Southwest Securities International Securities Limited
西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "Board") of directors (the "Directors") of Southwest Securities International Securities Limited (the "Company") presents the consolidated final results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	2	**122,172**	240,097
Other income and gains	4	**8,479**	27,102
Reversal of allowance for doubtful debts		**–**	37,660
Fair value change on derivative financial liabilities		**77,413**	135,367
		208,064	440,226
Fee and commission expenses		**(24,668)**	(24,857)
Fair value change on derivative financial assets		**–**	(5,851)
Finance costs	5a	**(146,479)**	(117,878)
Staff costs	5b	**(96,360)**	(96,212)
Depreciation		**(10,928)**	(9,112)
Expected credit losses on financial assets, net		**(7,599)**	–
Impairment loss on accounts receivable		**–**	(5,150)
Other operating expenses		**(104,301)**	(177,074)
Other losses arising from consolidation of investment fund		**(14,477)**	–
Total expenses		**(404,812)**	(436,134)
(Loss)/profit before tax	5	**(196,748)**	4,092
Income tax expense	6	**(5,000)**	(3,000)
(Loss)/profit for the year attributable to equity shareholders of the Company		**(201,748)**	1,092

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		**(160)**	680
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets		**–**	12,069
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(160)**	12,749
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		**(168)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(168)**	–
Other comprehensive income for the year, net of tax		**(328)**	12,749
Total comprehensive income for the year attributable to equity shareholders of the Company		**(202,076)**	13,841
			(Restated)
(Loss)/earnings per share			
— Basic (HK cents)	*7*	**(7.765)**	0.042
— Diluted (HK cents)	*7*	**(7.765)**	0.042

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Fixed assets		**13,744**	20,429
Financial assets at fair value through other comprehensive income		**1,079**	–
Available-for-sale financial assets		**–**	1,247
Other non-current assets		**7,654**	6,033
		22,477	27,709
Current assets			
Loans and advances		**–**	30
Financial assets at fair value through profit or loss	*8*	**447,324**	790,261
Accounts receivable	*9*	**1,099,683**	612,082
Prepayments, other receivables and other assets		**14,881**	124,521
Cash and bank balances		**441,812**	645,184
		2,003,700	2,172,078
Current liabilities			
Bonds payable	*10*	**1,945,475**	1,797,552
Derivative financial liabilities	*11*	**–**	75,019
Accounts payable	*12*	**4,002**	25,526
Other payables and accrued charges		**38,906**	49,780
Tax payable		**8,000**	3,000
		1,996,383	1,950,877
Net current assets		**7,317**	221,201
NET ASSETS		**29,794**	248,910
Capital and reserves			
Share capital		**244,121**	244,121
Reserves		**(214,327)**	4,789
TOTAL EQUITY		**29,794**	248,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, and derivative financial liabilities, which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Bonds repayments in May 2019

The Hong Kong dollars ("HK$") and United States dollars ("US$") denominated bonds with principal amounts of HK$780,000,000 and US$150,000,000 respectively issued by the Company in May 2018 will be repaid in May 2019 as agreed.

As at 31 December 2018, the Group's financial assets at fair value through profit or loss and cash and bank balance amounted to HK$889,136,000 in aggregate, which were insufficient to repay the bonds on maturity. These matters and conditions reflect concerns which may have significant impact on the Group's consolidated financial position.

In view of that, the Company had launched a refinancing plan at the end of the reporting period. The Company proposed to raise approximately HK$159.9 million before expenses by issuing 1,220,610,204 rights shares at the subscription price of HK$0.131 per rights share. After deducting the estimated expenses relating to the Rights Issue, the estimated net proceeds of the Rights Issue will be approximately HK$156.9 million. On 20 February 2019, the Company and Ever Joy Securities Limited (the "Underwriter") entered into an underwriting agreement. Pursuant to the underwriting agreement, the Underwriter has agreed, subject to the Rights Issue not being terminated, to underwrite 314,711,793 Rights Shares, being the total number of the Right Shares less 905,898,411 Rights Shares to be taken by Southwest Securities International Investment Limited ("SSII"), the immediate holding company of the Company.

