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# 中金投集团

China Financial Services Holdings Ltd

## China Financial Services Holdings Limited

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 605)

### ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

#### FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Percentage change %
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	
Interest and services income	<b>304,593</b>	713,939	(57.3)
Loss for the year attributable to owners of the Company	<b>(250,065)</b>	(1,216,632)	(79.4)
	<i>HK\$</i>	<i>HK\$</i> (Adjusted)	
Basic loss per share	<b>(1.24)</b>	(5.94)	(79.1)

The board of directors (the “Board”) of China Financial Services Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021, together with the comparative audited consolidated figures for the previous year as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	<i>Notes</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Interest, guarantee and financing consultancy services income</b>	4	<b>304,593</b>	713,939
Interest and handling expenses	4	<u>(207,377)</u>	<u>(324,384)</u>
<b>Net interest income and service income</b>	4	<b>97,216</b>	389,555
Education consultancy service income	4	<b>4,650</b>	4,448
Other income and other gains and losses	5	<b>4,280</b>	38,691
Impairment losses on financial instruments	6	<b>(7,915)</b>	(1,269,496)
Impairment loss on goodwill		<b>(128,389)</b>	(127,820)
General and administrative expenses		<b>(182,929)</b>	(276,775)
Share of results of associates		<b>106</b>	(1,270)
Share of results of joint ventures		<u>(355)</u>	<u>(429)</u>
<b>Loss before taxation</b>	7	<b>(213,336)</b>	(1,243,096)
Income tax	8	<u>(32,794)</u>	<u>(114,272)</u>
<b>Loss for the year</b>		<b><u>(246,130)</u></b>	<b><u>(1,357,368)</u></b>
<b>Attributable to:</b>			
Owners of the Company		<b>(250,065)</b>	(1,216,632)
Non-controlling interests		<u>3,935</u>	<u>(140,736)</u>
<b>Loss for the year</b>		<b><u>(246,130)</u></b>	<b><u>(1,357,368)</u></b>
<b>Loss per share</b>		<b><i>HK\$</i></b>	<b><i>HK\$</i></b>
			(Adjusted)
– Basic and diluted	10	<b><u>(1.23)</u></b>	<b><u>(5.94)</u></b>

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

*For the year ended 31 December 2021*

	<b>2021</b>	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the year</b>	<u>(246,130)</u>	<u>(1,357,368)</u>
<b>Other comprehensive income for the year, net of income tax</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	33,094	94,431
Reclassification of cumulative translation reserve upon disposal of a foreign operation	(434)	–
Financial assets at fair value through other comprehensive income (“FVTOCI”):		
Fair value loss on debt securities at FVTOCI	–	(321)
Reclassification of fair value reserve upon disposal	–	2,816
	<u>–</u>	<u>2,495</u>
<b>Other comprehensive income for the year, net of income tax</b>	<u>32,660</u>	<u>96,926</u>
<b>Total comprehensive expense for the year</b>	<u><u>(213,470)</u></u>	<u><u>(1,260,442)</u></u>
<b>Attributable to:</b>		
Owners of the Company	(219,892)	(1,119,754)
Non-controlling interests	<u>6,422</u>	<u>(140,688)</u>
<b>Total comprehensive expense for the year</b>	<u><u>(213,470)</u></u>	<u><u>(1,260,442)</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2021*

		31 December	
		2021	2020
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		22,498	33,575
Investment property		1,250	–
Goodwill		384,504	500,726
Intangible assets		14,103	34,547
Interests in associates		19,535	19,369
Interests in joint ventures		–	355
Other financial assets		29,074	23,134
Loan receivables	11	322,096	467,906
Deposits		35,000	35,000
Deferred tax assets		6,874	8,522
		<b>834,934</b>	1,123,134
<b>Current assets</b>			
Contingent consideration receivables		7,115	10,216
Loan receivables	11	1,816,339	2,134,916
Account receivables	12	187	520
Interest receivables	13	8,273	24,356
Other receivables, deposits and prepayments		62,101	94,310
Amounts due from associates		67,137	54,455
Amounts due from joint ventures		923	630
Tax recoverables		–	81
Pledged bank and security deposits		–	10,205
Cash and cash equivalents		571,668	595,495
		<b>2,533,743</b>	2,925,184

