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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 2022

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 2022, with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022	2021
		<i>HK\$</i>	<i>HK\$</i>
Commission and fee income	4	223,210,519	326,540,730
Interest revenue	4	49,393,205	106,356,223
Net trading and investment income	4	(14,599,536)	203,473,756
Total revenue	4	258,004,188	636,370,709
Other income	4	116,493,723	31,386,354
Share of result of a joint venture		–	(20,060,274)
Finance costs		(182,003,396)	(187,871,898)
Commission and fee expenses		(62,899,895)	(64,536,118)
Staff costs	5	(160,103,290)	(159,927,725)
Other operating expenses		(163,018,113)	(166,202,778)
Impairment losses on financial assets	5	(82,462,673)	(95,493,470)
Other gains or losses	5	(29,294,055)	75,712,803
(Loss)/profit before taxation	5	(305,283,511)	49,377,603
Taxation	6	7,881,095	(9,283,964)
(Loss)/profit for the year attributable to:		(297,402,416)	40,093,639
– Holders of ordinary shares of the Company		(297,402,416)	40,093,639
– Holders of other equity instruments of the Company		–	–

	<i>Notes</i>	2022 HK\$	2021 <i>HK\$</i>
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
– Equity investments at fair value through other comprehensive income			
– Net movement in fair value reserve (non-recycling)		(67,928,321)	–
Item that may be reclassified subsequently to profit or loss:			
– Debt investments at fair value through other comprehensive income			
– Net movement in fair value reserve (recycling)		(26,989,533)	–
Other comprehensive income for the year, net of tax		(94,917,854)	–
Total comprehensive income for the year attributable to:		(392,320,270)	40,093,639
– Holders of ordinary shares of the Company		(392,320,270)	40,093,639
– Holders of other equity instruments of the Company		–	–
(Loss)/earnings per share attributable to ordinary equity holders of the Company			
Basic (<i>expressed in HKD</i>)	7	(0.0744)	0.0100

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$	2021 HK\$
Non-current assets			
Property and equipment		33,462,873	76,002,382
Intangible assets		11,726,329	7,658,890
Interest in a joint venture		–	16,125,931
Financial assets at fair value through profit or loss	11	24,726,511	16,615,824
Debt investments at amortised cost	12	214,953,954	–
Reverse repurchase agreements		92,947,167	90,036,076
Statutory deposits		17,395,812	19,063,234
Deferred tax assets		133,464,944	121,593,827
Deposits, other receivables and prepayments		14,858,045	14,946,898
		<u>543,535,635</u>	<u>362,043,062</u>
Current assets			
Accounts receivable	8	1,167,456,618	1,518,484,994
Reverse repurchase agreements		–	120,712,083
Financial assets at fair value through profit or loss	11	2,818,655,977	4,892,256,938
Financial assets at fair value through other comprehensive income	13	2,174,690,074	–
Statutory deposits		16,785,992	30,463,929
Deposits, other receivables and prepayments		169,308,298	139,002,439
Tax receivable		3,707,080	4,464,870
Bank balances – trust accounts		2,874,093,301	4,268,417,736
Bank balances – general accounts and cash		2,703,948,516	5,458,957,080
		<u>11,928,645,856</u>	<u>16,432,760,069</u>
Current liabilities			
Accounts payable	9	3,150,506,807	4,786,178,972
Accruals and other payables		32,034,528	101,672,982
Amount due to a fellow subsidiary		1,316,280	4,560,326
Amount due to the immediate holding company		–	2,300,852,500
Contract liabilities		5,356,160	5,049,632
Tax payable		695,364	252,291
Financial liabilities at fair value through profit or loss		50,926,422	65,396,077
Repurchase agreements		1,958,527,621	1,970,119,726
Bank borrowings		1,000,907,152	530,146,916
Lease liabilities		16,305,095	37,325,638
Other liabilities		180,720,209	238,046,664
		<u>6,397,295,638</u>	<u>10,039,601,724</u>
Net current assets		<u>5,531,350,218</u>	<u>6,393,158,345</u>

	<i>Notes</i>	2022 HK\$	2021 HK\$
Non-current liabilities			
Bonds		2,079,992,337	2,352,317,863
Deferred tax liabilities		15,814	18,767
Lease liabilities		<u>–</u>	<u>15,666,805</u>
		<u>2,080,008,151</u>	<u>2,368,003,435</u>
Net assets		<u><u>3,994,877,702</u></u>	<u><u>4,387,197,972</u></u>
Equity			
Share capital	<i>10</i>	400,000,000	400,000,000
Share premium		3,379,895,424	3,379,895,424
Accumulated loss		(1,144,119,533)	(846,717,117)
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Fair value reserve		<u>(94,917,854)</u>	<u>–</u>
Equity attributable to holders of the ordinary shares		2,994,877,702	3,387,197,972
Equity attributable to holders of other equity instruments		<u>1,000,000,000</u>	<u>1,000,000,000</u>
Total equity		<u><u>3,994,877,702</u></u>	<u><u>4,387,197,972</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

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;

Margin financing – provision of margin financing services 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.

Others – other businesses in addition to the above, including head office operations and investment holding platforms, and management of general working capital.