In addition, the board of directors has obtained a letter of undertaking from SSII that SSII would support the Group to meet its obligations when they fall due for a period of not less than twelve months from the date of the letter of undertaking dated 1 March 2019.

The Group had prepared the cash flow forecasts for the next twelve months after the year end date. In the opinion of the Directors, the Group will be able to meet its obligation and remain as a going concern in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Change in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Management of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the Amendments to HKFRS 2, Amendments to HKFRS 4, Amendments to HKAS 40 and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 9 Financial Instruments replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies:

(a) Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement				HKFRS 9 measurement	
	Notes	**Category**	**Amount** *HK$'000*	**Reclassification** *HK$'000*	**ECL** *HK$'000*	**Amount** *HK$'000*	**Category**
Financial assets							
Available-for-sale financial assets	*(i)*	AFS[1]	1,247	(1,247)	–	–	N/A
To: Financial assets at fair value through other comprehensive income				(1,247)			
Financial assets at fair value through other comprehensive income		N/A	–	1,247	–	1,247	FVOCI[2]
From: Available-for-sale financial assets	*(i)*			1,247			
Other non-current assets		L&R[3]	6,033	–	–	6,033	AC[4]
Loans and advances		L&R	30	–	–	30	AC
Financial assets at fair value through profit or loss		FVPL[5]	790,261	–	–	790,261	FVPL
Accounts receivable	*(ii)*	L&R	612,082	–	(17,025)	595,057	AC
Other receivables and other assets	*(ii)*	L&R	124,521	–	(15)	124,506	AC
Cash and bank balances		L&R	645,184	–	–	645,184	AC
			2,179,358	–	(17,040)	2,162,318	
Financial liabilities							
Bonds payable		AC	1,797,552	–	–	1,797,552	AC
Derivative financial liabilities		FVPL	75,019	–	–	75,019	FVPL
Accounts payable		AC	25,526	–	–	25,526	AC
Other payables and accrued charges		AC	49,780	–	–	49,780	AC
			1,947,877	–	–	1,947,877	

[1] AFS: Available-for-sale investments at cost less impairment
[2] FVOCI: Financial assets at fair value through other comprehensive income
[3] L&R: Loans and receivables
[4] AC: Financial assets or financial liabilities at amortised cost
[5] FVPL: Financial assets/liabilities at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as financial assets at fair value through other comprehensive income. Available-for-sale equity investments were remeasured at fair value and accumulated losses of HK$13,021,000 were reclassified to the investment revaluation reserve as disclosed in note (c) below.

(ii) The Group has remeasured the carrying amount of the accounts receivable and other receivables and other assets based on the ECL allowance.

(b) *Impairment*

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowance under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Accounts receivable	48,145	17,025	65,170
Other receivables and other assets	–	15	15
	48,145	17,040	65,185

(c) *Reserves*

The impact of transition to HKFRS 9 on reserves is as follows:

	Reserves
	HK$'000
Investment revaluation reserve	
Balance as at 31 December 2017 under HKAS 39	–
Reclassification of financial assets from available-for-sale investments measured at cost less impairment under HKAS 39 to financial assets at fair value through other comprehensive income under HKFRS 9	(13,021)
Balance as at 1 January 2018 under HKFRS 9	(13,021)
Accumulated losses	
Balance as at 31 December 2017 under HKAS 39	(250,810)
Reclassification of financial assets from available-for-sale investments measured at cost less impairment under HKAS 39 to financial assets at fair value through other comprehensive income under HKFRS 9	13,021
Recognition of expected credit losses for accounts receivable under HKFRS 9	(17,025)
Recognition of expected credit losses for other receivables and other assets under HKFRS 9	(15)
Balance as at 1 January 2018 under HKFRS 9	(254,829)

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Further details are included in note 2.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The adoption of HKFRS 15 does not have any significant impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's consolidated financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2. REVENUE

An analysis of revenue is as follow:

	Note	**2018** **HK$'000**	2017 *HK$'000*
Revenue from contracts with customers	*(i)*	**62,688**	–
Brokerage commission income:			
— securities dealing		**–**	12,523
— underwriting and placing commission income		**–**	11,804
— futures and options dealing		**–**	6,445
		–	30,772
Advisory fee, insurance broking fee and assets management fee income:			
— corporate finance advisory			
(i) IPO sponsor fee income		**–**	16,496
(ii) consultancy and financial advisory fee income		**–**	6,039
— corporate finance arrangement and commitment fee income		**–**	11,525
— insurance broking		**–**	6,684
— asset management		**–**	187
		–	40,931
Revenue from other sources			
Interest income calculated using the effective interest method from:			
— margin financing		**81,742**	48,329
— loans and advances		**–**	10,696
		81,742	59,025
Net (losses)/gains from proprietary trading		**(22,258)**	109,369
		59,484	168,394
Total revenue		**122,172**	240,097

Note:

(i) Disaggregated revenue information:

	2018
	HK$'000
Brokerage:	
— commission income on securities dealing	**8,521**
— commission income on futures and options dealing	**6,186**
— underwriting and placing commission income	**3,584**
	18,291
Wealth management:	
— insurance brokerage fee income	**4,390**
Corporate finance:	
— IPO sponsor fee income	**18,715**
— consultancy and financial advisory fee income	**3,747**
— corporate finance arrangement and commitment fee income	**14,876**
	37,338
Asset management:	
— asset management fee income	**2,669**
	62,688

3. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments based on the Group's internal reporting in respect of these segments. For the purposes of resource allocation and assessment of segment performance, the Directors monitor the results attributable to each reportable segment on the following basis:

— Segment revenue represents revenue generated from external customers; and

— Segment results represent the profit or loss incurred by each segment without allocation of central administration costs, depreciation, central finance costs, gain on disposal of available-for-sale financial assets and income tax expense.

Segment assets and liabilities are not disclosed as they are not considered to be crucial for resources allocation and thereafter not being regularly provided to the Directors.

Reportable operating segments

The Directors consider brokerage and margin financing, wealth management, corporate finance, proprietary trading, asset management and money lending are the Group's major operating segments. The principal activities of these divisions are as follows:

Brokerage and margin financing	Provision of brokerage services in trading in securities, futures contracts and options and margin financing services, and underwriting and placements
Wealth management	Provision of brokerage services in distribution of mandatory provident fund products, and investment-linked products and insurance products
Corporate finance	Provision of corporate finance advisory services
Asset management	Provision of asset management services
Proprietary trading	Proprietary trading in securities, futures and options, fund investments, dividend income and bond interest income
Money lending	Provision of corporation and personnel financing services

	2018						
	Brokerage and margin financing *HK$'000*	**Wealth management** *HK$'000*	**Corporate finance** *HK$'000*	**Asset management** *HK$'000*	**Proprietary trading** *HK$'000*	**Other operations** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue from external customers	**100,033**	**4,390**	**37,338**	**2,669**	**(22,258)**	**–**	**122,172**
Other income and gains	**4,477**	**1**	**–**	**4**	**338**	**3,659**	**8,479**
Fee and commission expenses	**(9,351)**	**(2,731)**	**(1,822)**	**(2,368)**	**(8,396)**	**–**	**(24,668)**
Finance costs	**(59,726)**	**–**	**–**	**–**	**(44,071)**	**(42)**	**(103,839)**
Expected credit losses on financial assets, net	**–**	**–**	**–**	**–**	**–**	**(7,599)**	**(7,599)**
Other operating expenses and costs	**(57,646)**	**(5,782)**	**(34,085)**	**(1,593)**	**(14,211)**	**14,681**	**(98,636)**
Other losses arising from consolidation of investment fund	**–**	**–**	**–**	**–**	**(14,477)**	**–**	**(14,477)**
Segment results	**(22,213)**	**(4,122)**	**1,431**	**(1,288)**	**(103,075)**	**10,699**	**(118,568)**
Unallocated expenses, represented central administration costs							**(24,612)**
Depreciation							**(10,928)**
Unallocated finance costs							**(42,640)**
Loss before tax							**(196,748)**

The Group has no interest income from money lending business for the year ended 31 December 2018.