		<b>31 December</b>	
		<b>2021</b>	2020
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Current liabilities</b>			
Borrowings and loan payables	<i>14</i>	<b>1,391,451</b>	1,619,401
Bank loans		–	32,000
Security deposits received		<b>3,075</b>	9,588
Consideration payables		<b>97,429</b>	98,346
Other payables, accruals and deposit received		<b>109,304</b>	81,741
Liabilities arising from loan guarantee contracts		<b>121,942</b>	118,459
Amount due to an associate		<b>3,143</b>	3,059
Unsecured bonds		<b>219,489</b>	52,329
Income received in advance		<b>416</b>	2,925
Lease liabilities		<b>9,555</b>	14,327
Tax payables		<b>182,597</b>	189,781
		<b>2,138,401</b>	2,221,956
<b>Net current assets</b>		<b>395,342</b>	703,228
<b>Total assets less current liabilities</b>		<b>1,230,276</b>	1,826,362
<b>Non-current liabilities</b>			
Borrowings and loan payables	<i>14</i>	<b>138,520</b>	206,550
Consideration payables		–	96,512
Unsecured bonds		<b>34,577</b>	246,892
Lease liabilities		<b>5,720</b>	9,751
Deferred tax liabilities		<b>38,990</b>	37,465
		<b>217,807</b>	597,170
<b>NET ASSETS</b>		<b>1,012,469</b>	1,229,192

	<b>31 December</b>	
	<b>2021</b>	2020
	<i><b>HK\$'000</b></i>	<i>HK\$'000</i>
<b>EQUITY</b>		
Share capital	<b>2,080,113</b>	2,080,113
Reserves	<b>(1,156,296)</b>	(936,404)
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>	<b>923,817</b>	1,143,709
Non-controlling interests	<b>88,652</b>	85,483
<b>TOTAL EQUITY</b>	<b><u>1,012,469</u></b>	<b><u>1,229,192</u></b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2021*

## 1. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and investment property that are measured at fair values at the end of each reporting period.

## 2. APPLICATION OF AMENDMENTS TO HKFRSs

### **Amendments to HKFRSs that are mandatorily effective for the year**

The Group has applied the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### **3. SIGNIFICANT INCIDENTS DURING THE YEAR**

#### **3.1 Fraudulent activities of certain directors**

Pursuant to the announcements of the Company dated 19 October 2020 and 9 March 2022, the Board was notified that Mr. Luo Rui, the former chief executive officer and former executive director of the Company and Madam Guan Xue Ling, the former executive director of the Company (collectively, the “Relevant Directors”) had, without authorisation of the Board, executed certain guarantee contracts purportedly for and on behalf of the Company to guarantee payment obligations under certain financial products issued by certain subsidiaries of the Company and certain other companies outside the Group (the “Unauthorised Guarantees”), where the proceeds arise from such financial products (the “Unauthorised Loans”) were lent, either directly or through the personal bank accounts of certain employees of the Group, to independent third parties of the Company for earning interest income (“Unauthorised Loan Receivables”). All of the Unauthorised Guarantees, Unauthorised Loans, and Unauthorised Loan Receivables including the interest income, interest expenses and related handing charges have not been fully recorded in the books and records of those relevant subsidiaries accordingly under the instructions of the Relevant Directors. These fraudulent activities of the Relevant Directors are referred as the “Incidents”.

The Company had terminated (i) the appointment of Mr. Luo Rui as chief executive officer and executive director of the Company and Madam Guan Xue Ling as executive director of the Company and (ii) the director’s service agreements made between the Company and each of the Relevant Directors with immediate effect pursuant to the terms of the director’s service agreements on 16 October 2020. In respect of the Relevant Directors’ acts which were carried out without authorisation of the Board, the Board has reported to the Hong Kong police and the relevant authorities in the People Republic of China (the “PRC”).

An investigation committee (“Investigation Committee”) comprising Dr. Cheung Chai Hong, executive director of the Company, Mr. Chan Yuk Ming (“Mr. Chan”) and Mr. Fang Feiyue (“Mr. Fang”), non-executive directors of the Company, was established by the Board on 18 October 2020 to investigate the details of the Incidents. The members of the Investigation Committee had subsequently changed to all independent non-executive directors of the Company, namely, Mr. Chan Chun Keung, Mr. Lee Ka Wai, Dr. Zhang Xiao Jun and Madam Zhan Lili on 28 September 2021.

The Company had engaged an independent forensic consultant (the “Independent Consultant”) to investigate the Incidents (“First Investigation”). A summary of findings of the First Investigation from the Independent Consultant was disclosed in the Company’s announcement on 26 March 2021.

The Company had also engaged an independent internal control reviewer (“Internal Control Reviewer”) in July 2021 to conduct a review of the Group’s internal controls systems and procedures. The summary of the internal control review findings with implementation status of enhancement of the Board from the Internal Control Reviewer was disclosed in the Company’s announcement on 9 March 2022.