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. During the current year, the Group has regrouped the segment revenue by different nature of revenue consistent with the analysis of revenue presented in note 4 and reallocated them to different segments. Comparative information on segment revenue has been restated to conform to the current year’s presentation.

For the year ended 31 December 2022

	Brokerage HK\$	Margin financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Others HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result								
Commission and fee income	157,800,167	-	45,709,535	19,700,817	-	-	-	223,210,519
Interest revenue	-	30,097,837	-	-	19,295,368	-	-	49,393,205
Net trading and investment income	-	-	-	-	(14,599,536)	-	-	(14,599,536)
Inter-segment revenue	265,000	-	-	9,127,635	-	-	(9,392,635)	-
Segment revenue	158,065,167	30,097,837	45,709,535	28,828,452	4,695,832	-	(9,392,635)	258,004,188
Revenue presented in the consolidated statement of profit or loss and other comprehensive income								258,004,188
Segment results	13,783,945	(102,102,990)	(3,020,924)	(44,413,111)	(201,288,950)	31,758,519	-	(305,283,511)
Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income								(305,283,511)
Other segmental information included in the measure of segment results								
Change in impairment losses on financial assets	7,994	82,865,370	-	(682,452)	271,761	-	-	82,462,673
Depreciation	11,993	-	-	-	-	51,404,867	-	51,416,860
Amortisation	2,340,260	-	-	1,422	-	2,207,853	-	4,549,535
Interest income	91,517,209	30,097,837	284,081	36,201	311,838,642	170,545,577	(168,500,980)	435,818,567
Interest expenses	136,635	20,170,706	-	-	190,145,192	140,051,843	(168,500,980)	182,003,396
Dividend income	-	-	-	-	42,486,859	-	-	42,486,859

For the year ended 31 December 2021

	Brokerage HK\$	Margin financing HK\$	Corporate finance HK\$	Asset management HK\$	Financial products and investments HK\$	Others HK\$	Eliminations HK\$	Consolidated HK\$
Segment revenue and result								
Commission and fee income	210,818,267	-	82,620,681	33,101,782	-	-	-	326,540,730
Interest revenue	-	95,611,566	-	-	10,744,657	-	-	106,356,223
Net trading and investment income	-	-	-	-	203,473,756	-	-	203,473,756
Inter-segment revenue	296,366	-	-	24,014,591	-	-	(24,310,957)	-
Segment revenue	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	(9,283,765)	-	49,377,603
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								
Change in impairment losses on financial assets	(131,442)	95,940,759	-	(444,217)	128,370	-	-	95,493,470
Depreciation	27,627	-	-	-	-	42,310,606	-	42,338,233
Amortisation	3,122,530	-	-	-	-	2,022,594	-	5,145,124
Interest income	19,356,800	95,611,566	20,199	21,491	289,035,367	162,011,096	(161,910,376)	404,146,143
Interest expenses	298,926	27,447,215	-	-	178,805,629	143,230,504	(161,910,376)	187,871,898
Dividend income	-	-	-	-	8,911,838	-	-	8,911,838

Geographical information

For the years ended 31 December 2022 and 2021, 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 15.9% and 26.2% respectively (2021: 4.2% and 16.5% respectively) to the Group's revenue from external customers during the year ended 31 December 2022.

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Commission and fee income		
Brokerage:		
Commission and fee income from securities brokerage	142,392,737	191,890,547
Commission and fee income from futures and options brokerage	14,803,471	17,326,795
Commission income from insurance brokerage	603,959	1,600,925
	157,800,167	210,818,267
Corporate finance:		
Commission income on placing, underwriting and sub-underwriting		
– Debt securities	33,802,428	50,776,112
– Equity securities	3,251,007	4,618,264
Corporate advisory fee income	662,500	2,965,476
Sponsor fee income	5,650,000	1,956,376
Arrangement fee income	2,343,600	22,304,453
	45,709,535	82,620,681

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
Asset management:		
Asset management fee income	17,592,251	28,489,935
Investment advisory fee income	<u>2,108,566</u>	<u>4,611,847</u>
	<u>19,700,817</u>	<u>33,101,782</u>
	<u>223,210,519</u>	<u>326,540,730</u>
Interest revenue		
Financial products and investments:		
Interest income from reverse repurchase agreements	6,664,845	10,744,657
Interest income from debt investments at fair value through other comprehensive income	8,710,680	–
Interest income from debt investments at amortised cost	<u>3,919,843</u>	<u>–</u>
	<u>19,295,368</u>	<u>10,744,657</u>
Margin financing:		
Interest income from margin financing	<u>30,097,837</u>	<u>95,611,566</u>
	<u>49,393,205</u>	<u>106,356,223</u>

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Net trading and investment income		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	277,501,172	261,610,580
Dividend income from financial assets at fair value through profit or loss	6,279,937	8,911,838
Net loss on financial assets at fair value through profit or loss	(510,821,170)	(42,023,342)
Interest income from derivatives	6,164,915	8,037,051
Net gain on derivatives	128,976,195	2,354,872
Net gain/(loss) on financial liabilities at fair value through profit or loss	41,092,493	(35,417,243)
Dividend income from equity securities designated at fair value through other comprehensive income	36,206,922	–
	<u>(14,599,536)</u>	<u>203,473,756</u>
Total revenue	<u>258,004,188</u>	<u>636,370,709</u>

