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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 2023

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 2023, with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023	2022
		<i>HK\$</i>	<i>HK\$</i>
Commission and fee income	4	166,897,751	223,210,519
Interest revenue	4	121,850,597	49,393,205
Net trading and investment income	4	254,606,269	(14,599,536)
Total revenue	4	543,354,617	258,004,188
Other income	4	191,738,746	116,493,723
Finance costs		(288,901,605)	(182,003,396)
Commission and fee expenses		(39,504,244)	(62,899,895)
Staff costs	5	(196,919,115)	(160,103,290)
Other operating expenses		(146,300,880)	(163,018,113)
Impairment losses on financial assets	5	(8,416,652)	(82,462,673)
Other gains or losses	5	18,106,895	(29,294,055)
Profit/(loss) before taxation	5	73,157,762	(305,283,511)
Taxation	6	(18,593,479)	7,881,095
Profit/(loss) for the year		<u>54,564,283</u>	<u>(297,402,416)</u>
Attributable to:			
Holders of ordinary shares of the Company		<u>54,564,283</u>	<u>(297,402,416)</u>
Earnings/(loss) per share attributable to ordinary equity holders of the Company			
Basic (<i>expressed in HKD</i>)	7	<u>0.0136</u>	<u>(0.0744)</u>

	<i>Notes</i>	2023	2022
		HK\$	HK\$
Profit/(loss) for the year		<u>54,564,283</u>	<u>(297,402,416)</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
– Equity instruments designated at fair value through other comprehensive income			
– Changes in fair value		56,980,935	(67,928,321)
– Income tax impact		(1,723,515)	–
Items that may be reclassified subsequently to profit or loss:			
– Debt investments at fair value through other comprehensive income			
– Changes in fair value		25,365,150	(26,989,533)
– Reclassification adjustment to profit or loss on disposal		(7,845,872)	–
– Income tax impact		<u>1,723,515</u>	–
Other comprehensive income for the year, net of tax		<u>74,500,213</u>	<u>(94,917,854)</u>
Total comprehensive income for the year		<u>129,064,496</u>	<u>(392,320,270)</u>
Attributable to:			
Holder of ordinary shares of the Company		<u>129,064,496</u>	<u>(392,320,270)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 HK\$	2022 HK\$
Non-current assets			
Property and equipment		56,906,975	33,462,873
Intangible assets		11,248,970	11,726,329
Financial assets at fair value through profit or loss	11	15,159,814	24,726,511
Debt investments at amortised cost	12	278,122,966	214,953,954
Reverse repurchase agreements		93,288,805	92,947,167
Statutory deposits		12,748,741	17,395,812
Deferred tax assets		120,804,400	133,464,944
Deposits, other receivables and prepayments		6,436,948	14,858,045
		594,717,619	543,535,635
Current assets			
Accounts receivable	8	1,010,886,882	1,167,456,618
Financial assets at fair value through profit or loss	11	4,919,759,113	2,818,655,977
Financial assets at fair value through other comprehensive income	13	4,385,085,302	2,174,690,074
Statutory deposits		10,404,961	16,785,992
Deposits, other receivables and prepayments		317,850,920	169,308,298
Tax receivable		1,808,472	3,707,080
Bank balances – trust accounts		3,419,362,123	2,874,093,301
Bank balances – general accounts and cash		1,892,147,583	2,703,948,516
		15,957,305,356	11,928,645,856
Current liabilities			
Accounts payable	9	3,510,257,387	3,150,506,807
Accruals and other payables		24,026,268	32,034,528
Amount due to a related party		4,723,189	1,316,280
Contract liabilities		4,308,726	5,356,160
Tax payable		6,274,228	695,364
Financial liabilities at fair value through profit or loss		30,659,837	50,926,422
Repurchase agreements		3,341,795,173	1,958,527,621
Bank borrowings		2,184,584,146	1,000,907,152
Notes		168,281,769	–
Bonds		2,087,232,051	–
Lease liabilities		19,349,190	16,305,095
Other liabilities		140,274,408	180,720,209
		11,521,766,372	6,397,295,638
Net current assets		4,435,538,984	5,531,350,218

		2023	2022
	<i>Notes</i>	HK\$	HK\$
Non-current liabilities			
Repurchase agreements		876,991,121	–
Bonds		–	2,079,992,337
Deferred tax liabilities		15,814	15,814
Lease liabilities		<u>29,307,470</u>	<u>–</u>
		<u>906,314,405</u>	<u>2,080,008,151</u>
Net assets		<u>4,123,942,198</u>	<u>3,994,877,702</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		(1,102,906,837)	(1,144,119,533)
Other reserve		11,577,844	11,577,844
Capital reserve		442,441,821	442,441,821
Fair value reserve		<u>(7,066,054)</u>	<u>(94,917,854)</u>
Equity attributable to holders of the ordinary shares		3,123,942,198	2,994,877,702
Equity attributable to holders of other equity instruments		<u>1,000,000,000</u>	<u>1,000,000,000</u>
Total equity		<u>4,123,942,198</u>	<u>3,994,877,702</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

2. CHANGES IN ACCOUNTING POLICIES

(i) New and amended HKFRSs

The HKICPA has issued the following new and amended HKFRSs that are first effective for the current accounting period of the Group.