The Company had further instructed the Independent Consultant to (i) prepare a supplemental report to identify any other material financial assistance other than the Incidents that was provided by the Group without proper authorisation from January 2015 to October 2020 (the “Supplemental Investigation”) and (ii) provide any additional findings related to the Incidents which were not covered in the First Investigation in July 2021. A summary of findings of the Supplemental Investigation from the Independent Consultant was disclosed in the Company’s announcement on 9 March 2022.

Upon the completion of the First and Supplemental Investigation by the Independent Consultant and internal control review by the Internal Control Reviewer in March 2022, the Board concluded that the Incidents took place from 2017 to 2020 (referred as the “Incidents Period”) and the Unauthorised Guarantees, Unauthorised Loans and Unauthorised Loan Receivables, including interest income, interest expenses and related handling charges derived from the Incidents during the Incidents Period were not recorded properly in the consolidated financial statements of the Company in accordance to HKFRSs or disclosed in compliance with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules for the years ended 31 December 2017 to 2019 accordingly.

Subsequent to the year ended 31 December 2021, the Board had engaged the Independent Consultant and Internal Control Reviewer to perform further investigation (“Further Investigation”) and further internal control review update (“Further IC Review”) over the Incidents in October 2022 to fulfill the requirements under the Resumption Guidance set out by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 June 2021.

References should be made to the announcements of the Company dated 19 October 2020, 26, 29 and 31 March 2021, 28 April 2021, 8 and 28 June 2021, 2 July 2021, 28 September 2021, 6 and 12 January 2022, and 9, 23 and 31 March 2022, 30 June 2022, 6 September 2022 and 11 November 2022 regarding to the details of the Incidents and the summary of findings from the Independent Consultant and Internal Control Reviewer.

### 3.2 Financial impact related to the Incidents

The Board had engaged two local Certified Public Accounting firms in the PRC to assist the management of the Company to quantify the financial impact of the Incidents over the Incidents Period. With reference to the findings from the Independent Consultant, the aggregated financial impact is detailed as follow:

- (a) The aggregate contract sum of the Unauthorised Loan Receivables that should be recorded as loan receivables in the Group's consolidated financial statements amounts to Renminbi ("RMB") RMB3,778,400,000 (equivalent to approximately HK\$4,489,330,000).
- (b) The aggregate contract sum of the Unauthorised Loans that should be recorded as loan payables in the Group's consolidated financial statements amounts to RMB4,127,532,000 (equivalent to approximately HK\$4,904,154,000).
- (c) The total guaranteed amount of the Unauthorised Guarantee that should be recorded and disclosed as liabilities arising from loan guarantee contracts in the Group's consolidated financial statements amounts to RMB99,700,000 (equivalent to approximately HK\$118,459,000).
- (d) Total interest income derived from the Unauthorised Loan Receivables during the Incidents Period which should be recorded in profit and loss amounts to RMB556,608,925 (equivalent to approximately HK\$638,106,000).
- (e) Total interest expenses derived from the Unauthorised Loans during the Incidents Period that should be recognised in profit and loss amount to RMB621,821,869 (equivalent to approximately HK\$718,981,000) and included in these total interest expenses, an amount of RMB173,719,226 (equivalent to approximately HK\$199,377,000) has been wrongly recorded as loan receivables during the Incidents Period which should be reclassified to profit and loss.
- (f) Total handling expenses derived from the Unauthorised Loans during the Incidents Period which should be recorded in profit and loss amount to RMB95,143,318 (equivalent to approximately HK\$109,733,000). Administrative expenses of RMB99,106,861 (equivalent to approximately HK\$114,462,000) in total derived from the Incidents during the Incidents Period has been wrongly recorded as loan receivables which should be reclassified to general and administrative expenses in profit and loss and borrowings and loan payables based on effective interest method.
- (g) The Board had made provision on doubtful debts/expected credit loss ("ECL") on those debtors related to Unauthorised Loan Receivables and interest receivables back to respective financial years based on the actual repayment pattern and financial conditions of those debtors. The total amounts of provision of doubtful debts/ECL made on those Unauthorised Loan Receivables and related interest receivables amount to RMB1,541,964,886 (equivalent to approximately HK\$1,755,438,000) and RMB161,586,216 (equivalent to approximately HK\$182,853,000) respectively.

- (h) Total net tax expenses derived from the Incidents during the Incidents Period amount to RMB139,152,231 (equivalent to approximately HK\$159,526,000) which should be recognised in profit or loss.