Timing of revenue recognition for commission and fee income from customers

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
A point in time	194,888,492	287,277,964
Over time	28,322,027	39,262,766
	<u>223,210,519</u>	<u>326,540,730</u>
Total	<u>223,210,519</u>	<u>326,540,730</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 provides handling services 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 2022 and 2021 and the expected timing of recognising revenue are as follows:

	2022	2021
	HK\$	HK\$
Within one year	<u><u>15,600,000</u></u>	<u><u>15,100,000</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

	2022	2021
	HK\$	HK\$
Interest income from financial institutions	102,759,275	28,142,289
Sundry income	<u>13,734,448</u>	<u>3,244,065</u>
	<u><u>116,493,723</u></u>	<u><u>31,386,354</u></u>

5. (LOSS)/PROFIT BEFORE TAXATION

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' emoluments and five highest paid employees' emoluments) (<i>note a</i>)	160,103,290	159,927,725
Salaries and bonuses	156,118,656	156,504,024
Contribution to the MPF Scheme	3,213,493	3,103,006
Other staff costs	771,141	320,695
Auditor's remuneration	1,800,000	1,800,000
Legal and professional fee	18,721,324	6,351,578
Amortisation of intangible assets	4,549,535	5,145,124
Depreciation of property and equipment	51,416,860	42,338,233
Telephone and postage	4,851,580	4,364,646
Maintenance fee	15,086,688	22,791,461
Transportation expenses	2,692,075	4,635,948
Entertainment expenses	2,062,841	3,476,112
Impairment losses on financial assets	82,462,673	95,493,470
Secured margin loans (<i>note c</i>)	81,936,022	95,940,759
Accounts receivable (except for secured margin loans)	246,897	(528,875)
Reverse repurchase agreements	(71,904)	128,370
Bank balances – trust accounts	7,994	(46,784)
Debt investments at amortised costs	99,421	–
Debt investments at FVTOCI	244,243	–
Other gains or losses	29,294,055	(75,712,803)
Exchange loss/(gain)	42,904,871	(57,073,631)
Other gains (<i>note b</i>)	(13,641,539)	(18,639,172)
Losses on disposal of property and equipment	30,723	–

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\$13,641,539 (2021: net gain of HK\$18,639,172).

- (c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK\$81,936,022 (2021: HK\$95,940,759) were made for the year, including (i) impairment losses recognised of HK\$95,555,925 (2021: HK\$184,075,525); net of (ii) reversal of impairment losses of HK\$13,619,903 (2021: HK\$89,920,559); and (iii) impairment losses upon the derecognition of guarantees amounted to nil (2021: HK\$1,785,793).

6. TAXATION

	2022	2021
	HK\$	HK\$
Hong Kong Profit Tax:		
Current year	19,354	596,000
Under-provision in prior year	3,973,621	5,744,606
	3,992,975	6,340,606
Deferred Tax:		
Current year	(11,874,070)	2,943,358
	(7,881,095)	9,283,964

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 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 2021.

The provision for Hong Kong Profits Tax for 2022 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2021-22 subject to a maximum reduction of HK\$10,000 for each business (2021: a maximum reduction of HK\$10,000 was granted for the year of assessment 2020-21 and was taken into account in calculating the provision for 2021).

The tax (credit)/expense for the years ended 31 December 2022 and 2021 can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
(Loss)/profit before taxation	<u>(305,283,511)</u>	<u>49,377,603</u>
Notional tax on (loss)/profit before taxation, calculated at 16.5% (2021: 16.5%)	(50,371,779)	8,147,305
Tax effect of expenses not deductible for tax purpose	50,989,569	11,989,385
Tax effect of income not taxable for tax purpose	(11,095,676)	(6,497,861)
Tax at concessionary tax rate of 8.25% (2021: 8.25%)	(38,800)	(165,000)
Tax effect of deductible temporary difference not previously provided for	(11,613,510)	(36,384,430)
Tax effect of tax losses not recognised	13,268,156	30,350,589
Utilisation of tax losses previously not recognised	(2,951,697)	(2,743,541)
Under-provision in prior years	3,973,621	5,744,606
Others	<u>(40,979)</u>	<u>(1,157,089)</u>
Tax (credit)/expense for the year	<u>(7,881,095)</u>	<u>9,283,964</u>

7. (LOSS)/EARNINGS PER SHARE

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

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
(Loss)/earnings (HK\$)		
(Loss)/earnings for the purpose of basic (loss)/earnings per share:		
(Loss)/profit for the year attributable to ordinary equity holders of the Company	<u>(297,402,416)</u>	<u>40,093,639</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>4,000,000,000</u>	<u>4,000,000,000</u>

For each of the years ended 31 December 2022 and 2021, there were no potential ordinary shares in issue, thus no diluted (loss)/earnings per share is presented.