- HKFRS 17, *Insurance Contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

None of these new and amended 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.

(ii) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022 the Hong Kong SAR Government (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”). Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date. In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19 that previously allowed such deemed contributions to be recognised as reduction of service cost (negative service cost) in the period the contributions were made; instead these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit. To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the above HKICPA guidance retrospectively. The cessation of applying the practical expedient in paragraph 93(b) of HKAS 19 in conjunction with the enactment of the Amendment Ordinance resulted in a catch-up profit or loss adjustment in June 2022 for the service cost up to that date and consequential impacts on current service cost, interest expense and remeasurement effects from changes in actuarial assumptions for the rest of 2022, with the corresponding adjustment to the comparative carrying amount of the LSP liability. This change in accounting policy did not have any material impact on the opening balance of equity at 1 January 2022, and the cash flows and earnings per share amounts for the year ended 31 December 2022. It also did not have a material impact on the company-level and consolidated statement of financial position as at 31 December 2022 and 31 December 2023.

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, sponsorship, 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.

For the year ended 31 December 2023

	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	111,040,955	-	40,833,714	15,023,082	-	-	-	166,897,751
Interest revenue	-	30,274,458	-	-	91,576,139	-	-	121,850,597
Net trading and investment income	-	-	-	-	254,606,269	-	-	254,606,269
Inter-segment revenue	164,997	-	-	8,118,969	-	-	(8,283,966)	-
Segment revenue	111,205,952	30,274,458	40,833,714	23,142,051	346,182,408	-	(8,283,966)	543,354,617
Revenue presented in the consolidated statement of profit or loss and other comprehensive income								<u>543,354,617</u>
Segment results	129,911,819	(51,912,910)	(6,511,416)	(19,152,773)	13,569,563	7,253,479	-	73,157,762
Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income								<u>73,157,762</u>
Other segmental information included in the measure of segment results								
Change in impairment losses on financial assets	347,371	6,055,689	-	1,224,745	788,847	-	-	8,416,652
Depreciation	4,056	-	-	-	-	34,959,535	-	34,963,591
Amortisation	2,765,203	-	-	17,067	-	3,706,575	-	6,488,845
Interest income	196,953,733	30,274,458	1,399,615	611,730	353,774,489	143,742,678	(161,791,378)	564,965,325
Interest expenses	1,146,025	38,582,664	-	-	285,695,620	125,268,674	(161,791,378)	288,901,605
Dividend income	-	-	-	-	122,846,696	-	-	122,846,696

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

Geographical information

For the years ended 31 December 2023 and 2022, 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 16.2% and 32.8% respectively (2022: 15.9% and 26.2% respectively) to the Group's revenue from external customers during the year ended 31 December 2023.

4. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

Revenue

	2023	2022
	<i>HK\$</i>	<i>HK\$</i>
Commission and fee income		
Brokerage:		
Commission and fee income from securities brokerage	96,438,136	142,392,737
Commission and fee income from futures and options brokerage	7,569,760	14,803,471
Commission income from insurance brokerage	7,033,059	603,959
	<u>111,040,955</u>	<u>157,800,167</u>
Corporate finance:		
Commission income on placing, underwriting and sub-underwriting		
– Debt securities	29,694,664	33,802,428
– Equity securities	6,000	3,251,007
Corporate advisory fee income	1,020,000	662,500
Sponsor fee income	4,397,628	5,650,000
Arrangement fee income	5,715,422	2,343,600
	<u>40,833,714</u>	<u>45,709,535</u>

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Asset management:		
Asset management fee income	12,980,082	17,592,251
Investment advisory fee income	<u>2,043,000</u>	<u>2,108,566</u>
	<u>15,023,082</u>	<u>19,700,817</u>
	<u>166,897,751</u>	<u>223,210,519</u>
Interest revenue		
Financial products and investments:		
Interest income from reverse repurchase agreements	6,302,705	6,664,845
Interest income from debt investments at fair value through other comprehensive income	75,534,291	8,710,680
Interest income from debt investments at amortised cost	<u>9,739,143</u>	<u>3,919,843</u>
	<u>91,576,139</u>	<u>19,295,368</u>
Margin financing:		
Interest income from margin financing	<u>30,274,458</u>	<u>30,097,837</u>
	<u>121,850,597</u>	<u>49,393,205</u>