Impact related to the Incidents on assets and liabilities are translated into the presentation currency of the Group (i.e. from RMB to HK\$) using closing rate as at 31 December 2020; while impact related to the Incidents on income and expenses items are translated at average exchange rates for respective period.

### 3.3 Financial Impact of the Incidents to the Year

The below is the financial impact related to the Incidents for the year:

#### Consolidated statement of financial position (extracted):

As at 31 December 2021

	Balance before the Incidents <i>HK\$'000</i>	Adjustments						Adjusted balance <i>HK\$'000</i>
		(i) <i>HK\$'000</i>	(ii) <i>HK\$'000</i>	(iii) <i>HK\$'000</i>	(iv) <i>HK\$'000</i>	(v) <i>HK\$'000</i>	(vi) <i>HK\$'000</i>	
<b>Current assets</b>								
Loan receivables	4,035,929	(2,215,710)	-	-	(3,880)	-	-	1,816,339
Other receivables, deposits and prepayments	221,215	(159,114)	-	-	-	-	-	62,101
	<u>4,035,929</u>	<u>(2,215,710)</u>	<u>-</u>	<u>-</u>	<u>(3,880)</u>	<u>-</u>	<u>-</u>	<u>1,816,339</u>
<b>Current liabilities</b>								
Borrowings and loan payables	1,369,209	-	22,242	-	-	-	-	1,391,451
Liabilities arising from loan guarantee contracts	-	-	-	121,942	-	-	-	121,942
Tax payables	12,400	-	-	-	-	170,197	-	182,597
	<u>1,369,209</u>	<u>-</u>	<u>22,242</u>	<u>121,942</u>	<u>-</u>	<u>170,197</u>	<u>-</u>	<u>1,391,451</u>
<b>Equity</b>								
Exchange reserve	(50,699)	-	-	-	-	-	(176,904)	(227,603)
	<u>(50,699)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,904)</u>	<u>(227,603)</u>

#### Consolidated statement of profit or loss (extracted):

For the year ended 31 December 2021

	Balance before the Incidents <i>HK\$'000</i>	Adjustments		Adjusted Balance <i>HK\$'000</i>
		(ii) <i>HK\$'000</i>	(iv) <i>HK\$'000</i>	
Interest and handling expenses	(61,997)	(145,380)	-	(207,377)
Impairment loss on financial instruments	(4,093)	-	(3,822)	(7,915)
	<u>(61,997)</u>	<u>(145,380)</u>	<u>(3,822)</u>	<u>(207,377)</u>
	<u>(4,093)</u>	<u>-</u>	<u>(3,822)</u>	<u>(7,915)</u>

*Notes:*

- (i) Being adjustment on the omission of the Unauthorised Loan Receivables and related interest receivables (see Note 3.2(a)) and interest income (See Note 3.2(d)) during the Incidents Period that resulted in an understatement of loan receivables and interest receivables during the year.
- (ii) Being adjustment on the omission of the Unauthorised Loans and related interest payables (see Note 3.2(b)) and interest expenses during the Incidents Period (see Note 3.2(e)) that resulted in an understatement of loan payables and interest payables and interest expenses and handing expenses (see Note 3.2(f)) during the year.
- (iii) Being adjustment on the recognition on loss on financial guarantee contracts for the year (see Note 3.2(c)).
- (iv) Being adjustment on the recognition on impairment loss on loan receivables and interest receivables related to Unauthorised Loan Receivables and interest receivables (see Note 3.2(g)).
- (v) Being adjustment on the recognition of income tax expenses derived from the Incidents (see Note 3.2(h)).
- (vi) Being adjustment on the foreign currency exchange arise due to the conversion of RMB to HK\$ using the closing or average rate in the respective financial years.

### **3.4 Other significant Incidents during the year**

Pursuant to the announcement dated 31 March 2021 and 28 April 2021, the Board informed the shareholders of the Company that the publication of the result announcement in respect to the financial results for the year ended 31 December 2020 will be delayed as the Company was unable to finalise the consolidated financial statements for the year ended 31 December 2020 including the financial impact of the Incidents and additional time was required for the auditor of the Company at that time to complete the required audit work. The trading of the Company's shares on the Main Board of the Stock Exchange has been halted since 29 March 2021 pending the Company to fulfill the Resumption Guidance set out by the Stock Exchange on 28 June 2021.

### **3.5 Outbreak of COVID-19 pandemic**

The COVID-19 pandemic started since December 2019 and with the prolonged effect, has brought additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

In preparing these consolidated financial statements, the Group has continued to take into account the increased risks caused by COVID-19 on impairment of the Group's financial and non-financial assets when assessing assets impairment.