8. ACCOUNTS RECEIVABLE

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	1,448,473,422	1,641,156,797
Less: impairment allowance	<u>(916,853,993)</u>	<u>(835,067,558)</u>
	<u>531,619,429</u>	806,089,239
Clearing houses	213,420,226	199,656,455
Cash clients	61,431,806	109,270,792
Brokers	79,431,836	32,704,349
Less: impairment allowance	<u>(1,261,939)</u>	<u>(332,591)</u>
	<u>353,021,929</u>	341,299,005
	<u>884,641,358</u>	1,147,388,244
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing houses	61,254,257	28,718,585
Brokers	<u>122,845,799</u>	<u>154,488,402</u>
	<u>184,100,056</u>	183,206,987
Accounts receivable arising from the business of corporate finance	<u>4,101,017</u>	6,930,769
Accounts receivable arising from the business of asset management	10,443,983	17,902,189
Less: impairment allowance	<u>(606,643)</u>	<u>(1,493,961)</u>
	<u>9,837,340</u>	16,408,228
Accounts receivable arising from the business of financial products and investments:		
Brokers	<u>84,776,847</u>	<u>164,550,766</u>
	<u><u>1,167,456,618</u></u>	<u><u>1,518,484,994</u></u>

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 2022 and 2021, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Non credit-impaired secured margin loans		
– Gross amount	379,592,090	544,283,253
– Carrying amount	376,021,091	538,852,654
Credit-impaired secured margin loans		
– Gross amount	1,068,881,332	1,096,873,544
– Carrying amount	155,598,338	267,236,585
Market value of securities pledged in respect of all margin loans	2,188,840,000	3,160,583,000

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 2022 and 2021, no bank borrowings were secured by charges over client's pledged securities.

During the years ended 31 December 2022 and 2021, 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

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Less than 31 days	390,636	3,427,483
31 – 60 days	233,120	2,788,715
61 – 90 days	–	313,985
91 – 180 days	1,559,134	400,586
Over 180 days	1,918,127	–
	<u>4,101,017</u>	<u>6,930,769</u>

Asset management clients

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Less than 31 days	1,538,636	4,183,563
31 – 60 days	1,217,741	2,206,800
61 – 90 days	1,168,779	2,257,808
91 – 180 days	1,815,548	2,546,737
Over 180 days	4,703,279	6,707,281
	<u>10,443,983</u>	<u>17,902,189</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

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
Accounts payable arising from the business of dealing in securities:		
Clearing house	–	26,217,445
Brokers	8,895,331	6,534,819
Clients	2,809,820,292	4,340,712,723
	<u>2,818,715,623</u>	<u>4,373,464,987</u>
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	331,791,184	408,089,583
Accounts payable arising from the business of financial products and investments:		
Brokers	–	4,624,402
	<u>3,150,506,807</u>	<u>4,786,178,972</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\$77,557,769 due to the immediate holding company as at 31 December 2022 (2021: 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 2021, 31 December 2021 and 31 December 2022	<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
As at 1 January 2021, 31 December 2021 and 31 December 2022	<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

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
Equity securities		
– Listed in Hong Kong	69,167,656	145,926,586
– Listed outside Hong Kong	79,573,379	100,116,954
– Unlisted (<i>note a</i>)	–	25,398,354
Debt securities (<i>note b</i>)		
– Listed in Hong Kong	1,211,859,039	2,826,566,690
– Listed outside Hong Kong	303,677,030	594,941,990
– Unlisted	1,074,514,177	1,015,414,392
Funds		
– Unlisted	<u>104,591,207</u>	<u>200,507,796</u>
	<u>2,843,382,488</u>	<u>4,908,872,762</u>
Analysed as		
Current	2,818,655,977	4,892,256,938
Non-current (<i>note c</i>)	<u>24,726,511</u>	<u>16,615,824</u>
	<u><u>2,843,382,488</u></u>	<u><u>4,908,872,762</u></u>

Notes:

- (a) For the years ended 31 December 2022 and 2021, 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, there were arrangements to sell debt securities under a repurchase agreement during the year ended 31 December 2022 and 2021.
- (c) For the years ended 31 December 2022 and 2021, 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.

12. DEBT INVESTMENTS AT AMORTISED COST

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
Debt securities		
– Listed in Hong Kong	215,053,375	–
Less: impairment allowance	<u>(99,421)</u>	<u>–</u>
	<u>214,953,954</u>	<u>–</u>
Analysed as		
Current	–	–
Non-current	<u>214,953,954</u>	<u>–</u>
	<u><u>214,953,954</u></u>	<u><u>–</u></u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 <i>HK\$</i>	2021 <i>HK\$</i>
Equity securities designated at FVTOCI (<i>note</i>)		
– Listed in Hong Kong	1,327,673,412	–
– Listed outside Hong Kong	338,116,526	–
– Unlisted	70,099,153	–
Debt securities		
– Listed in Hong Kong	328,628,528	–
– Listed outside Hong Kong	86,577,179	–
– Unlisted	<u>23,595,276</u>	<u>–</u>
	<u>2,174,690,074</u>	<u>–</u>
Analysed as		
Current	2,174,690,074	–
Non-current	<u>–</u>	<u>–</u>
	<u><u>2,174,690,074</u></u>	<u><u>–</u></u>

Note: The Group has designated the above equity securities at fair value through other comprehensive income (“FVTOCI”) as these equity investments are not held for trading purpose.