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Net trading and investment income		
Financial products and investments:		
Interest income from financial assets at fair value through profit or loss	257,321,153	277,501,172
Dividend income from financial assets at fair value through profit or loss	10,536,049	6,279,937
Net loss on financial assets at fair value through profit or loss	(150,711,713)	(510,821,170)
Interest income from derivatives	–	6,164,915
Net gain on derivatives	7,300,656	128,976,195
Net gain on financial liabilities at fair value through profit or loss	10,003,605	41,092,493
Dividend income from equity instruments designated at fair value through other comprehensive income	112,310,647	36,206,922
Net gain on disposal of debt investments at fair value through other comprehensive income	<u>7,845,872</u>	<u>–</u>
	<u>254,606,269</u>	<u>(14,599,536)</u>
Total revenue	<u>543,354,617</u>	<u>258,004,188</u>

Timing of revenue recognition for commission and fee income from customers

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
A point in time	138,735,200	194,888,492
Over time	<u>28,162,551</u>	<u>28,322,027</u>
Total	<u>166,897,751</u>	<u>223,210,519</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 sponsorship 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 2023 and 2022 and the expected timing of recognising revenue are as follows:

	2023	2022
	HK\$	HK\$
Within one year	<u><u>3,887,500</u></u>	<u><u>15,600,000</u></u>

This amount represents revenue expected to be recognised in the future from the contracts for sponsorship 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

	2023	2022
	HK\$	HK\$
Interest income from financial institutions	185,793,575	102,759,275
Sundry income	<u>5,945,171</u>	<u>13,734,448</u>
	<u><u>191,738,746</u></u>	<u><u>116,493,723</u></u>

5. PROFIT/(LOSS) BEFORE TAXATION

	2023	2022
	<i>HK\$</i>	<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>)	196,919,115	160,103,290
Salaries and bonuses	192,612,128	156,118,656
Contribution to the MPF Scheme	3,435,141	3,213,493
Other staff costs	871,846	771,141
Auditor's remuneration	1,950,000	1,800,000
Legal and professional fee	13,538,494	18,721,324
Amortisation of intangible assets	6,488,845	4,549,535
Depreciation of property and equipment	34,963,591	51,416,860
Telephone and postage	4,182,803	4,851,580
Maintenance fee	19,426,885	15,086,688
Transportation expenses	3,530,045	2,692,075
Entertainment expenses	3,222,100	2,062,841
Impairment losses on financial assets	8,416,652	82,462,673
Secured margin loans (<i>note c</i>)	6,417,671	81,936,022
Accounts receivable (except for secured margin loans)	862,763	246,897
Reverse repurchase agreements	(148,036)	(71,904)
Bank balances – trust accounts	347,371	7,994
Debt investments at amortised costs	(1,456)	99,421
Debt investments at FVTOCI	938,339	244,243
Other gains or losses	(18,106,895)	29,294,055
Exchange (gain)/loss	(13,520,380)	42,904,871
Other gains (<i>note b</i>)	(4,586,515)	(13,641,539)
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\$4,586,515 (2022: net gain of HK\$13,641,539).

- (c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK\$6,417,671 (2022: HK\$81,936,022) were made for the year, including (i) impairment losses recognised of HK\$31,870,221 (2022: HK\$95,555,925); net of (ii) reversal of impairment losses of HK\$25,452,550 (2022: HK\$13,619,903).

6. TAXATION

	2023	2022
	HK\$	HK\$
Hong Kong Profit Tax:		
Current year	5,972,862	19,354
(Over)/under-provision in prior years	(39,927)	3,973,621
	5,932,935	3,992,975
Deferred Tax:		
Current year	12,660,544	(11,874,070)
	18,593,479	(7,881,095)

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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 2022.

The provision for Hong Kong Profits Tax for 2023 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022-23 subject to a maximum reduction of HK\$6,000 for each business (2022: a maximum reduction of HK\$10,000 was granted for the year of assessment 2021-22 and was taken into account in calculating the provision for 2022).

The tax expense/(credit) for the years ended 31 December 2023 and 2022 can be reconciled to the profit/(loss) before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023	2022
	HK\$	HK\$
Profit/(loss) before taxation	<u>73,157,762</u>	<u>(305,283,511)</u>
Notional tax on profit/(loss) before taxation, calculated at 16.5% (2022: 16.5%)	12,071,031	(50,371,779)
Tax effect of expenses not deductible for tax purpose	11,803,069	50,989,569
Tax effect of income not taxable for tax purpose	(15,196,625)	(11,095,676)
Tax at concessionary tax rate of 8.25% (2022: 8.25%)	(165,000)	(38,800)
Tax effect of deductible temporary difference not recognised	2,184,352	(11,613,510)
Tax effect of tax losses not recognised	9,702,348	13,268,156
Utilisation of tax losses previously not recognised	(2,019,378)	(2,951,697)
(Over)/under-provision in prior years	(39,927)	3,973,621
Others	<u>253,609</u>	<u>(40,979)</u>
Tax expense/(credit) for the year	<u>18,593,479</u>	<u>(7,881,095)</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:

	2023	2022
	HK\$	HK\$
Earnings/(loss) (HK\$)		
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>54,564,283</u>	<u>(297,402,416)</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 2023 and 2022, there were no potential ordinary shares in issue, thus no diluted earnings/(loss) per share is presented.