	2017							
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Asset management *HK$'000*	Proprietary trading *HK$'000*	Money lending *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Segment revenue from external customers	79,101	6,684	34,060	187	109,369	10,696	–	240,097
Other income and gains	2,921	6	–	–	5	–	24,170	27,102
Fee and commission expenses	(10,928)	(2,594)	(1,497)	(80)	(8,931)	(827)	–	(24,857)
Finance costs	(26,220)	–	–	–	(40,407)	(4,471)	(6,600)	(77,698)
Reversal of allowance for doubtful debts	37,660	–	–	–	–	–	–	37,660
Impairment loss on accounts receivable	(5,150)	–	–	–	–	–	–	(5,150)
Other operating expenses and costs	(63,171)	(7,523)	(27,323)	–	(9,952)	(4,159)	(5,798)	(117,926)
Segment results	14,213	(3,427)	5,240	107	50,084	1,239	11,772	79,228
Unallocated expenses, represented central administration costs								(25,844)
Depreciation								(9,112)
Unallocated finance costs								(40,180)
Profit before tax								4,092

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2018 and 31 December 2017, the Group's revenue is mainly derived from customers in Hong Kong.

The geographical location of the non-current assets, other than financial instruments ("specified non-current assets"), is based on the physical location of the assets. The principal specified non-current assets of the Group were also located in Hong Kong. Accordingly, no analysis by geographical segment was provided.

Major customers

During the years ended 31 December 2018 and 31 December 2017, the following respective external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net results from proprietary trading.

	2018	2017
	HK$'000	*HK$'000*
Customer A from brokerage and margin financing and corporate finance segments	**28,497**	N/A*
Customer B from brokerage and margin financing and corporate finance segments	**N/A***	30,096

* Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2017 and Customer B did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2018.

4. OTHER INCOME AND GAINS

	2018	2017
	HK$'000	*HK$'000*
Other income		
Dividend income from financial assets at fair value through other comprehensive income/available-for-sale financial assets	**7**	2,122
Handling income	**1,098**	1,517
Other interest income	**7,236**	13,937
Sundry income	**138**	583
	8,479	18,159
Other gains		
Gain on disposal of available-for-sale financial assets — equity securities	**–**	8,943
	8,479	27,102

5. (LOSS)/PROFIT BEFORE TAX

	Note	**2018** *HK$'000*	2017 *HK$'000*
(Loss)/profit before tax is arrived at after charging:			
(a) Finance costs			
Bank loan interest expenses		**155**	49
Bond interest expenses		**127,333**	111,303
Imputed interest expenses on bonds payable		**18,800**	6,351
Other interest expenses		**191**	175
		146,479	117,878
(b) Staff costs			
Salaries, commission and allowances		**94,351**	94,427
Contributions to retirement benefit schemes		**2,009**	1,785
		96,360	96,212
(c) Other items			
Auditor's remuneration			
— Audit-related assurance services		**2,180**	1,550
— Other services		**1,667**	6
Exchange losses, net	*(i)*	**59,237**	126,679
Loss on disposal of available-for-sale financial assets — debt component of convertible bonds		**–**	1,377
Loss on disposal of fixed assets		**–**	117
Operating lease payments on premises		**14,030**	18,010

Note:

(i) Include an amount of HK$58,758,000 *(2017: HK$132,044,000)* representing an exchange loss arising on retranslation to Hong Kong dollars at the spot rate at the end of the year in respect of bonds payable denominated in RMB.

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% *(2017: 16.5%)* on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Current — Hong Kong		
Charge for the year	**5,076**	3,000
Overprovision in prior years	**(76)**	–
Total tax charge for the year	**5,000**	3,000

7. (LOSS)/EARNINGS PER SHARE

Subsequent to the end of the reporting period, the Company had proposed to raise approximately HK$159.9 million before expenses by issuing 1,220,610,204 rights shares, on the basis of 1 rights share for every 2 existing shares held by the shareholders of the Company, at the subscription price of HK$0.131 per rights shares, which represents a discount of 18.1% to fair value at the close of the last day on which the shares are traded together with the rights shares. The effect of bonus element resulting from the rights issue has been included in the calculation of basic and diluted loss per share and the prior period basic and diluted earnings per share are adjusted.

