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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 2021

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 2021, with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Commission and fee income from customers	4	326,540,730	343,666,019
Interest revenue	4	106,356,223	209,589,015
Net investment income and gains or losses	4	203,473,756	23,445,137
Total revenue	4	636,370,709	576,700,171
Other income	4	31,386,354	110,664,967
Share of result of a joint venture		(20,060,274)	3,840,787
Finance costs		(187,871,898)	(487,532,792)
Commission and fee expenses		(64,536,118)	(90,921,460)
Staff costs	5	(159,927,725)	(169,962,057)
Other operating expenses		(166,202,778)	(160,608,855)
Impairment losses on financial assets	5	(95,493,470)	(368,491,609)
Other gains or losses	5	75,712,803	55,063,772
Profit/(loss) before taxation	5	49,377,603	(531,247,076)
Taxation	6	(9,283,964)	38,709,493
Profit/(loss) for the year attributable to:		40,093,639	(492,537,583)
– Holders of ordinary shares of the Company		40,093,639	(492,537,583)
– Holders of other equity instruments of the Company		–	–
Total comprehensive income for the year attributable to:		40,093,639	(492,537,583)
– Holders of ordinary shares of the Company		40,093,639	(492,537,583)
– Holders of other equity instruments of the Company		–	–
Earning/(loss) per share attributable to ordinary equity holders of the Company			
Basic (<i>expressed in HKD</i>)	7	0.0100	(0.1231)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	2021 HK\$	2020 HK\$
Non-current assets			
Property and equipment		76,002,382	97,076,576
Intangible assets		7,658,890	11,724,831
Interest in a joint venture		16,125,931	36,186,205
Financial assets at fair value through profit or loss	11	16,615,824	51,235,662
Reverse repurchase agreements		90,036,076	90,799,345
Statutory deposits		19,063,234	26,919,725
Deferred tax assets		121,593,827	124,540,847
Deposits, other receivables, prepayments and other assets		14,946,898	16,820,086
		<u>362,043,062</u>	<u>455,303,277</u>
Current assets			
Accounts receivable	8	1,518,484,994	3,481,413,395
Reverse repurchase agreements		120,712,083	398,139,045
Financial assets at fair value through profit or loss	11	4,892,256,938	7,965,083,925
Statutory deposits		30,463,929	24,096,174
Deposits, other receivables, prepayments and other assets		139,002,439	332,617,739
Tax receivable		4,464,870	6,160,483
Bank balances – trust accounts		4,268,417,736	3,314,652,509
Bank balances – general accounts and cash		5,458,957,080	2,286,224,348
		<u>16,432,760,069</u>	<u>17,808,387,618</u>
Current liabilities			
Accounts payable	9	4,786,178,972	4,012,906,529
Accruals and other payables		101,672,982	172,261,819
Amount due to a fellow subsidiary		4,560,326	1,351,510
Amount due to the immediate holding company		2,300,852,500	–
Contract liabilities		5,049,632	426,924
Tax payable		252,291	5,949,647
Financial liabilities at fair value through profit or loss		65,396,077	151,539,955
Repurchase agreements		1,970,119,726	3,235,028,200
Bank borrowings		530,146,916	3,823,475,258
Other borrowings		–	766,958,032
Notes		–	69,769,800
Lease liabilities		37,325,638	35,251,162
Other liabilities		238,046,664	301,753,853
		<u>10,039,601,724</u>	<u>12,576,672,689</u>
Net current assets		<u>6,393,158,345</u>	<u>5,231,714,929</u>

	<i>Notes</i>	2021 HK\$	2020 HK\$
Non-current liabilities			
Bonds		2,352,317,863	–
Deferred tax liabilities		18,767	22,429
Amount due to the immediate holding company		–	2,286,899,000
Lease liabilities		15,666,805	52,992,444
		2,368,003,435	2,339,913,873
Net assets		4,387,197,972	3,347,104,333
Equity			
Share capital	<i>10</i>	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Accumulated loss		(846,717,117)	(886,810,756)
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Equity attributable to holders of the ordinary shares		3,387,197,972	3,347,104,333
Equity attributable to holders of other equity instruments		1,000,000,000	–
Total equity		4,387,197,972	3,347,104,333

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*
- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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.