8. ACCOUNTS RECEIVABLE

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Accounts receivable arising from the business of dealing in securities:		
Secured margin loans	1,385,823,142	1,448,473,422
Less: impairment allowance	<u>(916,538,388)</u>	<u>(916,853,993)</u>
	<u>469,284,754</u>	<u>531,619,429</u>
Clearing houses	114,184,353	213,420,226
Cash clients	61,707,836	61,431,806
Brokers	77,817,868	79,431,836
Less: impairment allowance	<u>(899,958)</u>	<u>(1,261,939)</u>
	<u>252,810,099</u>	<u>353,021,929</u>
	<u>722,094,853</u>	<u>884,641,358</u>
Accounts receivable arising from the business of dealing in futures and options contracts:		
Clearing houses	17,492,319	61,254,257
Brokers	<u>53,202,829</u>	<u>122,845,799</u>
	<u>70,695,148</u>	<u>184,100,056</u>
Accounts receivable arising from the business of corporate finance	<u>11,409,121</u>	<u>4,101,017</u>
Accounts receivable arising from the business of asset management	8,164,969	10,443,983
Less: impairment allowance	<u>(1,831,387)</u>	<u>(606,643)</u>
	<u>6,333,582</u>	<u>9,837,340</u>
Accounts receivable arising from the business of financial products and investments:		
Brokers	<u>200,354,178</u>	<u>84,776,847</u>
	<u>1,010,886,882</u>	<u>1,167,456,618</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 2023 and 2022, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

	2023	2022
	<i>HK\$</i>	<i>HK\$</i>
Non credit-impaired secured margin loans		
– Gross amount	257,515,694	379,592,090
– Carrying amount	255,827,797	376,021,091
Credit-impaired secured margin loans		
– Gross amount	1,128,307,448	1,068,881,332
– Carrying amount	213,456,957	155,598,338
Market value of securities pledged in respect of all margin loans	2,167,585,000	2,188,840,000

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 2023 and 2022, no bank borrowings were secured by charges over client's pledged securities.

During the years ended 31 December 2023 and 2022, 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/accrual at the reporting date:

Corporate finance clients

	2023	2022
	HK\$	HK\$
Less than 31 days	5,613,487	390,636
31 – 60 days	437,668	233,120
61 – 90 days	390,775	–
91 – 180 days	1,172,325	1,559,134
Over 180 days	3,794,866	1,918,127
	<u>11,409,121</u>	<u>4,101,017</u>

Asset management clients

	2023	2022
	HK\$	HK\$
Less than 31 days	1,280,280	1,538,636
31 – 60 days	464,297	1,217,741
61 – 90 days	422,347	1,168,779
91 – 180 days	1,072,112	1,815,548
181 – 365 days	2,076,938	2,199,231
Over 365 days	2,848,995	2,504,048
	8,164,969	10,443,983

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

	2023	2022
	HK\$	HK\$
Accounts payable arising from the business of dealing in securities:		
Clearing house	50,202,501	–
Brokers	12,489,121	8,895,331
Clients	3,216,060,730	2,809,820,292
	3,278,752,352	2,818,715,623
Accounts payable arising from the business of dealing in futures and options contracts:		
Clients	213,802,958	331,791,184
Accounts payable arising from the business of asset management:		
Clients	1,808	–
Accounts payable arising from the business of financial products and investments:		
Brokers	11,014,000	–
Clients	6,686,269	–
	17,700,269	–
	3,510,257,387	3,150,506,807

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\$2,660,046 due to the immediate holding company as at 31 December 2023 (2022: HK\$77,557,769).