Management has been closely monitoring the development of the COVID-19 outbreak and considered that, save as disclosed elsewhere in the consolidated financial statements and except for the Incidents noted in Note 3.1, there are no other matters that would result in a significant adverse impact on the Group's results and financial position as at the reporting date as result of the COVID-19. The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures accordingly.

#### 4. REVENUE AND SEGMENT REPORTING

##### a) Revenue

The amount of each significant category of revenue during the year is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Interest, guarantee and financing consultancy services income from:</b>		
Pawn loans, loan receivables from micro-lending and money-lending	242,462	379,611
Loan receivables from the Incidents ( <i>Note 3</i> )	–	205,922
Other loan receivables	<u>62,131</u>	<u>128,406</u>
	<u>304,593</u>	<u>713,939</u>
<b>Interest and handling expenses from:</b>		
Bank loans	(1,305)	(8,258)
Borrowings and loan payables	(32,954)	(78,461)
Loan payables from the Incidents ( <i>Note 3</i> )	(145,308)	(206,494)
Unsecured bonds	(24,371)	(25,586)
Lease liabilities	(869)	(1,193)
Other finance costs	<u>(2,570)</u>	<u>(4,392)</u>
	<u>(207,377)</u>	<u>(324,384)</u>
<b>Net interest income and service income</b>	<u><u>97,216</u></u>	<u><u>389,555</u></u>
<b>Income recognised over time under HKFRS 15:</b>		
Education consultancy service	<u><u>4,650</u></u>	<u><u>4,448</u></u>

For the year ended 31 December 2021, the total amount of interest income on financial assets that is not at fair value through profit or loss (“FVTPL”), including bank interest income and other interest income from debt securities (note 5(a)), was HK\$308,504,000 respectively (2020: HK\$720,788,000).

b) **Segmental Information**

*Operating segment information*

The directors of the Company have determined that the Group has only one reportable segment as the Group is principally engaged in providing financing service which is the basis to allocate resources and assess performance of the Group for both years.

There was no customer who individually contributed over 10% of the Group's revenue for the year (2020: nil).

5. **OTHER INCOME AND OTHER GAINS AND LOSSES**

a) **Other Income**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	3,911	6,849
Dividend income from financial assets at FVTPL	20,060	112
Income from government subsidies	7,511	15,923
Other consultancy services income	282	15,528
Others	4,514	5,185
	<u>36,278</u>	<u>43,597</u>

b) **Other Gains and Losses**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gain on deregistration of subsidiaries	434	–
Loss on disposal of financial assets at FVTOCI	–	(2,816)
Loss from changes in fair value of financial assets at FVTPL, net	(8,977)	(4,905)
(Loss)/gain from changes in fair value of contingent consideration receivables	(3,101)	4,724
Impairment loss on intangible assets	(20,444)	(3,360)
Loss on disposal of property, plant and equipment	(69)	(335)
Exchange gain, net	159	1,786
	<u>(31,998)</u>	<u>(4,906)</u>
Total	<u><u>4,280</u></u>	<u><u>38,691</u></u>

## 6. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Impairment loss on loan and interest receivables from Incidents (Note 3)	3,822	981,580
Impairment loss on loan and other receivables	<u>4,093</u>	<u>287,916</u>
	<u><u>7,915</u></u>	<u><u>1,269,496</u></u>

## 7. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>(a) Staff costs (including directors' emoluments):</b>		
Salaries, allowances and other benefits	78,625	105,004
Contributions to defined contribution retirement plans	<u>6,378</u>	<u>5,160</u>
	<u><u>85,003</u></u>	<u><u>110,164</u></u>
<b>(b) Other items:</b>		
Auditor's remuneration		
– audit service	2,380	4,070
– non-audit service	<u>25</u>	<u>615</u>
	<u><u>2,405</u></u>	<u><u>4,685</u></u>

## 8. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Current tax – Hong Kong Profits Tax</b>		
Under-provision in respect of prior years	60	–
<b>Current tax – PRC Enterprise Income Tax</b>		
Provision for the year	33,724	128,535
Over-provision in respect of prior years	(3,404)	(53,624)
<b>Withholding tax on dividends</b>		
Provision for the year	–	13,822
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>2,414</u>	<u>25,539</u>
	<u><b>32,794</b></u>	<u><b>114,272</b></u>

## 9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of each reporting period.

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$250,065,000 (2020: HK\$1,216,632,000) and the weighted average number of ordinary shares in issue less shares held under the Company's share award scheme during the year of 202,323,367 (2020 (adjusted): 204,940,408).