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 2021

	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	210,818,267	95,611,566	82,620,681	33,101,782	10,744,657	-	432,896,953
Net gains on financial products and investments	-	-	-	-	203,473,756	-	203,473,756
Inter-segment revenue	296,366	-	-	24,014,591	-	(24,310,957)	-
Segment revenue and net gains on financial products and investments	211,114,633	95,611,566	82,620,681	57,116,373	214,218,413	(24,310,957)	636,370,709
Revenue presented in the consolidated statement of profit or loss and other comprehensive income							636,370,709
Segment results	84,678,069	(78,928,780)	32,966,676	3,547,564	16,397,839	-	58,661,368
Unallocated expenses							(9,283,765)
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income							49,377,603
Other segmental information included in the measure of segment results							
(Reversal)/changes of impairment losses on financial assets	(131,442)	95,940,759	-	(444,217)	128,370	-	95,493,470
Depreciation	27,627	-	-	-	-	-	27,627
Unallocated:							42,310,606
							42,338,233
Amortisation	3,122,530	-	-	-	-	-	3,122,530
Unallocated:							2,022,594
							5,145,124
Interest income	19,356,800	95,611,566	20,199	21,491	289,035,367	-	404,045,423
Unallocated:							100,720
							404,146,143
Interest expenses	298,926	27,447,215	-	-	178,805,629	-	206,551,770
Unallocated:							(18,679,872)
							187,871,898
Dividend income	-	-	-	-	8,911,838	-	8,911,838

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>

Geographical information

For the years ended 31 December 2021 and 2020, 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 4.2% and 16.5% respectively (2020: 3.5% and 11.1% respectively) to the Group's revenue from external customers during the year ended 31 December 2021.

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2021	2020
	<i>HK\$</i>	<i>HK\$</i>
Commission and fee income from customers		
Brokerage:		
Commission and fee income from securities brokerage	191,890,547	163,516,796
Commission and fee income from futures and options brokerage	17,326,795	19,713,674
Commission income from insurance brokerage	1,600,925	1,738,678
	210,818,267	184,969,148
Corporate finance:		
Commission on placing, underwriting and sub-underwriting		
– Debt securities	50,776,112	50,184,052
– Equity securities	4,618,264	9,315,890
Corporate advisory fee income	2,965,476	3,245,430
Sponsor fee income	1,956,376	8,750,000
Arrangement fee	22,304,453	57,783,463
	82,620,681	129,278,835

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Asset management:		
Asset management fee income	28,489,935	25,527,301
Investment advisory fee income	<u>4,611,847</u>	<u>3,890,735</u>
	<u>33,101,782</u>	<u>29,418,036</u>
	<u>326,540,730</u>	<u>343,666,019</u>
Interest revenue		
Loans and financing:		
Interest income from margin financing	<u>95,611,566</u>	<u>150,832,693</u>
	<u>95,611,566</u>	<u>150,832,693</u>
Financial products and investments:		
Interest income from reverse repurchase agreements	<u>10,744,657</u>	<u>58,756,322</u>
	<u>106,356,223</u>	<u>209,589,015</u>

	2021 <i>HK\$</i>	2020 <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	261,610,580	468,847,379
Dividend income from financial assets at fair value through profit or loss	8,911,838	15,038,786
Net realised gain on financial assets at fair value through profit or loss	69,106,968	75,017,160
Net unrealised loss on financial assets at fair value through profit or loss	(111,130,310)	(451,686,634)
Interest income from derivatives	8,037,051	7,056,956
Net realised gain/(loss) on derivatives	2,528,914	(65,668,916)
Net unrealised (loss)/gain on derivatives	(174,042)	4,753,922
Net realised (loss)/gain on financial liabilities at fair value through profit or loss	(27,146,814)	954,750
Net unrealised loss on financial liabilities at fair value through profit or loss	(8,270,429)	(30,868,266)
	<u>203,473,756</u>	<u>23,445,137</u>
Total revenue	<u>636,370,709</u>	<u>576,700,171</u>

Timing of revenue recognition for commission and fee income from customers

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
A point in time	287,277,964	298,633,368
Over time	39,262,766	45,032,651
	<u>326,540,730</u>	<u>343,666,019</u>
Total	<u>326,540,730</u>	<u>343,666,019</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 2021 and 2020 and the expected timing of recognising revenue are as follows:

	2021	2020
	HK\$	HK\$
Within one year	<u><u>15,100,000</u></u>	<u><u>10,000,000</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

	2021	2020
	HK\$	HK\$
Interest income from financial institutions	28,142,289	99,784,500
Sundry income	<u>3,244,065</u>	<u>10,880,467</u>
	<u><u>31,386,354</u></u>	<u><u>110,664,967</u></u>