The calculation of basic and diluted (loss)/earnings per share is as follows:

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit for the year attributable to equity shareholders of the Company	**(201,748)**	1,092
Number of shares	***'000***	*'000* (Restated)
Weighted average number of ordinary shares in issue for the purpose of basic (loss)/earnings per share *(Note)*	**2,598,194**	2,598,194
Basic (loss)/earnings per share *(HK cents)*	**(7.765)**	0.042
Diluted (loss)/earnings per share *(HK cents)*	**(7.765)**	0.042

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2018 and 31 December 2017. Accordingly, the diluted (loss)/earnings per share for the respective periods are the same as basic (loss)/earnings per share.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Held for trading			
Equity securities			
— Listed in Hong Kong	*(i)*	**246,860**	239,021
— Listed outside Hong Kong	*(i)*	**–**	31,150
		246,860	270,171
Debt securities			
— Listed in Hong Kong	*(ii)*	**–**	344,415
— Listed outside Hong Kong	*(ii)*	**154,944**	30,064
		154,944	374,479
Unlisted fund investments	*(iii) and (iv)*	**45,520**	145,611
		447,324	790,261

Notes:

(i) Fair values of the listed equity securities are determined with reference to quoted active market bid price on the respective stock exchange at the end of each reporting period.

(ii) Fair values of the listed debt securities are determined with reference to brokers' quotes at the end of each reporting period.

(iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds. As at 31 December 2017, the unlisted fund investments included investment in Southwest SPC Fund, of which the details are set out in note (iv). The investment in Southwest SPC Fund was fully disposed in 2018.

(iv) The Group participated with two independent third parties in a non-listed investment fund in the Cayman Islands in September 2017 with a principal business of investment in the securities traded in The Stock Exchange of Hong Kong Limited, including listed stocks, preference shares or convertible securities. In November 2017, Southwest Securities (HK) Asset Management Limited was appointed as the investment manager of the fund. After considering the terms and conditions of the relevant arrangement, including but not limited to the scopes of decision-making authority, rights held by other parties, its remuneration structure and exposure to variability of returns through other interests, the management considers that the Group has no control rights nor significant influence on the fund, and therefore, it is unnecessary to consolidate the financial results of the fund into the Group's consolidated financial statements and its results are accounted as financial assets at fair value through profit or loss instead.

9. ACCOUNTS RECEIVABLE

	Note	**2018** **HK$'000**	2017 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(b)*	**1,002**	13,581
— securities margin clients	*(a)*	**1,107,815**	565,970
— securities subscription clients	*(b)*	**191**	254
— securities and options clearing houses and brokers	*(b)*	**57,228**	66,630
— futures clients	*(b)*	**2**	11
— futures clearing house and brokers	*(b)*	**2,390**	3,786
Accounts receivable arising from the provision of corporate finance advisory services	*(b)*	**3,223**	7,223
Accounts receivable arising from the provision of asset management services	*(b)*	**98**	2,200
Accounts receivable arising from the provision of insurance broking services	*(b)*	**–**	572
		1,171,949	660,227
Less: impairment		**(72,266)**	(48,145)
		1,099,683	612,082

Notes:

(a) Accounts receivable analysis on securities margin clients

(i) The carrying amount of accounts receivable from securities margin clients of the Group was as follows:

	2018 **HK$'000**	2017 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— Securities margin clients	**1,107,815**	565,970
Less: Impairment		
— Stage 1	**–**	–
— Stage 2	**(7,492)**	–
— Stage 3	**(64,279)**	–
— Specific	**–**	(48,065)
	1,036,044	517,905

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the reporting period, fair value of marketable securities pledged by securities margin clients was HK$2,935,601,000 *(2017: HK$1,790,473,000)*.