Pursuant to an ordinary resolution passed by shareholders at the special general meeting held on 7 January 2021, every twenty issued existing shares be consolidated into one consolidated share and to round down the number of consolidated shares in the issued share capital of the Company to the nearest whole number by disregarding each and every fractional consolidated share which would otherwise arise therefrom (the "Share Consolidation").

Comparative figures of the weighted average number of shares for calculating basic and diluted loss per shares have been adjusted retrospectively on the assumption that the Share Consolidation have been effective in prior year.

Diluted loss per share is not presented as the Company does not have any dilutive potential ordinary share for both years.

## 11. LOAN RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Pawn loan receivables	171,876	236,115
Loan receivables arising from:		
– Micro-lending	1,365,704	1,276,216
– Money-lending	328,267	532,088
Loan receivables from the Incidents	1,074,667	1,323,725
Other loan receivables	<u>337,727</u>	<u>651,201</u>
	3,278,241	4,019,345
<i>Less: Impairment</i>	<u>(1,139,806)</u>	<u>(1,416,523)</u>
	<u><b>2,138,435</b></u>	<u><b>2,602,822</b></u>
Amounts due within one year	1,816,339	2,134,916
Amounts due after one year	<u>322,096</u>	<u>467,906</u>
	<u><b>2,138,435</b></u>	<u><b>2,602,822</b></u>

## 12. ACCOUNT RECEIVABLES

As at the end of the reporting period, the ageing analysis of account receivables, based on the revenue recognition date, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	187	202
3 to 6 months	–	73
Over 6 months	–	245
	<u>187</u>	<u>245</u>
	<b><u>187</u></b>	<b><u>520</u></b>

## 13. INTEREST RECEIVABLES

As at the end of the reporting period, the ageing analysis of interest receivables, based on the revenue recognition date, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	4,622	6,411
1 to 3 months	945	2,815
3 to 6 months	590	3,540
Over 6 months	2,116	11,590
	<u>2,116</u>	<u>11,590</u>
	<b><u>8,273</u></b>	<b><u>24,356</u></b>

#### 14. BORROWINGS AND LOAN PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Borrowings from employees and independent third parties	56,854	80,541
Borrowings from a shareholder	3,510	4,051
Borrowings from related parties	31,392	22,279
Loan payables arising from the Incidents	1,229,990	1,464,876
Note payables	208,225	246,582
Payable to interest holders of consolidated structured entity – investment fund	–	7,622
	<u>1,529,971</u>	<u>1,825,951</u>
Amounts due within one year	1,391,451	1,619,401
Amounts due after one year	<u>138,520</u>	<u>206,550</u>
	<u>1,529,971</u>	<u>1,825,951</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INDUSTRY REVIEW**

The global economy has been significantly impacted by COVID-19 since 2020. However, economic activities have begun to rebound in 2021 – China’s GDP showed a strong rebound of 8.1% year-on-year growth, exceeding the government’s target of 6% growth despite uncertain global economic environment and recurring COVID-19 cases. Towards the second half of 2021, uncertainties in the property sector sparked by financial difficulties of leading Chinese developers have impacted both real estate prices and transaction volumes.

The Group’s principal business is loan services, with mortgages as the main revenue stream. Uncertainty in the property sector has brought challenges to the Group’s business.

### **BUSINESS REVIEW**

The Group adopted a conservative approach in 2021 in all of the regions it was operating in. For Mainland Chinese cities, uncertainties in real estate market have led the Group to tighten risk management; meanwhile in Hong Kong, property prices were relatively stable in 2021 so our mortgage business was stable as well.

In 2021, the Group realized interest and services income of HK\$304,593,000, down by 57.3% compared to the figure of last year.

### **FUTURE PROSPECTS**

On 29 March 2021, shares of the Company have suspended trading pending release of the Company’s annual results for the year 2020 and 2021. The Company has been working on fulfilling the Resumption Guidance set out by the Stock Exchange on 25 June 2021. Throughout 2021, the Company had been working tirelessly on multiple fronts in attempt to fulfil the Resumption Guidance, and has been updating our shareholders and the public via separate public announcements and quarterly business updates.

As business in Beijing region was impacted by the Incidents, the Group is actively trying to diversify its business geographically by growing its operations in Chengdu, Hong Kong and Shenzhen. During the year, the Group has also implemented certain internal control policies to enhance risk management system. From the year 2021 onwards, the Group will continue to improve our business with a sound internal control and risk management system.