5. PROFIT/(LOSS) BEFORE TAXATION

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Profit/(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>)	159,927,725	169,962,057
Salaries and bonuses	156,504,024	166,113,413
Contribution to the MPF Scheme	3,103,006	3,405,662
Other staff costs	320,695	442,982
Auditor's remuneration	1,800,000	1,750,000
Legal and professional fee	6,351,578	16,658,126
Amortisation of intangible assets	5,145,124	3,088,438
Depreciation of property and equipment	42,338,233	44,307,542
Telephone and postage	4,364,646	4,312,710
Maintenance fee	22,791,461	25,814,004
Transportation expenses	4,635,948	3,229,758
Entertainment expenses	3,476,112	2,900,928
Impairment losses on financial assets	95,493,470	368,491,609
Change of impairment losses on secured margin loans (<i>note c</i>)	95,940,759	367,846,067
(Reversal)/change of impairment losses on accounts receivable (except for secured margin loans)	(528,875)	1,194,560
Change/(reversal) of impairment losses on reverse repurchase agreements	128,370	(778,092)
(Reversal)/change of impairment losses on bank balances – trust accounts	(46,784)	229,074
Other gains or losses	(75,712,803)	(55,063,772)
Exchange gains net	(57,073,631)	(32,827,599)
Other gains (<i>note b</i>)	(18,639,172)	(22,236,173)

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\$18,639,172 (2020: net gain of HK\$22,236,173).

- (c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK\$95,940,759 (2020: HK\$367,846,067) were made for the year, including (i) impairment losses recognised of HK\$184,075,525 (2020: HK\$371,619,445); net of (ii) reversal of impairment losses of HK\$89,920,559 (2020: HK\$36,517,721); and (iii) impairment losses upon the derecognition of guarantees amounted to HK\$1,785,793 (2020: impairment losses upon the decognition of guarantees amounted to HK\$32,744,343).

6. TAXATION

	2021	2020
	HK\$	HK\$
Hong Kong Profit Tax:		
Current year	596,000	1,574,092
Under/(over)-provision in prior year	5,744,606	(104,520)
	6,340,606	1,469,572
Deferred Tax:		
Current year	2,943,358	(40,179,065)
	9,283,964	(38,709,493)

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 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 2020.

The provision for Hong Kong Profits Tax for 2021 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2020-21 subject to a maximum reduction of \$10,000 for each business (2020: a maximum reduction of \$20,000 was granted for the year of assessment 2019-20 and was taken into account in calculating the provision for 2020).

The tax expense/(credit) for the years ended 31 December 2021 and 2020 can be reconciled to the profit/(loss) before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Profit/(loss) before taxation	<u>49,377,603</u>	<u>(531,247,076)</u>
Notional tax on profit/(loss) before taxation, calculated at 16.5% (2020: 16.5%)	8,147,305	(87,655,767)
Tax effect of expenses not deductible for tax purpose	11,989,385	13,462,983
Tax effect of income not taxable for tax purpose	(6,497,861)	(17,457,169)
Tax at concessionary tax rate of 8.25% (2020: 8.25%)	(165,000)	(165,000)
Tax effect of deductible temporary difference not previously provided for	(36,384,430)	35,111,060
Tax effect of tax losses not recognised	30,350,589	28,865,599
Utilisation of tax losses previously not recognised	(2,743,541)	(8,795,303)
Under/(over)-provision in prior years	5,744,606	(104,520)
Others	<u>(1,157,089)</u>	<u>(1,971,376)</u>
Tax expense /(credit) for the year	<u>9,283,964</u>	<u>(38,709,493)</u>

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share attributable to ordinary equity holders of the Company is based on the following data:

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Earnings/(loss) (<i>HK\$</i>)		
Earnings/(loss) for the purpose of basic earnings/(loss) per share:		
Profit/(loss) for the year attributable to ordinary equity holders of the Company	<u>40,093,639</u>	<u>(492,537,583)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>4,000,000,000</u>	<u>4,000,000,000</u>

For each of the years ended 31 December 2021 and 2020, there were no potential ordinary shares in issue, thus no diluted earnings/(loss) per share is presented.