14. DIVIDENDS

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

	2022	2021
	<i>HK\$</i>	<i>HK\$</i>
2021 Final – HK\$Nil (2021: 2020 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 2022 (2021: did not recommend any payment of final dividend in respect of the year ended 31 December 2021).

15. COMMITMENTS

Investment commitments

In the normal course of business, the Group had no investment commitments contracted as at 31 December 2022 (2021: 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 2022 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 2022, the Group achieved an operating revenue of HK\$258.00 million (2021: HK\$636.37 million), representing a year-on-year decrease of 59.46%. For the year ended 31 December 2022, the net loss after tax of the Group amounted to HK\$297.40 million (2021: net profit of HK\$40.09 million). The turnaround from profit to loss is mainly due to (i) tightening global monetary policies, geopolitics and the COVID-19 pandemic leading to the net loss resulting from fair value changes of equity and debt investments held by the Group; and (ii) recession of Hong Kong capital market, leading to increase in expected credit loss on accounts receivables arising from margin loans. The expected credit loss is not a realized loss. The Group's business development is normal and the overall financial position and business condition of the Group remain sound.

For the year ended 31 December 2022, the operating revenue of the Group from brokerage services, corporate finance services, asset management services, margin financing services, financial products and investments recorded a year-on-year decrease of 25.15%, 44.67%, 40.48%, 68.52% and 97.81%, respectively.

ANALYSIS OF PRINCIPAL BUSINESS

(I) POLICY REVIEW

The Year 2022 is a crucial year for implementing “14th Five-Year Plan”, and also marks the 25th anniversary of Hong Kong’s reunification with the motherland. Under the great practice of “One country, Two systems (一國兩制)”, Hong Kong has taken its distinctive advantage of “enjoying strong support of the motherland and being closely connected to the world (背靠祖國、聯通世界)” to serve as a bridge linking the Mainland China and the rest of the world. Hong Kong has seized the opportunity of the construction of Guangdong-Hong Kong-Macao Greater Bay Area to integrate into the national development, actively cooperated with the role and important functional position of Hong Kong in the overall development of the country in the national 14th Five-Year Plan, further deepened the mutual market access programmes, and continuously strengthened Hong Kong’s advantages as an international financial center to comprehensively enhance its competitiveness in financial services.

In 2022, the Hong Kong Stock Exchange implemented certain measures to facilitate the significant upgrades of mutual market access programmes for long term development, including the inclusion of the Exchange Traded Funds (ETFs) in the Shanghai, Shenzhen and Hong Kong Stock Connect; the launch of the “Swap Connect (互換通)” to carry out a new mutual access programmes between Hong Kong and Mainland China’s interbank interest rate swap market; and the inclusion of international companies in the Hong Kong Stock Connect for the first time, the creation of RMB counters in the Shanghai, Shenzhen and Hong Kong Stock Connect and the issuance of China treasury bond futures in Hong Kong, of which the measures have laid an important foundation for the future development of Hong Kong as an international financial center, an international leading place of listing, a risk management center and an offshore RMB center.

(II) HONG KONG CAPITAL MARKET REVIEW

In 2022, due to the combined effects of unfavorable factors such as the resurgence of the COVID-19 pandemic, the Fed's continued interest rate hikes and the geopolitical tension, the Hong Kong's capital market has suffered a heavy blow. Enterprises have delayed their equity financing projects, and the proceeds significantly decreased by 67.43% to HK\$251.9 billion in the year, of which the proceeds from initial public offering amounted to HK\$104.6 billion, representing a decrease of 68.44%. More than half of new shares' price fell below the initial issue price. Since the investor confidence was frustrated and market activity has declined, the average daily trading volume of H shares fell by 25.08% to HK\$124.9 billion, and the trading volume of Shanghai and Shenzhen Stock Connect fell by 15.62% and 15.82% respectively. The stock and bond markets fell simultaneously, and market conditions have shown weakness. At the end of 2022, the Hang Seng Index closed at 19,781 points, representing a decrease of 15.5% as compared to the beginning of the year; and the Barclays High Yield and Investment Grade Chinese-issued US Dollar Bond Index fell by 22.47% and 10.11%, respectively. The events of default in the real estate industry occurred frequently.

(III) BUSINESS REVIEW

Result Review of the Company:

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

Brokerage

For the year ended 31 December 2022, the Group recorded commission and fee income from brokerage services of HK\$157.80 million (2021: HK\$210.82 million), representing a year-on-year decrease of 25.15%. Through integrating internal resources and using financial technology, the wealth management business vigorously developed the Internet securities model with an increase of 99% in security brokerage customers who open accounts online. At the end of 2022, the customers' assets under custody amounted to HK\$47.551 billion, representing a decrease of 12.47% as compared to the beginning of the year, which was lower than the decrease of Heng Seng Index. The segment of US shares transaction realized a breakthrough, representing a year-on-year increase of 157%, which significantly outperformed the market. During the year, the Company was awarded "Distinguished Awards" in Wealth Management for 2022 by Bloomberg Businessweek (彭博商業週刊二零二二年財富管理「傑出大獎」) and "Best Wealth Management Awards" at the 4th Golden Central Awards by zhitongcaijing.com (智通財經第四屆金中環「最佳財富管理獎」).