## **FINANCIAL REVIEW**

### **Interest, guarantee and financing consultancy services income**

Interest income and services income for pawn loans, micro-lending, money lending and other loan receivables amounted to approximately HK\$304,593,000. Decrease in revenue was mainly due to (i) the Group has tightened risk management and took a conservative approach on granting new loans, (ii) cash received from repayment of clients was used to repay borrowings and bank loans, rather than generating new loans.

### **Interest and handling expenses**

Interest and handling expenses represent finance costs for the Reporting Period. The amount was approximately HK\$207,377,000, representing a decrease of 36.1% compared to the corresponding figure in 2020.

Finance costs for normal business and provision of interest expenses and handling expenses due to the Incidents were approximately HK\$62,069,000 and HK\$145,308,000 respectively.

### **General and administrative expenses**

General and administrative expenses for the Reporting Period were approximately HK\$182,929,000, down 33.9% as compared to last year. The decrease in general and administrative expenses was mainly due to decrease in general office expenses, staff costs and consultancy fee.

### **Loss for the year**

Loss for the year attributable to owners of the Company was approximately HK\$250,065,000, representing a decrease of 79.4% as compared to loss of approximately HK\$1,216,632,000 for the corresponding period last year. Loss due to the impact of the Incidents amounted to approximately HK\$149,130,000. Had the impact of the Incidents and the non-recurring impairment loss on goodwill been excluded, the Group would have achieved a profit figure of approximately HK\$27 million.

## **Financial Resources and Capital Structure**

The major non-current assets of the Group were mainly comprised of property, plant and equipment of approximately HK\$22,498,000, loan receivables of approximately HK\$322,096,000, goodwill of approximately HK\$384,504,000, intangible assets of approximately HK\$14,103,000, deposits of approximately HK\$35,000,000, other financial assets of approximately HK\$29,074,000, deferred tax assets of approximately HK\$6,874,000 and interests in associates of approximately HK\$19,535,000.

Current assets mainly comprised of loan receivables of approximately HK\$1,816,339,000, account receivables of approximately HK\$187,000, interests receivables of approximately HK\$8,273,000, other receivables, deposits and prepayments of approximately HK\$62,101,000, amounts due from associates of approximately HK\$67,137,000 and cash and cash equivalents of approximately HK\$571,668,000.

Current liabilities mainly comprised of borrowings and loan payables of approximately HK\$1,391,451,000, liabilities arising from loan guarantee contracts of approximately HK\$121,942,000, consideration payables of approximately HK\$97,429,000, security deposits received of approximately HK\$3,075,000, unsecured bonds of approximately HK\$219,489,000, other payables, accruals and deposit received of approximately HK\$109,304,000, amount due to an associate of approximately HK\$3,143,000, income received in advance of approximately HK\$416,000, lease liabilities of approximately HK\$9,555,000 and tax payables of about HK\$182,597,000.

Non-current liabilities includes borrowings and loan payables of approximately HK\$138,520,000, unsecured bonds of approximately HK\$34,577,000, lease liabilities of approximately HK\$5,720,000 and deferred tax liabilities of about HK\$38,990,000.

## **Employee and Remuneration Policies**

As at 31 December 2021, the Group had approximately 191 employees in the PRC and Hong Kong. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible grantees. Total staff costs for the Reporting Period were about HK\$85,003,000 a decrease by 22.8% as compared to the corresponding figure of previous year.

In order to recognize and reward the contribution of certain eligible participants to the growth and development of the Group, the Company adopted a share award plan (the “Share Award Plan”) on 14 January 2019. As of the date of this announcement, no awards have been granted or agreed to be granted under the Share Award Plan.

## **Capital Management**

The Group’s primary objectives when managing capital are to safeguard the group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The capital structure of the Group consists of net debt, which includes the borrowings and loan payable, bank loans, security deposits received, consideration payables, amount due to an associate, unsecured bonds and loan liabilities disclosed in respective notes, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and other reserves.

Based on the Group’s current and anticipated level of operation, the Group’s future operations and capital requirements will be mainly financial through borrowings and share capital. There were no significant commitments for capital expenditure as at 31 December 2021.

## **Fair Value Estimation**

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

## **Contingent Liabilities**

The directors consider that the Group had no material contingent liabilities.

## **FOREIGN EXCHANGE AND CURRENCY RISKS**

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB") and Hong Kong Dollars ("HKD"). The Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against RMB. The Group has a net exchange exposure to RMB as the Group's assets are principally located in the PRC. The Group manages and monitors foreign exchange exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its statement of financial position exposure to fluctuations in exchange rates as at 31 December 2021.