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 2022, 31 December 2022 and 31 December 2023	<u>20,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
As at 1 January 2022, 31 December 2022 and 31 December 2023	<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

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Equity securities		
– Listed in Hong Kong	75,318,872	69,167,656
– Listed outside Hong Kong	66,429,215	79,573,379
Debt securities (<i>note a</i>)		
– Listed in Hong Kong	2,256,099,746	1,211,859,039
– Listed outside Hong Kong	863,792,864	303,677,030
– Unlisted	1,361,957,116	1,074,514,177
Funds		
– Unlisted	310,753,781	104,591,207
Derivatives (<i>note b</i>)	567,333	–
	<u>4,934,918,927</u>	<u>2,843,382,488</u>
Analysed as		
Current	4,919,759,113	2,818,655,977
Non-current (<i>note c</i>)	15,159,814	24,726,511
	<u>4,934,918,927</u>	<u>2,843,382,488</u>

Notes:

- (a) 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 2023 and 2022.
- (b) For the year ended 31 December 2023, the Group entered into swap contracts with total notional amounts of RMB25,997,738, of which reference to equity index and fund interest.
- (c) For the years ended 31 December 2023 and 2022, 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

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Debt securities		
– Listed in Hong Kong	239,041,810	215,053,375
– Unlisted	39,179,121	–
Less: impairment allowance	<u>(97,965)</u>	<u>(99,421)</u>
	<u>278,122,966</u>	<u>214,953,954</u>
Analysed as		
Current	–	–
Non-current	<u>278,122,966</u>	<u>214,953,954</u>
	<u>278,122,966</u>	<u>214,953,954</u>

The carrying amounts of the debt investments at amortised cost approximate to their fair values as at 31 December 2023 and 2022.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 <i>HK\$</i>	2022 <i>HK\$</i>
Equity instruments designated at FVTOCI (<i>note</i>)		
– Listed in Hong Kong	1,925,150,134	1,327,673,412
– Listed outside Hong Kong	552,974,766	338,116,526
– Unlisted	102,603,406	70,099,153
Debt securities		
– Listed in Hong Kong	1,382,616,164	328,628,528
– Listed outside Hong Kong	397,477,297	86,577,179
– Unlisted	<u>24,263,535</u>	<u>23,595,276</u>
	<u>4,385,085,302</u>	<u>2,174,690,074</u>
Analysed as		
Current	4,385,085,302	2,174,690,074
Non-current	<u>–</u>	<u>–</u>
	<u>4,385,085,302</u>	<u>2,174,690,074</u>

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

During the year ended 31 December 2023, the Group disposed certain equity instruments designated at FVTOCI in response to the change in market conditions. The fair value of the equity instruments disposed at the date of derecognition was HK\$495,621,886. The cumulative losses on disposal of HK\$13,351,587 was transferred from fair value reserve to accumulated loss.

14. DIVIDENDS

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

	2023	2022
	<i>HK\$</i>	<i>HK\$</i>
2022 Final – HK\$Nil (2022: 2021 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 2023 (2022: did not recommend any payment of final dividend in respect of the year ended 31 December 2022).

15. COMMITMENTS

Investment commitments

In the normal course of business, the Group had no investment commitments contracted as at 31 December 2023 (2022: 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 2023 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 2023, the Group achieved an operating revenue of HK\$543.35 million (2022: HK\$258.00 million), representing a year-on-year increase of 110.60%. For the year ended 31 December 2023, the net profit after tax of the Group amounted to HK\$54.56 million (2022: net loss of HK\$297.40 million). The aforesaid turnaround from loss to profit is mainly due to the growth in revenue from the Group's core business of wealth management, financial products and investments. At the same time, the increasingly enhanced internal management capabilities and prudent risk management has continuously improved the assets quality of the Group and thus effectively reduced the Group's costs.

For the year ended 31 December 2023, 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 29.63%, a decrease of 10.68%, a decrease of 23.76%, an increase of 0.56% and an increase of 7,265.53%, respectively.

ANALYSIS OF PRINCIPAL BUSINESS

I. POLICY REVIEW

In 2023, China's financial markets experienced high level of volatility due to internal and external risk factors. However, with strong supports of policies, the overall operation of financial markets remained stable. The financial reforms and high-level opening up moved forward steadily. China's financial regulatory system entered into a new layout of "one commission, one bank, one administration and one committee", effectively enhancing the effectiveness of financial regulation, accelerating the construction of a modern financial system with Chinese characteristics, and effectively preventing financial risks.

In 2023, the Hong Kong Stock Exchange further promoted the upgrading and optimization of the connectivity mechanism. For example, up to 10 trading days were added throughout the year, over 1,000 underlying stocks were added to Shanghai and Shenzhen Stock Connect, and foreign companies were included in Hong Kong Stock Connect. In addition, the Hong Kong Stock Exchange also launched Swap Connect and HKD-RMB dual counter mode, reinforcing Hong Kong's position as a leading offshore RMB centre, and further enhancing Hong Kong's role as the global offshore RMB hub.