Corporate finance

For the year ended 31 December 2022, the Group recorded income from corporate finance business of HK\$45.71 million (2021: HK\$82.62 million), representing a year-on-year decrease of 44.67%. For the year ended 31 December 2022, the Group's commission income from placing, underwriting and sub-underwriting of debt securities amounted to HK\$33.80 million (2021: HK\$50.78 million), representing a year-on-year decrease of 33.44%. The Group completed 116 bond underwriting services in the whole year, representing an increase of 33% year-on-year, with the total underwriting amount of US\$1,944.29 million, jumping 1 place to 6th in the ranking of the Chinese-funded securities firms according to Bloomberg. The Group has successfully promoted the implementation of several innovative businesses, completed the issuance of the country's first prefecture-level municipal investment-grade free trade zone bond, the country's first central and western region free trade zone bond, the country's first financial enterprise and central enterprise free trade zone bond, and assisted 19 enterprises in issuing green bonds with a breakthrough in the financing scale of HK\$50 billion. During the year, the Company was awarded "Annual Development Contribution Institution (Pearl Bond Business)" under the category of comprehensive services of 2022 Annual Evaluation of the Business Development Quality of CCDC Members (中債成員業務發展質量評價綜合業務類「年度開拓貢獻機構(明珠債業務)」獎項). Due to the impact of a number of unfavorable market factors, the commission income from placing, underwriting and sub-underwriting of equity securities amounted to HK\$3.25 million (2021: HK\$4.62 million), representing a year-on-year decrease of 29.65%. The total amount of equity financing projects of the Group in the whole year amounted to US\$58.25 million, ranking 14th among Chinese-funded securities firms according to Bloomberg.

Asset management

For the year ended 31 December 2022, the Group recorded income from asset management business of HK\$19.70 million (2021: HK\$33.10 million), representing a year-on-year decrease of 40.48%. As of the end of 2022, the Group had 28 asset management products and the scale of assets under management was HK\$6,360 million. Among them, the annual yield of CISI Stable Growth Bond Fund SP, the flagship fixed income product, significantly outperformed the market index yield. During the year, the Company was awarded Top Investment House in Asian G3 Bonds for 2022.

Margin financing

In 2022, the Group continued to optimize the customer structure and reduced the financing scale of low-quality secured margin financing. For the year ended 31 December 2022, the Group's revenue from margin financing business was HK\$30.10 million (2021: HK\$95.61 million), representing a year-on-year decrease of 68.52%.

Financial products and investments

The financial market fluctuated in 2022. The Group has always adhered to the robust and prudent investment principles, strictly selected the investment pools and strictly complied with the Group's various risk limit. The annual yield outperformed the market index yield. For the year ended 31 December 2022, the Group's revenue from financial products and investments amounted to HK\$4.70 million (2021: HK\$214.22 million), representing a year-on-year decrease of 97.81%.

FINANCIAL POSITION

As at 31 December 2022, the total assets of the Group decreased by 25.74% to HK\$12,472.18 million (31 December 2021: HK\$16,794.80 million). As at 31 December 2022, the total liabilities of the Group decreased by 31.68% to HK\$8,477.30 million (31 December 2021: HK\$12,407.61 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2022, the net current assets of the Group decreased by 13.48% to HK\$5,531.35 million (31 December 2021: HK\$6,393.16 million). As at 31 December 2022, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year) increased to 1.9 times (31 December 2021: 1.6 times).

For the year ended 31 December 2022, the net cash outflow of the Group amounted to HK\$2,755.01 million (31 December 2021: inflow of HK\$3,172.73 million). As at 31 December 2022, the bank balance of the Group amounted to HK\$2,703.95 million (31 December 2021: HK\$5,458.96 million).

As at 31 December 2022, the total bank borrowings of the Group increased by 88.80% to HK\$1,000.91 million (31 December 2021: HK\$530.15 million).

As at 31 December 2022, the Group had outstanding bonds of HK\$2,079.99 million (31 December 2021: HK\$2,352.32 million) and shareholder loans of nil (31 December 2021: HK\$2,300.85 million). As at 31 December 2022, the gearing ratio of the Group (defined as the sum of repurchase agreements, bank borrowings, outstanding bonds and shareholder loan divided by total equity) decreased by approximately 37.0% to 126.1% (31 December 2021: 163.1%).

Between 5 September 2022 and 28 September 2022, the Company repurchased the 2% guaranteed bonds due February 2024 (the “**2024 Bonds**”) in the open market in an aggregate principal amount of US\$35,000,000 (2021: Nil) (the “**Repurchased Bonds**”), representing approximately 11.67% of the aggregate principal amount of the 2024 Bonds originally issued. The Repurchased Bonds have been cancelled in accordance with the terms and conditions of the 2024 Bonds. For details, please refer to the Company’s announcement dated 19 October 2022.

As at 31 December 2022, the total equity attributable to holders of ordinary shares amounted to HK\$2,994.88 million (31 December 2021: HK\$3,387.20 million).