8. ACCOUNTS RECEIVABLE

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	1,641,156,797	2,765,621,831
Less: impairment allowance	(835,067,558)	(740,912,592)
	806,089,239	2,024,709,239
Clearing houses	199,656,455	609,551,677
Cash clients	109,270,792	117,777,671
Brokers	32,704,349	42,646,443
Clients for subscription of new shares in IPO	–	274,018,530
Less: impairment allowance	(332,591)	(329,249)
	341,299,005	1,043,665,072
	1,147,388,244	3,068,374,311
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing houses	28,718,585	18,610,148
Brokers	154,488,402	281,876,004
Less: impairment allowance	–	(88,000)
	183,206,987	300,398,152
Accounts receivable arising from the business of corporate finance	6,930,769	4,424,533
Accounts receivable arising from the business of asset management	17,902,189	5,961,061
Less: impairment allowance	(1,493,961)	(1,938,178)
	16,408,228	4,022,883
Accounts receivable arising from the business of financial products and investments:		
Brokers	164,550,766	104,193,516
	1,518,484,994	3,481,413,395

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 2021 and 2020, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2021	2020
	<i>HK\$</i>	<i>HK\$</i>
Non credit-impaired secured margin loans		
– Gross amount	544,283,253	1,510,248,226
– Carrying amount	538,852,654	1,501,916,085
Credit-impaired secured margin loans		
– Gross amount	1,096,873,544	1,255,373,605
– Carrying amount	267,236,585	522,793,154
Market value of securities pledged in respect of all margin loans	3,160,583,000	8,756,853,000

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 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 2021 and 2020, no bank borrowings were secured by charges over client's pledged securities.

During the years ended 31 December 2021 and 2020, 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

	2021	2020
	HK\$	HK\$
Less than 31 days	3,427,483	422,502
31 – 60 days	2,788,715	1,124,069
61 – 90 days	313,985	1,627,962
91 – 180 days	400,586	1,250,000
Over 180 days	—	—
	6,930,769	4,424,533

Asset management clients

	2021	2020
	HK\$	HK\$
Less than 31 days	4,183,563	1,941,120
31 – 60 days	2,206,800	671,293
61 – 90 days	2,257,808	544,145
91 – 180 days	2,546,737	953,008
Over 180 days	6,707,281	1,851,495
	<u>17,902,189</u>	<u>5,961,061</u>

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

	2021	2020
	HK\$	HK\$
Accounts payable arising from the business of dealing in securities:		
Clearing house	26,217,445	33,721,689
Brokers	6,534,819	7,282,756
Clients	4,340,712,723	3,437,314,808
	<u>4,373,464,987</u>	<u>3,478,319,253</u>
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	408,089,583	534,574,034
Accounts payable arising from the business of financial products and investments:		
Brokers	4,624,402	13,242
	<u>4,786,178,972</u>	<u>4,012,906,529</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 2021 (2020: HK\$78,718,717).

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 <i>HK\$</i>
Authorised:		
As at 1 January 2020, 31 December 2020 and 31 December 2021	<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
As at 1 January 2020, 31 December 2020 and 31 December 2021	<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

	2021 <i>HK\$</i>	2020 <i>HK\$</i>
Equity securities		
– Listed in Hong Kong	145,926,586	124,351,852
– Listed outside Hong Kong	100,116,954	200,123,632
– Unlisted (<i>note a</i>)	25,398,354	82,391,034
Debt securities (<i>note b</i>)		
– Listed in Hong Kong	2,826,566,690	4,384,119,985
– Listed outside Hong Kong	594,941,990	937,408,369
– Unlisted	1,015,414,392	1,399,740,028
Funds		
– Unlisted	200,507,796	101,334,311
Convertible bonds		
– Unlisted	–	785,125,589
Forward contract (<i>note d</i>)	–	1,724,787
	<u>4,908,872,762</u>	<u>8,016,319,587</u>
Analysed as		
Current	4,892,256,938	7,965,083,925
Non-current (<i>note c</i>)	<u>16,615,824</u>	<u>51,235,662</u>
	<u>4,908,872,762</u>	<u>8,016,319,587</u>

Notes:

- (a) For the years ended 31 December 2021 and 2020, 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 2021. Apart from this, there were arrangements to sell debt securities under a repurchase agreement during the year ended 31 December 2021 and 2020.
- (c) For the years ended 31 December 2021 and 2020, 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.
- (d) 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:

	2021	2020
	HK\$	HK\$
2020 Final – HK\$Nil (2020: 2019 Final – HK\$Nil) per share	<u>–</u>	<u>–</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 2021 (2020: did not recommend any payment of final dividend in respect of the year ended 31 December 2020) 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 2021 (2020: Nil).

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 2021 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

RESULTS AND OVERVIEW

For the year ended 31 December 2021, the Group recorded an operating revenue of HK\$636.37 million (2020: HK\$576.70 million), a year-on-year increase of 10.3%. For the year ended 31 December 2021, the Group's net profit after taxation was HK\$40.09 million (2020: net loss of HK\$492.54 million). The reasons for the profit are (i) revenue from the proprietary business improved; (ii) revenue from the brokerage services increased; and (iii) the provision for expected credit losses of accounts receivable arising from margin loans decreased compared with 2020.

