312.9 billion in 2019, the highest since 2011. In the secondary market, the average daily turnover of securities in 2020 was HK\$129.5 billion, a year-on-year increase of 48.48%.

RESULTS AND OVERVIEW OF THE COMPANY

For the year ended 31 December 2020, the Group recorded an operating revenue of HK\$576.70 million (2019: HK\$1,261.56 million), a year-on-year decrease of 54.3%. For the year ended 31 December 2020, the Group's net loss after taxation was HK\$492.54 million (2019: net loss of HK\$461.86 million). The loss was mainly because (1) in 2020, the COVID-19 pandemic caused a tumble in global stock markets and a sustained structural stagnation of the Hong Kong stock market. The collateral in the accounts of some securities margin customers depreciated in value and loan repayment fell short of expectation, leading to heightened risk exposure for the accounts. After regular review of the portfolios and financial situation of customers' margin accounts, the Group made additional impairment provision of HK\$368.74 million for relevant margin loans throughout 2020; (2) the Group strengthened risk management of the margin financing business, strictly controlling the size of newly added assets. As a result, the average daily assets of margin financing decreased significantly by 46.2% compared with 2019, leading to a decrease of HK\$327.01 million in interest income from margin financing compared with 2019, representing a year-on-year decrease of 68.4%; and (3) in 2020, amidst the global spread of the COVID-19 pandemic, economic uncertainties mounted, the market underwent a liquidity crisis in the first half of the year, and the global asset price fluctuated wildly. The Group's revenue from financial products and investments decreased by HK\$341.52 million compared with 2019, representing a year-on-year decrease of 80.6%.

For the year ended 31 December 2020, the Group's operating revenue from brokerage services, corporate finance services, asset management services, loans and financing services, financial products and investments saw an increase of 10.2%, and a decrease of 16.5%, 18.5%, 68.5% and 80.6% year-on-year, respectively.

BUSINESS REVIEW OF THE COMPANY

The Group's operating revenue derives from (i) brokerage; (ii) corporate finance; (iii) asset management; (iv) loans and financing; and (v) financial products and investments.

Brokerage

For the year ended 31 December 2020, the Group recorded commission and fee income from brokerage services of HK\$184.97 million (2019: HK\$167.80 million), representing a year-on-year increase of 10.2%. We achieved initial results in the transformation of wealth management business, thus increasing the competitiveness of such business. As at the end of the reporting period, the number of securities customers was 36,301, an increase of 24% from the beginning of the year; the turnover of securities for the year was HK\$174,479 million, a year-on-year increase of 25%. In particular, the trading volume of Hong Kong stocks recorded a growth above the market average, and the Company ranked 68th among 632 active exchange participants, up 7 places.

Corporate finance

For the year ended 31 December 2020, the Group recorded income from corporate finance business of HK\$129.28 million (2019: HK\$154.78 million), representing a year-on-year decrease of 16.5%.

For the year ended 31 December 2020, the Group's commission income on placing, underwriting and sub-underwriting of debt securities amounted to HK\$50.18 million (2019: HK\$62.58 million), representing a year-on-year decrease of 19.8%. According to Bloomberg data, in 2020, the Group underwrote US\$1,080 million of USD bonds in total, ranking tenth among Chinese brokers, and the Group's bond underwriting amount as a JGC increased by 20%, with investment-grade deals accounting for 22%.

Hong Kong stock market's financing projects suffered different levels of delay due to the Covid-19 pandemic, the number of newly listed stocks dropped. Commission income on placing, underwriting and sub-underwriting of equity securities amounted to HK\$9.32 million (2019: HK\$53.82 million), representing a year-on-year decrease of 82.7%. According to Bloomberg data, the total equity financing amount of the Group in 2020 was US\$115 million, ranking 15th among Chinese brokers. Arrangement fee amounted to HK\$57.78 million (2019: HK\$29.74 million), representing a year-on-year increase of 94.3%.

Asset management

For the year ended 31 December 2020, the Group recorded income from asset management business of HK\$29.42 million (2019: HK\$36.08 million), representing a year-on-year decrease of 18.5%. As at the end of the reporting period, the Group's assets under management (AUM) amounted to HK\$7,276 million, ranking third among Chinese brokers' asset management arms. Among them, China Core Asset Fund had an AUM of HK\$369 million, an increase of nearly five times from the beginning of the year, and the Company became the fifth Chinese asset management institution to submit an application for Mainland-Hong Kong Mutual Recognition of Funds.

Loans and financing

In 2020, the Group optimised its customer structure and scaled down margin financing, resulting in a significant year-on-year decline in the average size of secured margin loans. For the year ended 31 December 2020, the Group's revenue from loans and financing business was HK\$150.83 million (2019: HK\$479.20 million), representing a year-on-year decrease of 68.5%.

Financial products and investments

Given the financial market volatility in 2020, the Group's revenue from financial products and investments for the year ended 31 December 2020 dropped by 80.6% year-on-year to HK\$82.20 million (2019: HK\$423.72 million).