No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

(ii) The gross receivables classified at different stages as at 31 December 2018 are analysed as follows:

	2018
	HK$'000
Gross receivables	
— Stage 1	**881,832**
— Stage 2	**160,636**
— Stage 3	**65,347**
At 31 December	**1,107,815**

For the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged were HK$1,993,000, respectively.

(iii) The movements in the impairment allowance of accounts receivable from securities margin clients were as follows:

			2018		
	12-months ECL (Stage 1)	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**	**Impairment allowance under HKAS 39**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January	**–**	**–**	**–**	**48,065**	**48,065**
Effect of adoption of HKFRS 9	**2,797**	**236**	**61,212**	**(48,065)**	**16,180**
Transfer to stage 2	**(1,461)**	**1,461**	**–**	**–**	**–**
Impact on transfer between stages	**–**	**6,028**	**1,410**	**–**	**7,438**
Other remeasurement of loss allowance	**(1,336)**	**(233)**	**1,657**	**–**	**88**
As at 31 December	**–**	**7,492**	**64,279**	**–**	**71,771**

The following significant changes in the account receivables from securities margin clients contributed to the increase in the loss allowance during 2018:

- Transfer of account receivables from securities margin clients of HK$158,828,000 from stage 1 to stage 2 has resulted in an increase in loss allowance of HK$6,028,000; and

- Transfer of account receivables from securities margin clients of HK$1,461,000 from stage 1 to stage 3 has resulted in an increase in loss allowance of HK$1,461,000.

Notes:

Impairment under HKAS 39 for the year ended 31 December 2017

	2017 *HK$'000*
As at 1 January	80,575
Impairment loss recognised	5,150
Reversal of impairment loss recognised	(37,660)
As at 31 December	48,065

Notes:

The gross amount of impaired loans was amounted to HK$112,346,000 as at 31 December 2017. The remaining balances of margin loans that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or are secured by securities collateral pledged by the customers to the Group that are sufficient to cover the loans amount at the end of the reporting period.

During the year ended 31 December 2017, an aggregate reversal on impairment loss for certain margin clients amounting to HK$37,660,000 was recognised. The reversal on impairment loss was made due to the share price of the collaterals increased during the year ended 31 December 2017.

(b) Accounts receivable other than securities margin clients analysis

(i) The carrying values of accounts receivable other than securities margin clients of the Group are as follows:

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(1)*	**1,002**	13,581
— securities subscription clients	*(2)*	**191**	254
— securities and options clearing houses and brokers	*(2)*	**57,228**	66,630
— futures clients		**2**	11
— futures clearing house and brokers	*(3)*	**2,390**	3,786
Accounts receivable arising from the provision of corporate finance advisory services	*(4)*	**3,223**	7,223
Accounts receivable arising from the provision of asset management services	*(5)*	**98**	2,200
Accounts receivable arising from the provision of insurance broking services		**–**	572
		64,134	94,257
Less: impairment	*(6)*	**(495)**	(80)
		63,639	94,177

(1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand on settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

(2) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.

The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits maintained in the SEHK Option Clearing House Limited not otherwise dealt with in the consolidated financial statements amounted to HK$1,090,000 *(2017: HK$10,860,000)*.

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2018, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") of HK$3,060,000 *(2017: Nil)*, with legally enforceable right to set off the corresponding receivable and payable balances. Details of the offsetting of these balances are set out in note 9(c).

(3) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$4,568,000 *(2017: HK$3,268,000)*, which was not dealt with in the consolidated financial statements. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.

(4) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of corporate finance advisory services, based on the contract terms, was as follows:

	2018	2017
	HK$'000	*HK$'000*
Current	**1,423**	3,126
Overdue:		
Within 30 days	**–**	123
31–90 days	**1,750**	2,838
91–180 days	**–**	–
Over 180 days	**50**	1,136
	3,223	7,223

(5) At the end of the reporting period, the amount of accounts receivable arising from the provision of asset management services was not overdue.