For the year ended 31 December 2021, 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 14.0%, a decrease of 36.1%, an increase of 12.5%, a decrease of 36.6%, and an increase of 160.6% year-on-year, respectively.

ANALYSIS OF PRINCIPAL BUSINESS

(I) POLICY REVIEW

The year 2021 marked the commencement of the “14th Five-Year” Plan and a turning point for Hong Kong people administering Hong Kong. The state’s Outline of the “14th Five-Year” Plan provides strong support for Hong Kong’s financial services industry, including elevating Hong Kong’s status as an international financial centre, strengthening its functions as a global offshore RMB business hub, an international asset management centre and a risk management centre, deepening and expanding the connection between financial markets in Mainland China and Hong Kong, and building the Guangdong-Hong Kong-Macao Greater Bay Area with high quality.

In 2021, HKEX published consultation conclusions on enhancement and streamlining of the listing regime for overseas issuers, and broadened the secondary listing regime, welcoming companies from Greater China that are listed overseas and operating in traditional industries to list in Hong Kong and permitting issuers that meet certain conditions to conduct dual primary listing in Hong Kong while retaining the existing WVR structure or VIE structure. In addition, HKEX officially announced the launch of the listing regime for special purpose acquisition companies (SPACs), which provides the market with a listing channel other than the traditional IPO, attracting more companies in innovative industries from Greater China, Southeast Asia and other regions across the world to list in Hong Kong, thereby facilitating the positive development of companies with potential.

(II) HONG KONG CAPITAL MARKET REVIEW

Affected by external factors, the Hang Seng Index closed 2021 at 23,397 points, 3,834 points or 14% lower than 27,231 points recorded at the end of 2020. Although the global economy continued to be affected by the COVID-19 pandemic, Hong Kong's financial market showed strong resilience and vitality. The total amount of capital raised in the Hong Kong stock market reached HK\$770.7 billion in 2021, representing an increase of 3% from HK\$747.0 billion in 2020. In respects of new issues, although the number and amount of IPOs dropped from the 2020 high, the amount raised through IPOs still ranked fourth globally, with mainland companies continuing to account for a significant percentage in terms of both number and amount. In particular, mainland companies contributed more than 80% of the number of new issues in Hong Kong and accounted for more than 90% of the overall amount raised. In respects of the secondary market, the average daily securities trading volume was HK\$166.7 billion in 2021, representing a year-on-year increase of 29%.

(III) BUSINESS REVIEW

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 2021, the Group recorded commission and fee income from brokerage services of HK\$210.82 million (2020: HK\$184.97 million), representing a year-on-year increase of 14.0%. We achieved initial results in the transformation of wealth management business. By integrating internal resources and adopting financial technologies, the Group vigorously developed the online securities trading model and expanded business in core regions, achieving steady growth in performance. Throughout the year, we opened a total of 6,880 accounts online through our online business hall, accounting for 95% of the number of accounts opened in the year. We opened 2,593 effective new accounts during the year, with new client assets amounting to HK\$870 million. The trading volume of Hong Kong stocks was HK\$118.8 billion, representing an increase of 17%.

Corporate finance

For the year ended 31 December 2021, the Group recorded income from corporate finance business of HK\$82.62 million (2020: HK\$129.28 million), representing a year-on-year decrease of 36.1%. For the year ended 31 December 2021, the Group's commission income on placing, underwriting and sub-underwriting of debt securities amounted to HK\$50.78 million (2020: HK\$50.18 million), representing a year-on-year increase of 1.2%. According to Bloomberg data, in 2021, the Group underwrote US\$1,363 million of USD bonds in total with a market share of 0.66%, representing an increase of 19.38% compared with 2020, as a JBR ranking seventh among Chinese brokers, up 3 places from 2020. The Group promoted the execution of a series of innovative services. Specifically, it assisted Changxing Urban Construction Investment to successfully issue the first offshore green bond from a county-level urban investment company in China, helped Industrial Bank issue dual-currency green bonds in US and Hong Kong dollars, helped BOCHK issue its first Yulan bond, pioneered the issuance of bonds in Macao among Fujian-based companies, helped Fujian Investment Group issue the first Lotus bond from a provincial enterprise in China, assisted Xiamen ITG Holding issue a Lotus bond, and helped Huzhou New City Investment issue free trade zone bonds. In the Hong Kong stock market, the number of IPOs declined as financing projects were delayed to varying degrees due to the COVID-19 pandemic and the capital market was affected by macroeconomic fluctuations in Mainland China including changes in the real estate market. As a result, commission income on placing, underwriting and sub-underwriting of equity securities amounted to HK\$4.62 million (2020: HK\$9.32 million), representing a year-on-year decrease of 50.4%. According to Bloomberg data, the total financing amount of equity projects of the Group in 2021 was US\$353.66 million, ranking seventh among Chinese brokers, a significant improvement of 8 places compared with the previous year. Arrangement fee amounted to HK\$22.30 million (2020: HK\$57.78 million), representing a year-on-year decrease of 61.4%.