II. HONG KONG CAPITAL MARKET REVIEW

2023 was an extremely challenging year. The Hong Kong financial market was persistently affected by the Federal Reserve's interest rate hikes and geopolitical uncertainties, resulting in significant declines in both the primary and secondary capital markets. In 2023, the total amount of equity capital raised in Hong Kong's primary market was HK\$150.7 billion, representing a sharp year-on-year decrease of 40.70%. Among them, the total amount of equity capital raised in the initial public offering was only HK\$46.3 billion, representing a year-on-year decrease of 55.75%. The average daily trading volume of H shares in the secondary market was HK\$105 billion, representing a year-on-year decrease of 15.93%. The Hong Kong stock market was under pressure, with the Hang Seng Index falling to its lowest level in nearly a decade, closing at 17,047 points at the end of December 2023, representing a decrease of 13.8% as compared to the beginning of the year. The significant decline in IPOs and the contraction of trading volume in the Hong Kong stock market in 2023 once again led to a wave of brokerage firm closures in Hong Kong. According to data from the Hong Kong Stock Exchange, after a record-breaking 49 brokerage firms closed in 2022, the situation did not improve during the year, with a total of 32 brokerage firms ceasing operations.

III. OPERATION REVIEW

1. Solidifying internal control system, promoting high quality business development

Despite market volatility, the Group has always emphasized on the building of compliance and risk control systems. Guided by Industrial Securities “14th Five-Year” plan and the strategic goal of building up a first-class securities and financial holding group, the Group has taken on the responsibility of boosting the internationalization process of Industrial Securities, strictly implemented the vertical penetration risk management requirements and firmly pursued the neutral-prudent risk preference strategy. Following the regulatory requirements, the Group has further improved the comprehensive risk management system, made good efforts in building of risk management systems and strengthened risk control across various business lines to promote high-quality business development.

Meanwhile, the Group strengthened fund management, optimized asset-liability allocation, and continuously enhanced liquidity risk control. In 2023, the Company’s overall liquidity remained good, and the working capital indicators of each of the licensed subsidiaries continued to meet regulatory requirements, with sufficient high-quality current assets.

2. Inclusion in MSCI Hong Kong Small Cap Index for the first time, gaining market recognition for the Industrial Securities brand

The Group’s stock was included in the MSCI Hong Kong Small Cap Index since the end of May 2023, gaining greater market attention and fully demonstrating the capital market’s recognition on the Group’s growth potential and confidence in its future development prospects. By the end of 2023, the Company’s share price had increased by 114% from the beginning of the year, and the market capitalisation increased from HK\$380 million to HK\$812 million.

In 2023, the Group won 14 corporate level awards and 3 individual awards, including the Bloomberg Businessweek’s Financial Institution Award, China Securities Golden Bauhinia Award, China Securities Industry Junding Award, Yinghua Awards (Overseas Funds), and Golden Central Award, showcasing that our products were favored by the market and gained market recognition.

3. First participation in CDP Climate Change 2023 Scoring and achievement of a management-level score of “B-”

In the context of the ongoing industry and regulatory efforts to advance ESG management, the Group also incorporated ESG development and management into its operations and management, corporate culture and routine work.

According to CDP Scoring Introduction 2023, the Group ranked among the top in the fields of strategic guidelines, financial planning and scenario analysis, emission reduction action and low carbon products, risk control measures and value chain engagement, where the Group’s ratings in emission reduction action and low carbon products were higher than the industry average level. The rating results affirmed and encouraged the Company’s efforts in climate change response and environmental management.

IV. BUSINESS REVIEW

Results Review

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 2023, the Group recorded commission and fee income from brokerage services of HK\$111.04 million (2022: HK\$157.80 million), representing a year-on-year decrease of 29.63%. In face of tightening regulation and shrinking Hong Kong stock market, the brokerage business has been affected to some extent. However, the Group has promptly adjusted the business strategies, upgraded and transformed the wealth management business, tapped into the potential of existing clients, and leveraged the favorable conditions brought about by the full resumption of cross-border travel between Mainland China and Hong Kong. These have driven the development of diversified private wealth management businesses such as insurance and product offerings, achieving a breakthrough. By the end of 2023, the Company has launched a wide range of financial products, realising the revenue of HK\$7.03 million from insurance brokerage business, representing a year-on-year growth of over 10 times. During the year, the Company was honored with the “Wealth Management Platform – Outstanding Award” 2023 by Bloomberg Businessweek.

Corporate finance

For the year ended 31 December 2023, the Group recorded revenue from corporate finance business of HK\$40.83 million (2022: HK\$45.71 million), representing a year-on-year decrease of 10.68%. For the year ended 31 December 2023, the Group's commission income from placing, underwriting and sub-underwriting of debt securities amounted to HK\$29.69 million (2022: HK\$33.80 million), representing a year-on-year decrease of 12.16%. According to Bloomberg data, the Group completed 100 bond underwriting transactions, with a total underwriting amount of US\$1,218 million throughout the year, ranking 10th among Chinese securities firms. In particular, the Group secured third place in the market in terms of the underwriting amount for Chinese offshore bonds in Fujian province. Meanwhile, the Group facilitated the issuance of 16 offshore green bond projects, with a total underwriting amount of approximately HK\$584 million. The Group's bond underwriting business maintained a leading position in the industry in terms of scale and ranking. During the year, the Group was honored with the "Offshore Investment Banking Award" at the China Securities Industry Junding Awards and the "Bonds Award" by Bloomberg Businessweek.