## **APPROVAL OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated 2021 financial statements were approved and authorised for issue by the Board of the Company on 2 December 2022.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **FINAL DIVIDEND**

The Board does not recommend payment of a final dividend for the financial year ended 31 December 2021 (2020: Nil), to the shareholders of the Company.

## **CORPORATE GOVERNANCE**

The Company has complied with the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the Reporting Period except for code provisions A.2.1 and A.6.1:

### **Code Provision A.2.1**

Code provision A.2.1 of CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the Reporting Period, the chairman of the Board was Mr. Chan Yuk Ming, and the chief executive officer was Mr. Luo Rui who was terminated as a chief executive officer of the Company on 16 October 2020. During the year, with the support of the senior management, the chairman was responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues were discussed by the Board in a timely manner. The Board is looking for a suitable chief executive officer to fulfill the CG Code.

The Board considers that the chairman’s responsibilities are to manage the Board whereas the chief executive officer’s responsibilities are to manage the Company’s businesses. The responsibilities of the chairman and the chief executive officer respectively are clear and distinctive and hence written terms thereof are not necessary.

### **Code Provision A.6.1**

Code provision A.6.1 of the CG Code stipulates that every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer’s operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer’s business and governance policies.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Company Code throughout the Reporting Period.

The Company has also established written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee"), which comprises of four independent non-executive directors and one non-executive director, has reviewed the final results for the Reporting Period. The Audit Committee considered that the annual financial report for the Reporting Period is in compliance with the relevant financial reporting standards, requirement on the Listing Rules and Laws of Hong Kong, and the Company has made appropriate disclosures thereof. The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the chief financial officer or external auditors of the Company before submission to the Board.

- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee provides supervision on the internal control system of the Group and reports to the Board on any material issues and makes recommendations to the Board.

## **CHANGE OF AUDITORS**

An ordinary resolution to appointed Baker Tilly Hong Kong Limited as auditors of the Company following retirement of Crowe (HK) CPA Limited was passed at the annual general meeting of the Company held on 25 April 2022.

## **SCOPE OF WORK OF BAKER TILLY HONG KONG LIMITED**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors. The work performed by Baker Tilly Hong Kong Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Baker Tilly Hong Kong Limited on the preliminary announcement.

## **EVENTS AFTER THE REPORTING PERIOD**

The followings are the material subsequent events after the year ended 31 December 2021.

- (i) On 25 April 2022, an ordinary resolution proposed at the Annual General Meeting in relation to the approval of the appointment of Baker Tilly Hong Kong Limited as the auditors of the Company following the retirement of Crowe (HK) CPA Limited with effect from the conclusion of the Annual General Meeting and until the conclusion of the next annual general meeting of the Company.
- (ii) On 17 October 2022, Mr. Zhang Min (“Mr Zhang”) has been re-designed from a non-executive director to an executive director of the Company and Mr. Fang Feiyue resigned as a non-executive director of the Company to focus on his personal business commitment.
- (iii) On 22 November 2022, the board of directors of the Company announced that Mr. Zhang who is an executive director of the Company has been appointed as the CEO of the Company with effect from 22 November 2022. The Company has established a Business Risks Committee (the “Committee”) with Mr. Zhang as the chairman of the Committee and all independent non-executive directors as members. The main responsibility of the Committee is to approve any loan, investment or guarantee transaction exceeding the sum of RMB30,000,000, other than notifiable transactions and connected transactions as defined by the Listing Rules which are approved by the Board.

## **PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE**

This announcement is published on the websites of the Company at [www.cfsh.com.hk](http://www.cfsh.com.hk) and the Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk). The 2021 annual report containing all the information required by Appendix 16 of the Listing Rules will be published on the above websites and despatched to the shareholders of the Company in due course.

## **ACKNOWLEDGEMENT**

The Board would like to take this opportunity to express our sincere thanks to all stakeholders for their supports during the year.

On behalf of the Board  
**China Financial Services Holdings Limited**  
**Chan Yuk Ming**  
*Chairman*

Hong Kong, 2 December 2022

As at the date of this announcement, the directors of the Company are:

*Executive Directors:*

Mr. Zhang Min (*Chief Executive Officer*)

Dr. Cheung Chai Hong

*Non-executive Directors:*

Mr. Chan Yuk Ming (*Chairman*)

Mr. Wu Xinjiang

Mr. Tao Chun

*Independent Non-executive Directors:*

Mr. Chan Chun Keung

Mr. Lee Ka Wai

Dr. Zhang Xiao Jun

Madam Zhan Lili