FINANCIAL POSITION

As at 31 December 2020, the total assets of the Group decreased by 24.9% to HK\$18,263.69 million (31 December 2019: HK\$24,304.67 million). As at 31 December 2020, the total liabilities of the Group decreased by 27.1% to HK\$14,916.59 million (31 December 2019: HK\$20,465.03 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2020, the net current assets of the Group decreased by 32.4% to HK\$5,231.71 million (31 December 2019: HK\$7,737.91 million). As at 31 December 2020, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year) was 1.4 times (31 December 2019: 1.5 times).

For the year ended 31 December 2020, the net cash outflow of the Group was HK\$3,073.73 million (31 December 2019: inflow of HK\$3,842.72 million). As at 31 December 2020, the bank balance of the Group was HK\$2,286.22 million (31 December 2019: HK\$5,359.95 million).

As at 31 December 2020, the Group's bank and other borrowings in aggregate decreased by 53.7% to HK\$4,590.43 million (31 December 2019: HK\$9,915.83 million).

As at 31 December 2020, the notes outstanding of the Group amounted to HK\$69.77 million (31 December 2019: HK\$31.30 million). As at 31 December 2020, the Group did not have bonds outstanding (31 December 2019: HK\$2,173.67 million) and its shareholder loan amounted to HK\$2,286.90 million (31 December 2019: Nil). As at 31 December 2020, the gearing ratio of the Group (defined as the sum of bank borrowings, other borrowings, notes outstanding and bonds, and shareholder loan divided by total equity) decreased by approximately 34.2% to 2.076 (31 December 2019: 3.157).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$3,347.10 million as at 31 December 2020 (31 December 2019: HK\$3,839.64 million).

FUTURE PLAN

The Group will make every effort to promote business development on the basis of strictly maintaining a neutral and prudent risk appetite and conducting standardized internal control. We will consolidate the foundation of fee-based services and prudently develop capital-consuming business; make full use of and integrate the advantages of the Group, focus on the principal business, seize new opportunities and establish new development concepts based on the characteristics of the new market phase, expand the customer base, and increase the proportion of institutional clients and high-quality clients to optimize the customer mix, business structure and income structure; deepen and improve the business system driven by wealth management and large institutional business; increase investment in information technology and use technologies to improve internal control efficiency and empower business development; allocate resources scientifically, strictly control operating costs, and improve the efficiency of input and output of resources; pay attention to the healthy development of employees, establish a scientific and reasonable incentive scheme system, and build a good culture for the win-win development of employees and the Company. We will strive to build a sound business development model to achieve organic growth and high-quality development.

In the future, we will continue to unite as one to work hard and fulfil our responsibilities for the Company and all shareholders, with a view to bringing satisfactory returns to all shareholders.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no significant investments nor material acquisitions or disposals of subsidiaries and associated companies by the Group for the year ended 31 December 2020.

CHARGES ON GROUP ASSETS

For the year ended 31 December 2020, the Group's assets pledged were mainly debt securities pledged as collaterals for repurchase agreements and other borrowings.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2020, the Group had 206 full-time employees (31 December 2019: 219 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2020 was HK\$169.96 million (2019: HK\$232.10 million). The Group will review its remuneration policy from time to time in accordance with market practice. While the bonus will be distributed with reference to individual performance appraisal, prevailing market condition, and the Group's financial performance. Other employee benefits include contributions to the Mandatory Provident Fund Scheme, medical care insurance etc.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the year ended 31 December 2020 and as of the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this announcement, the Directors were not aware of any significant events related to the business or financial performance of the Group after the reporting period.

RISK MANAGEMENT

The Group has in place a comprehensive corporate structure of risk management and a duly established risk management committee has been guiding for the risk management tasks throughout the Group, and the implementation of a series of risk control policies, such as credit policies, market policies, operating procedures and other internal control measures for control of exposure to credit, market, operational and liquidity risks during the course of business activities.

Credit Risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for credit business and investment business of principal business units, identifying risks, and updating relevant risk management policies in response to changes. It has also established an investment and financing business assessment committee responsible for inspecting and reviewing credit approval related policies, approving trading limit and credit limit;

The Group has implemented “know-your-client” procedures and credit check to ascertain the background of potential clients. The Group also performs credit assessment (especially in loans and financing business) and risk grading on potential clients, and requires loans and financing clients to provide margin deposit, secured securities or other acceptable collateral (as the case may be) to minimize risk;

The Group closely monitors the margin ratio and loan-to-value and collateral value ratios of the loans and financing clients and takes appropriate action to recover or minimise loss where it foresees that the client may default in his or her obligation; the senior management and heads of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; the Group has established credit policy with respect to the trading limit, credit line and credit period granted to clients, and will review and revise such policy on an ongoing basis; the Group conducts regular review in respect of outstanding margin loans to assess exposure to credit risks and adopts appropriate measures to mitigate such risks.