Asset management

For the year ended 31 December 2023, the Group recorded revenue from asset management business of HK\$15.02 million (2022: HK\$19.70 million), representing a year-on-year decrease of 23.76%. As of the end of 2023, the Group had 30 asset management products and the scale of assets under management was HK\$6,200 million. Among them, CISI Stable Growth Bond Fund SP, the flagship fixed income product, has maintained steady returns, with a yield of 25.2% since its inception. During the year, it has been honored with "Three-year Credit Hedge" award at the Yinghua Awards (Overseas Funds) 2023.

Margin financing

In 2023, the Group continued to optimise the customer structure and reduced the financing scale of low-quality secured margin loan, which significantly optimized its asset quality. For the year ended 31 December 2023, the Group recorded revenue from margin financing business of HK\$30.27 million (2022: HK\$30.10 million), representing a year-on-year increase of 0.56%.

Financial products and investments

As the financial market fluctuated in 2023, the Group always adhered to the principle of sound and prudent investment, strictly selected the investment pools and strictly complied with the Group's various risk limits. During the year, the Group has expanded its equity investments and seized market opportunities to enlarge the bond investment scale. In 2023, the Group's fixed-income investment return significantly outperformed the benchmark index return (Bloomberg Barclays China US Dollar Bond Index). For the year ended 31 December 2023, the Group's revenue from financial products and investments amounted to HK\$346.18 million (2022: HK\$4.70 million), representing a year-on-year increase of 7,265.53%.

FINANCIAL POSITION

As at 31 December 2023, the total assets of the Group increased by 32.71% to HK\$16,552.02 million (31 December 2022: HK\$12,472.18 million). As at 31 December 2023, the total liabilities of the Group increased by 46.60% to HK\$12,428.08 million (31 December 2022: HK\$8,477.30 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURES

As at 31 December 2023, the net current assets of the Group decreased by 19.81% to HK\$4,435.54 million (31 December 2022: HK\$5,531.35 million). As at 31 December 2023, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year) decreased to 1.4 times (31 December 2022: 1.9 times).

For the year ended 31 December 2023, the net cash outflow of the Group amounted to HK\$811.80 million (31 December 2022: outflow of HK\$2,755.01 million). As at 31 December 2023, the bank balance of the Group amounted to HK\$1,892.15 million (31 December 2022: HK\$2,703.95 million).

As at 31 December 2023, the total bank borrowings of the Group increased by 118.26% to HK\$2,184.58 million (31 December 2022: HK\$1,000.91 million).

As at 31 December 2023, the Group had outstanding bonds of HK\$2,087.23 million (31 December 2022: HK\$2,079.99 million) and outstanding notes of HK\$168.28 million (31 December 2022: nil). As at 31 December 2023, the gearing ratio of the Group (defined as the sum of repurchase agreements, bank borrowings, outstanding bonds and outstanding notes divided by total equity) increased by approximately 83.9% to 210.0% (31 December 2022: 126.1%).

As at 31 December 2023, the total equity attributable to holders of ordinary shares amounted to HK\$3,123.94 million (31 December 2022: HK\$2,994.88 million).

FUTURE PLAN

The Group will continue to deepen synergy reform, and form a dual circulation pattern of internal and external development. On one side, the Group will strengthen the collaboration among various business lines within the Group, make the layout in advance, and open up the situation to promote flexible development; on the other hand, the Group will increase synergy with the parent company, continue to implement the “two-wheel linkage” and “greater synergy” strategies, build an international professional platform of cross-border linkage, and form a new dual circulation pattern with a virtuous cycle of internal and external development.

The Group will continue to strengthen its development in professionalism, and improve corporate profitability. First, the Group will continue to deepen wealth management business transformation, improve wealth management business structure, continuously optimise customer and income structure, solidify wealth management base; asset management business shall enrich product layout, on the basis of enlarging and enforcing current flagship products, extend current product width, and further improve active management scale. Second, the Group will make full play to research efforts, and drive the market competitiveness of institutional sales and tradings business to a new level. We will continue to ensure overseas research capability remains an industry leading position, further enlarge the name card effect of our overseas research, and fully support the development of other business segments, in particular, institutional sales and tradings, investment banking, self owned fund investment business etc. Third, in terms of investment banking business, our debt financing business line will strive to maintain a growth momentum. We will focus on participating in the issuance of high-quality projects to further improve the Group’s underwriting ranking; focus on key industrial in terms of equity financing business, grasp new opportunities for reform, and continue to monitor new policy reform and existing customers conversion. Fourth, the Group will continue to uphold the prudent investment strategy, maintain risk-return balance, improve asset application capability and benefit, deepen business innovation, and promote cross-boundary derivative business development.