Asset management

For the year ended 31 December 2021, the Group recorded income from asset management business of HK\$33.10 million (2020: HK\$29.42 million), representing a year-on-year increase of 12.5%. For the year ended 31 December 2021, the Group had 27 asset management products and an AUM (assets under management) of HK\$8,238 million, representing an increase of 13% over the beginning of the year and ranking third among Chinese brokers' asset management arms. In particular, on 30 April 2021, China Core Asset Fund became the fifth Chinese asset management fund approved under the Mainland-Hong Kong Mutual Recognition of Funds scheme after Haitong International, Bosera Asset Management, China Asset Management and E Fund. It is also the first Mainland-Hong Kong Mutual Recognition equity mutual fund issued by a Chinese asset management company in Hong Kong. For the year ended 31 December 2021, the size of the fund had exceeded HK\$800 million.

Loans and financing

In 2021, the Group optimised its customer structure and scaled down secured margin loan financing. For the year ended 31 December 2021, the Group's revenue from loans and financing business was HK\$95.61 million (2020: HK\$150.83 million), representing a year-on-year decrease of 36.6%.

Financial products and investments

In 2021, in spite of the financial market volatility, the Group adhered to a robust and prudent investment approach and capitalized on its advantages in investment research, outperforming the market in terms of investment gains. The Group's revenue from financial products and investments for the year ended 31 December 2021 increased by 160.6% year-on-year to HK\$214.22 million (2020: HK\$82.20 million).

FINANCIAL POSITION

As at 31 December 2021, the total assets of the Group decreased by 8.0% to HK\$16,794.80 million (31 December 2020: HK\$18,263.69 million). As at 31 December 2021, the total liabilities of the Group decreased by 16.8% to HK\$12,407.61 million (31 December 2020: HK\$14,916.59 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2021, the net current assets of the Group increased by 22.2% to HK\$6,393.16 million (31 December 2020: HK\$5,231.71 million). As at 31 December 2021, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year/period) increased to 1.6 times (31 December 2020: 1.4 times).

For the year ended 31 December 2021, the net cash inflow of the Group was HK\$3,172.73 million (31 December 2020: outflow of HK\$3,073.73 million). As at 31 December 2021, the bank balance of the Group was HK\$5,458.96 million (31 December 2020: HK\$2,286.22 million).

As at 31 December 2021, the Group's bank and other borrowings in aggregate decreased by 88.5% to HK\$530.15 million (31 December 2020: HK\$4,590.43 million)

In February 2021, the Group issued US\$300,000,000 three-year guaranteed bonds and the net proceeds raised were used to repay short-term revolving bank loans. In addition, in June 2021, the Group issued HK\$1,000,000,000 subordinated perpetual securities and the net proceeds raised were used to repay bank loans. As at 31 December 2021, the Group did not have any outstanding notes (31 December 2020: HK\$69.7 million). As at 31 December 2021, the Group had outstanding bonds of HK\$2,352.32 million (31 December 2020: nil) and shareholder loans of HK\$2,300.85 million (31 December 2020: HK\$2,286.90 million). As at 31 December 2021, the gearing ratio of the Group (defined as the sum of bank borrowings, other borrowings, outstanding notes and bonds, and shareholder loan divided by total equity) decreased by approximately 43.1% to 1.181 (31 December 2020: 2.076).

Total equity attributable to holders of ordinary shares amounted to HK\$3,387.20 million as at 31 December 2021 (31 December 2020: HK\$3,347.10 million).

FUTURE PLAN

The Group will continue to accelerate the development of various business lines and strive to achieve its performance targets. It will deepen the construction of the two-wheeled business system, consolidate the two fee-based business pillars—wealth management and large institutional business, and push the competitiveness of its principal business to a new level; solidly develop fixed-income proprietary investment and margin financing business, and explore alternative investment opportunities such as mezzanine financing; build a new business segment for cross-border derivatives; and continuously improve total revenue and profit and their structures on the premise of safeguarding the bottom line of compliance and strictly controlling risks. The Group will continue to improve the compliance risk control system, adhere to the neutral and prudent risk appetite, optimise the allocation of human, financial and physical resources, develop a high-quality and stable personnel structure, continuously enhance the information system, and rely on technological empowerment, so as to improve the Company's operation and management capabilities in an all-round way.