FUTURE PLAN

The Group will deepen the construction of the “two-wheel linkage” business system, deepen the building of an international professional platform, consolidate the two major fee-based business pillars of big wealth management and big institutional business, integrate the internal sales resource, promote the upgrading of development model of big institutional business, and promote the market competitiveness of major businesses to a new level; We will steadily develop proprietary investment business, margin loans business and other capital-consuming business; We will continue to promote the construction of cross-border derivatives business; Under the premise of keeping the bottom line of compliance and strict risk control, we will realize an increase in total revenue and profit and optimize the internal structure. The Group will continue to improve the compliance risk control system, adhere to the neutral and prudent risk appetite, optimize the allocation of human, financial and material resources, form a high-quality and stable talent echelon structure, continue to promote the construction of information systems, rely on technology empowerment to comprehensively improve the Company’s operation and management capabilities.

Looking forward, we will continue to be united and dedicated to strive for the stable and sustainable development of the Company, endeavouring to bring higher return to all shareholders.

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

As at 31 December 2022, the significant investment held by the Group is as follows:

As at 31 December 2022, the Group held a significant investment of secured note issued by Wuyi Mountains Limited which is a special purpose entity incorporated with limited liability in the Cayman Islands. The company was formed for the purpose of issuing debt securities to repay existing credit facilities, refinance indebtedness, and for acquisition purposes. The investment cost of the secured note was USD90 million (equivalent to HK\$701.8 million). The fair value of secured note was USD91 million (equivalent to HK\$710 million) as at 31 December 2022 which represented 5.69% of the Group's total assets.

During the current year, this investment has contributed to a net gain of HK\$8.2 million which included accrued interest income of HK\$126.3 million and unrealised loss of HK\$118.1 million. The Group aims to sustain stable and secured return from the investment and considered the risk of investment as controllable under robust and prudent risk management policy.

Save as disclosed above, there were no other significant investments nor material acquisitions or disposals of subsidiaries and affiliated companies by the Group for the year ended 31 December 2022.

PLEDGE OF ASSETS BY THE GROUP

For the year ended 31 December 2022, the Group's assets pledged were mainly debt securities pledged as collaterals for repurchase agreements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2022, the Group has employed 193 full-time employees (31 December 2021: 210 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2022 amounted to HK\$160.10 million (2021: HK\$159.93 million). The remuneration policy will be reviewed by the Group from time to time in accordance with market practice, and the bonus will be distributed with reference to individual performance appraisal, prevailing market condition and the financial performance of the Group. Other employee benefits include contributions to the mandatory provident fund scheme and medical care insurance etc.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the year ended 31 December 2022 and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

As of 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, the risk management committee, risk management department, and functional departments. The Board shall undertake the ultimate responsibility for comprehensive risk management, be responsible for the supervision and guidance of the risk management of the Group, approve the risk appetite of the Group, and control the overall risk of the Group within a reasonable range to ensure that the Group can effectively manage the risk control in business activities. The management shall lead and manage various risks in the course of business of the Group and promote the planning, construction and implementation of the comprehensive risk management system of the Group. The risk management committee under the management shall carry out the risk management work of the Group with the authorization of the management, be responsible for guiding, supervising and coordinating the implementation of the work related to risk management of the Group, provide advices on the improvement and updating of the organizational system, and promote the comprehensive risk management construction of the Group. Under the leadership of the chief risk officer, the risk management department shall organize and promote the comprehensive risk management work of the Group, organize to conduct identification, evaluation, monitoring, analysis and tests on the overall risk, aggregate risk faced in the course of operation and management of the Group and its changing trend, and put forward corresponding control measures and solutions.

The Group has built three lines of defence for risk management, of which the first line of defence is effective self-control by functional departments, the second line of defence is professional risk management by the risk management department before and during business operations, and the third line of defence is post-supervision and evaluation by the audit department. The design of the “three lines of defence (三道防線)” of risk management governance structure has effectively provided guarantees for the efficiency and effectiveness of risk management.

The Group has implemented the risk appetite, quota management and authorization management system, kept the business philosophy of “stable operation for sustainable development (穩健經營、長遠發展)” based on the neutral and prudent risk appetite determined by the Board, and adhered to the development idea of seeking progress while keeping performance stable, conducted precise identification, careful evaluation, dynamical monitoring and overall management on various risks, such as liquidity risk, market risk, credit risk, operational risk, reputation risk, and compliance and legal risk in a timely manner in the course of business of the Group to ensure that various risks exposed to the Group were controlled within a reasonable range that is measurable, controllable, acceptable and without spillover. The Group has endeavored to build a sound organizational structure, operational 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 business of the Group in the long run and the achievement of strategic goals.

Credit risk

The credit risk exposed to the Group refers to the risk of losses to the Group due to non-performance by the debtor or counterparty. The Group has established a risk management committee to review and monitor the implementation of credit risk management policies, and to update relevant risk management policies to adapt to changes. The Group has also set up an investment and financing business review committee, which is responsible for reviewing and re-examining the policies relating to credit approval, transaction limits and credit limits. The Group has regularly re-examined the implementation of existing investment and financing projects and margin loans to assess the credit risk exposure, and has taken appropriate measures to mitigate risks.