The Group will continue to improve the internal control system, adhere to the neutral-prudent risk preference, stick to the bottom line of compliance and risk control, ensure business high quality sustainable development; optimise the allocation of human, financial and material resources, strive to reduce the operating costs; continue to enhance the construction of information systems, reinforce technology-empowered business development and internal control, and comprehensively improve the Company's operation and management capabilities.

Looking forward, we will continue to be united and dedicated to strive for the sound and sustainable development of the Company, and strive to bring considerable returns to all shareholders.

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

As at 31 December 2023, the Group had no significant investments, material acquisition or disposal of subsidiaries or affiliated companies.

PLEDGE OF ASSETS BY THE GROUP

For the year ended 31 December 2023, the Group's assets pledged were mainly debt securities pledged as collaterals for repurchase agreements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2023, the Group has employed 230 full-time employees (31 December 2022: 193 full-time employees), including the Directors. Total remuneration for the year ended 31 December 2023 amounted to HK\$196.92 million (2022: HK\$160.10 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.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities for the year ended 31 December 2023 and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

(a) Issuance of corporate bonds after the reporting period

On 2 February 2024, the Company issued US\$300,000,000 corporate bonds with floating interest rate of secured overnight financing rate + 0.9% per annum with a three year maturity which is guaranteed by the Company's controlling shareholder, Industrial Securities Co., Ltd.

(b) Redemption of corporate bonds after the reporting period

On 9 February 2024, the Company redeemed the 3-year fixed rate corporate bonds issued in 2021 with a remaining principal amount of US\$265,000,000 upon maturity.

Save as disclosed above, 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, departments and subsidiaries. The Board shall undertake the ultimate responsibility for comprehensive risk management, be responsible for the supervision and guidance of the risk management of the Company, approve the risk preference of the Company, and control the overall risk of the Company within a reasonable range to ensure that the Company can effectively manage the risk control in business activities. The management shall lead and manage various risks in the course of business of the Company and promote the planning, construction and implementation of the comprehensive risk management system of the Company. The risk management committee under the management shall carry out the risk management work of the Company with the authorization of the management, be responsible for guiding, supervising and coordinating the implementation of the work related to risk management of the Company, provide advices on the improvement and updating of the organizational system, and promote the comprehensive risk management construction of the Company. Under the leadership of the compliance and risk control director, 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 all departments and subsidiaries, 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 preference, 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 preference 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 Company to ensure that various risks 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 sound business development of the Group in the long run and the achievement of strategic objectives.

Credit risk

The Group’s exposure to credit risk refers to the risk of losses to the Group arising from non-performance by the debtors or counterparties. 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. We will regularly conduct stress tests, take appropriate measures to compensate for or minimize losses in the event that customers may not fulfill their obligations, properly resolve risks, and effectively carry out post-investment management. We will also regularly measure the impairment of our financial assets and make provision for expected credit losses in a timely manner, in accordance with the latest standards on financial instruments and using reasonable and evidence-based forward-looking information based on our existing business.

Liquidity risk

The Group's exposure to liquidity risk 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 well and that the Group satisfies the capital requirements stipulated by applicable laws.

Market risk

The Group's exposure to market risk refers to the risk of potential losses incurred to the Group arising from 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 professionals with appropriate qualifications and industry experience to discuss and evaluate the relevant market risks, and develop 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 different selection criteria for 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 Group's exposure to operational risk 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 Company 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 Company's business 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 legal and compliance 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 legal and compliance 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 close cooperation with full-time legal personnel and external legal advisers or law firms, the Group can prevent and address various legal risks in a timely manner.

Reputation risk

The Group's exposure to reputation risk 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 sentiment, and has not experienced major reputation risk events.

FINAL DIVIDEND

The Board did not recommend any payment of a final dividend for the year ended 31 December 2023.

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 Tuesday, 7 May 2024 to Friday, 10 May 2024, 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 Monday, 6 May 2024.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 2023.

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 2023.

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 C3 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 2023.

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 C1 to the Listing Rules during the year ended 31 December 2023, except for the following deviation:

Code provision of C.1.6 of the Corporate Governance Code stipulates that independent non-executive directors and other non-executive directors should, inter alia, attend general meetings. Due to other business engagement, Mr. Qin Shuo, the independent non-executive Director did not attend the extraordinary general meeting of the Company held on 24 October 2023. The other independent non-executive Directors and non-executive 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.

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. Xiong Bo, 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 2023 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

Xiong Bo

Chairman

Hong Kong, 25 March 2024

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