Liquidity Risks

The Group has in place liquidity risk management procedures to identify, treat, monitor and control potential liquidity risk and maintains the liquidity and financial resources requirements as specified under applicable laws and regulations, such as Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong);

The Group has established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. The Group has authorization limits in place for any commitment or capital outflow, such as procurement, investments, loans, etc., and assesses the impact of those transactions on the capital level; and

The Group meets its funding requirements primarily through bank borrowings from multiple banks. The Group obtained financing capital by issuing bonds for the first time in 2019, expanding its financing channels. The Group has also adopted stringent liquidity management measures to ensure that the Group has satisfied the capital requirements under the applicable laws.

Compliance and Legal Risks

The Group has established a sound and comprehensive compliance and legal risk management framework and formulated relevant policies, procedures and models in various aspects. While keeping abreast of the laws and regulations concerning the current business environment, the Group assesses the severity and causes of identified legal and compliance risks and formulates long-term and comprehensive plans for remedies and rectification measures, so as to mitigate the risks and take reasonable remedies when necessary.

The Group's compliance department is responsible for compliance monitoring and formulating the policies and procedures within the scopes of the Company, providing compliance opinion for various business plans and affairs, strictly monitoring the operation of the Group's licensed business and ensuring its compliance with relevant regulatory requirements. Meanwhile, in order to foster a compliance culture of the Group and strengthen compliance awareness, the compliance department arranges legal and compliance trainings for our staff from time to time and provides internal guidelines on the latest regulatory development.

The Group's compliance department and professional talents closely work with external legal consultants in order to ensure that the Group can avert and handle legal risks such as those arising from complaints lodged by clients against the Group's regulated activities in a timely manner.

Market Risks

The Group has established policy and procedures to monitor and control the price risk in the ordinary and usual course of business;

The Group's staff with professional qualification and industry experience in the business units discusses and evaluates the underlying market risks prior to engaging in any new transaction or launching of any such new business;

The Group reviews market risk limits for certain business lines such as the asset management and financial products and investments business to manage risk and periodically review and adjust the market strategies in response to changes in the business performance, risk tolerance levels and market conditions;

In terms of the financial products and investments business, the Group formulates different selection criteria for bonds and other fixed income products, limits the investment in industries and enterprises with excess capacity and negative news, and tracks and monitors the trends of macro economy and investment concentration ratio to optimise investment strategies; the Group diversifies the fixed income investment portfolios, limits the investment scale in any single product, client or type of investment and continually tracks the changes on the operation, credit rating and solvency of the issuers; and

The Group assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and profitability of different types of bonds, and controls the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities, and establishes mechanisms that set pre-determined points to halt profit or loss on an overall basis or on a single bond; regarding the changes of the markets and our customers, the Group organises regular or ad-hoc risk analysis and inspections and timely addresses the businesses occurring or existing potential risks.

Foreign Currency Risks

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The Group's financial products and investments business primarily comprises investment in bonds and other fixed income products denominated in US dollars. The Group has been monitoring closely the exchange rate trend and adopts hedging measures when appropriate, so as to prevent significant foreign exchange risk arising from US dollar denominated monetary items.

Interest Rate Risks

The interest rate risks of the Group mainly come from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, their prices at fair value are subject to the effect of market interest rate. The Group has adopted the US Treasury bond futures and other instruments to hedge against interest rate risks;

The Group may also expose to cash flow interest rate risks primarily arising from bank balances, secured margin loans and bank borrowings which carry interest at prevailing market interest rates; and

The management of the Group closely monitors exposure related to interest rate risk and ensures that it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the Hong Kong Interbank Offered Rate and London Interbank Offered Rate, which is due to the Group's financial instruments denominated in Hong Kong dollars and US dollars.

Operational Risks

The Group has responsible officers in charge of overseeing the day-to-day operations and solving dealing problems, and formulates and updates the operational manual based on regulatory and industrial requirements to standardise the operational procedures and reduce human errors; and

The Group sets authorisation hierarchy and procedures for its daily operations, and has surveillance systems to monitor the trading activities of the Group's business units and staff on a real-time basis.

FINAL DIVIDEND

The Board did not recommend any payment of a final dividend for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 May 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016, none of the Directors or the controlling shareholders of the Company nor their respective close associates as defined in the Listing Rules had any interest in business that competed or might compete with business of the Group during the year ended 31 December 2020.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Listing Rules during the year ended 31 December 2020. The Company has complied with the code provisions of the CG Code except for the following deviation:

Mr. Cho Ka Wai, resigned as the company secretary of the Company on 24 October 2020. The Company has identified and appointed a suitable candidate, Ms. Tsang Wing Man, to fill the vacancy of company secretary on 10 March 2021.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has been established with written terms of reference in compliance with the Listing Rules and code provision under the CG Code. The Audit Committee currently comprises a non-executive Director and two independent non-executive Directors, namely Mr. Huang Yilin, Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The Group’s annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee, which was of the opinion that such results have complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements and that adequate disclosures have been made.

By Order of the Board

China Industrial Securities International Financial Group Limited

Huang Yilin

Chairman

Hong Kong, 19 March 2021

As at the date of this announcement, the Board comprises one non-executive Director, namely Mr. Huang Yilin (Chairman), four executive Directors, namely Mr. Li Baochen, Mr. Wang Xiang, Ms. Zeng Yanxia and Ms. Zhang Chunjuan, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.