In the future, we will continue to unite as one to work hard and fulfill our responsibilities for the Company and all shareholders, in an effort to bring 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 2021.

CHARGES ON GROUP ASSETS

For the year ended 31 December 2021, the Group's assets pledged were mainly debt securities pledged as collaterals for repurchase agreements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2021, the Group had 210 full-time employees (31 December 2020: 206 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2021 was HK\$159.93 million (2020: HK\$169.96 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 2021 and as of the date of this announcement.

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

Risk management framework and mechanism

The Group has established a comprehensive risk management organizational structure consisting of the Board, management members, the risk management committee, risk management department, each functional department and subsidiaries, and identified three lines of defense for risk management, namely, effective self-control by each functional department and subsidiaries serves as the first line of defense, professional risk management by the risk management department before and during business operations serves as the second line of defense, and post-supervision and evaluation by the audit department serves as the third line of defense. The design of the "three lines of defense" risk management governance structure effectively guarantees the efficiency and effectiveness of risk management.

The Group implemented the risk appetite, quota management and authorization management system, upheld the business philosophy of “stable operation for sustainability” based on the neutral and prudent risk appetite determined by the Board, and focused on the development concept of advancing amid stability to identify and evaluate potential risks related to credit, liquidity, market and operation in a timely manner, and ensure that various risks exposed to the Group were controlled within a reasonable range that is measurable, controllable, acceptable and without spillover. The Group endeavored to build a sound organizational structure, operable management system, quantifiable risk indicator system, reliable information system and professional talent team, so as to realize the detectability, measurability, analysis and risk-response in risk management, facilitating the healthy development of the Group’s business in the long run and the achievement of strategic goals.

Credit risk

The credit risk of the Group refers to the potential losses resulting from the failure of a debtor or counterparty to perform its obligations under a contract.

The Group has established a Risk Management Committee to review and monitor the implementation of risk management policies for credit business, and update relevant risk management policies to cope with changes. The Group has also in place an Investment and Financing Business Review Committee, which is responsible for reviewing and re-examining the policies, transaction limits and credit limits related to credit approval. The Group regularly re-examined the unrecovered margin loans to assess the credit risk exposure, and took appropriate measures to mitigate risks. The Group closely monitors the credit business risk limit indicators, adopts measures such as daily mark-to-market and timely warning, conducts regular stress tests, and takes appropriate measures to make up for or minimize losses and properly resolve risks when it foresees that customers may fail to fulfill their obligations.

Liquidity risk

The liquidity risk of the Group refers to the risk of failure to obtain sufficient capital at reasonable cost in time to repay debts which are falling due, fulfill other payment obligations and meet the capital demand for routine business operation.

The Group has established liquidity risk management system and process to identify, address, monitor and mitigate potential liquidity risks, and maintain liquidity and financial resource requirements in accordance with applicable laws and regulations (such as the Hong Kong Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong)).

The Group has set up a multi-level authorization mechanism and internal policies for managing and approving the use and allocation of capital. It sets authorization restrictions on all of the commitments or capital outflows (such as procurement, investment and loans), and evaluates the impact of such transactions on capital adequacy.

The Group meets its financing needs primarily through obtaining bank loans from a number of banks and issuing bonds, and constantly explores and expands financing channels and methods. The Group also adopts strict liquidity management measures, including but not limited to daily monitoring reports, future cash flow forecasts and liquidity stress tests, to ensure that liquidity planning and management is prepared in advance and that the Group meets the capital requirements stipulated by applicable laws.

Market risk

The market risk of the Group refers to the risk of potential losses incurred to the Group due to adverse changes in market variables, including but not limited to interest rates, exchange rates, equity prices and commodity prices.

The Group has formulated policies and procedures to monitor and control market risks arising from business development. Prior to engaging in any new transaction or launching any new business, each business segment of the Group will arrange staff with professional qualifications and industry experience to discuss and evaluate the relevant market risks, and formulate management and mitigation measures for such risks.