The Group has closely monitored the risk limit indicators of credit business, adopted measures such as daily mark-to-market and timely warning, and established a public opinion information monitoring mechanism for debtors, collaterals and counterparties to effectively respond to sudden public events to formulate response plans in advance. It has conducted regular stress tests, taken appropriate measures to make up for or minimize losses to properly resolve risks if the possibility of non-performance of customers was foreseen, and earnestly conducted post-investment management.

Liquidity risk

The liquidity risk exposed to 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 liquidity requirement for ordinary business operation.

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

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

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

Market risk

The market risk exposed to the Group refers to the risk of potential losses incurred to the Group due to adverse changes in exchange rates, interest rates and prices of financial assets and financial liabilities.

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

The Group has set up market risk limit indicators, and regularly reviewed and adjusted market strategies to adapt to changes in operating results, risk tolerance and market conditions. In terms of financial products and investment business, the Group has formulated selection criteria for different bonds and other fixed-income products, prudently selected industries and enterprises, and followed-up and monitored macro-economic trends to optimize investment strategies.

Operational risk

The operational risk exposed to the Group refers to the risk of losses to the Group caused by imperfect or defective internal procedures, employees, information systems or external events. The main goal of the operational risk management of the Group is to promote a good operational risk management culture according to the regulatory requirements and the development strategy of the Company, establish and improve the operational risk management framework and system in line with the actual situation of the Company, and reduce the frequency and impact of operational risk events.

The Group has established an operational risk management structure consisting of the Board, management, the risk management committee, the risk management department and each functional department. The management of operational risk involves all departments and all employees, with penetration into various business activities, business processes and operational procedures.

The Group has established a sound management mechanism and effective internal control procedures. Through operational risk policies, risk reporting mechanisms, operational risk limit indicators, risk control matrices, operational risk systems and risk warnings, the operational risk events will be identified, evaluated, monitored and followed up before, during and after events. At the same time, through sharing the cases of operational risk and training, the overall operational risk awareness of the Group has been improved, the operational risk management has been strengthened, and the ability to respond on operational risk has been improved. The risk management department has regularly analyzed and evaluated operational risk events, continuously monitored the operational risk conditions and its changing trend of the Group, and regularly reported the implementation of relevant indicators, and also followed up operational risk events to ensure that the operational risk losses of the Group are under control, and improved operational risk monitoring and management.

The Group has set up a business continuity management mechanism, in place with contingency plans and business continuity plans combined with risk scenarios, business models, system settings and other important risk factors, and retained sufficient disaster recovery office facilities, regularly carried out business continuity exercises, comprehensively improved the Group's ability to respond to emergencies and operational interruptions to ensure smooth and orderly operation.

Compliance and legal risks

The Group has proactively promoted the establishment of a stable and sound compliance and legal risk management framework, formulated relevant policies, processes and templates, kept a close eye on the prevailing laws and regulations relating to business operations, and made 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 Group's business and operations comply with the laws and regulations as amended from time to time.

The Group has set up a compliance management structure and established three lines of defense for compliance management, of which the compliance management department takes the lead in formulating the compliance management policies and procedures of the Group, providing compliance advice for various business plans and affairs, closely monitoring the compliance operation of the licensed businesses of the Group, 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 has taken the lead in organizing legal and compliance trainings for employees from time to time and provided internal guidance for the latest regulatory updates.

The legal and compliance department of the Group is assisted by full-time legal personnel. Meanwhile, the Group has engaged four legal consultants who have cooperated with the Group throughout the years and maintained close relationships with other external law firms. Through closely cooperation with full-time legal personnel and external legal consultants or law firms, it is ensured that the Group can prevent and address various legal risks in a timely manner.

Reputation risk

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

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

FINAL DIVIDEND

The Board did not recommend any payment of a final dividend for the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting of the Company (the “AGM”), the transfer books and register of members of the Company will be closed from Friday, 5 May 2023 to Wednesday, 10 May 2023, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending and voting at the annual general meeting, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 May 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Between 5 September 2022 and 28 September 2022, the Company repurchased the 2% guaranteed bonds due February 2024 (the “**2024 Bonds**”) in the open market in an aggregate principal amount of US\$35,000,000 (the “**Repurchased Bonds**”), representing approximately 11.67% of the aggregate principal amount of the 2024 Bonds originally issued. The Repurchased Bonds have been cancelled in accordance with the terms and conditions of the 2024 Bonds. For details, please refer to the Company’s announcement dated 19 October 2022.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2022.

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 2022.

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 2022.

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 2022.

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. Hu Pingsheng, 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 2022 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.

RETIREMENT OF DIRECTOR

In accordance with articles 108(a) and (b) of articles of association of the Company, Ms. Zeng Yanxia (“**Ms. Zeng**”) will retire by rotation at the AGM, she will not seek for re-election as an executive Director at the AGM due to her work arrangement. Ms. Zeng has confirmed that she has no disagreement with the Board and there is no other matter relating to her retirement that needs to be brought to the attention of the shareholders of the Company. The Board would like to take this opportunity to thank Ms. Zeng for her invaluable contributions to the Company during her tenure of office.

By Order of the Board
China Industrial Securities International Financial Group Limited
Hu Pingsheng
Chairman

Hong Kong, 24 March 2023

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