The Group will formulate and review market risk limit indicators, and regularly check and adjust market strategies to cope with changes in operating results, risk tolerance and market conditions. In terms of financial products and investment business, the Group formulates selection criteria for different bonds and other fixed-income products, restricts investment in industries and enterprises with overcapacity and negative reports, and tracks and monitors macro-economic trends and investment concentration to optimize investment strategies. The Group diversifies its fixed-income investment portfolio, limits the investment scale of a single product, customer or investment type, and keeps abreast with the changes in the issuer's operation, credit rating and solvency.

Meanwhile, the Group also evaluates the spread level, relative investment value, relative income, yield curve, major risks, liquidity and profitability of different types of bonds, and controls the investment period of bonds. It timely monitors investment, including trading positions, unrealized gains and losses, risk exposure and trading activities, and sets a stop loss mechanism. In response to market or customer changes, the Group regularly or irregularly conducts risk assessment and verification, and disposes of potential risky businesses in a timely manner.

Operation risk

The operation risk of the Group refers to the risk of losses arising from imperfect or defective internal procedures, employees, information systems or external events.

The Group has established an operational risk management structure composed of the Board, management members, the risk management committee, the Risk Management Department, and various functional departments. The management of operational risk covers all departments and all employees, and penetrates into various business activities, business processes and operational procedures.

The Group monitors operational risk events through operational risk policy, risk reporting mechanism, operational risk limits, operational risk system and risk warning. The Risk Management Department regularly analyses and evaluates operational risk events, continuously monitors the Group's operational risk status and dynamics, and regularly reports on the implementation of relevant indicators, follows up operational risk events to ensure that the Company's operational risk losses are under control, and improves operational risk monitoring and management.

The Group has set up a business continuity management mechanism to comprehensively enhance its practical ability to respond to emergencies and operational disruptions, so as to ensure smooth and orderly operations.

Compliance and legal risks

The Group proactively promotes the establishment of a stable and sound compliance and legal risk management framework, formulates relevant policies, processes and models, keeps a close eye on the prevailing laws and regulations relating to business operations, and makes timely adjustments and improvements to the internal compliance and legal risk management policies and processes based on the changes of external laws and regulations to ensure that the Company's business and operations comply with the laws and regulations amended from time to time.

The Group has set up a compliance management structure and established three lines of defense for compliance management. In particular, the Compliance Department takes the lead in formulating the Group's compliance management policies and procedures, providing compliance advice for various business plans and affairs, closely monitoring the compliance operation of the Group's licensed businesses, and supervising all business segments to strictly implement relevant regulatory requirements. Meanwhile, in order to foster a sound compliance culture atmosphere and strengthen compliance awareness, the Compliance Management Department will take the lead in organizing legal and compliance trainings for employees from time to time and providing internal guidance for the latest regulatory updates.

The Compliance Department of the Group is assisted by full-time legal personnel. Meanwhile, the Group has engaged three legal consultants who have cooperated with the Group throughout the years and maintains close relations with other external law firms. Maintaining close ties with full-time legal personnel and external legal consultants or law firms to ensure that the Group is able to prevent and address various legal risks in a timely manner.

Reputation risk

The reputation risk of the Group refers to the risk of public negative views on the Group from shareholders, employees, customers, third-party cooperation institutions and regulatory agencies due to the Groups' operations, management and other behaviors or external events.

The Group proactively promoted the construction of reputation risk management mechanism, effectively prevented and addressed reputation risks, and conducted all-round and whole-process management over classification, identification, assessment, reporting, handling and evaluation of reputation risks arising from the operation and management process, so as to minimize losses and negative impacts on the reputation and brand image of the Group. During the reporting period, the Group further improved its reputation risk management system, maintained an overall stable public views, and did not experience major reputation risks.

FINAL DIVIDEND

The Board did not recommend any payment of a final dividend for the year ended 31 December 2021.

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 Tuesday, 3 May 2022 to Friday, 6 May 2022, 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, 29 April 2022.

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 2021.

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 2021.

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 2021.

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 2021. The Company has complied with the code provisions of the CG Code except for the following deviation:

The Company has identified and appointed a suitable candidate, Ms. Tsang Wing Man, to fill the vacancy of the resignation of the former company secretary on 10 March 2021.

Code provision A.6.7 (which has been renumbered as code provision C.1.6 since 1 January 2022) of the CG Code stipulates that independent non-executive directors and other non-executive directors should, inter alia, attend general meetings. Due to other business engagement, Mr. Tian Li, the independent non-executive Director did not attend the extraordinary general meeting of the Company held on 24 September 2021. The other independent non-executive Directors and nonexecutive Director were present at the above general meeting to enable the Board to gain and develop a balanced understanding of the views of the shareholders of the Company.

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 2021 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, 25 March 2022

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