(6) The movements in the impairment allowance of accounts receivable other than securities margin clients were as follows:

	2018				
	12-months ECL (Stage 1)	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL simplified approach**	**Impairment allowance under HKAS 39**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January	**–**	**–**	**–**	**80**	**80**
Effect of adoption of HKFRS 9	**–**	**–**	**925**	**(80)**	**845**
Charged/(credit) to profit or loss	**74**	**2**	**(109)**	**–**	**(33)**
Amount written off	**–**	**–**	**(397)**	**–**	**(397)**
As at 31 December	**74**	**2**	**419**	**–**	**495**

	2017
	HK$'000
As at 1 January	819
Amount written off	(739)
As the end of the year	80

As at 31 December 2017, accounts receivable from the futures clients, futures clearing house and brokers, customers of corporate finance advisory and insurance broking services with carrying amount of HK$8,135,000 were past due but not impaired. The management of the Group was of the opinion that no provision for impairment was necessary in respect of the overdue amount as all the balances have been fully settled subsequently or were being settled according to the agreed repayment schedules. The Group did not hold any collateral or other credit enhancements over these balances.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there were no history of default and the management believes that the amounts are recoverable.

(c) Offsetting

The Group has netted off the amounts receivable and amounts payable with the securities and options clearing house. An analysis of amounts receivable/(payable) subject to offsetting is set out as follows:

	2018				
	Gross amount of recognised financial assets *HK$'000*	**Gross amount of recognised financial liabilities set off in the consolidated statement of financial position** *HK$'000*	**Net amount of financial assets presented in the consolidated statement of financial position** *HK$'000*	**Related amount not set off in the consolidated statement of financial position** *HK$'000*	**Net** *HK$'000*
Amounts receivable	**7,069**	**(4,009)**	**3,060**	**–**	**3,060**

	2018				
	Gross amount of recognised financial liabilities *HK$'000*	**Gross amount of recognised financial assets set off in the consolidated statement of financial position** *HK$'000*	**Net amount of financial liabilities presented in the consolidated statement of financial position** *HK$'000*	**Related amount not set off in the consolidated statement of financial position** *HK$'000*	**Net** *HK$'000*
Amounts payable	**5,251**	**(4,009)**	**1,242**	**–**	**1,242**

	2017				
	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amount not set off in the consolidated statement of financial position	Net
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts receivable	35,561	(35,561)	–	–	–

	2017				
	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amount not set off in the consolidated statement of financial position	Net
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable	36,167	(35,561)	606	–	606

10. BONDS PAYABLE

	HKD Bonds	**USD Bonds**	**RMB Bonds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (i))	*(note (ii))*	*(note (iii))*	
Carrying amount at 1 January 2017	–	–	1,659,157	1,659,157
Imputed interest expenses for the year	–	–	6,351	6,351
Exchange difference	–	–	132,044	132,044
Carrying amount at 31 December 2017 and 1 January 2018	**–**	**–**	**1,797,552**	**1,797,552**
Carrying amount upon issuance	**762,682**	**1,169,127**	**–**	**1,931,809**
Imputed interest expenses for the year	**10,865**	**4,995**	**2,940**	**18,800**
Exchange difference	**–**	**(2,194)**	**58,758**	**56,564**
Principal repayment	**–**	**–**	**(1,859,250)**	**(1,859,250)**
Carrying amount at 31 December 2018	**773,547**	**1,171,928**	**–**	**1,945,475**

Notes:

(i) On 18 May 2018, the Company issued bonds with aggregate principal amount of HK$780,000,000 (the "HKD Bonds"). The HKD Bonds bear interest from 18 May 2018 (inclusive) at the rate of 6.00% per annum. Interest on the HKD Bonds is payable semi-annually in arrears. The HKD Bonds are listed on The Stock Exchange of Hong Kong Limited ("HKEx") and will mature on 10 May 2019 with the outstanding principal and interest payable at the maturity date.

The HKD Bonds are carried at amortized cost using an effective interest rate of 8.37% per annum.

(ii) On 15 May 2018, the Company issued bonds with aggregate principal amount of US$150,000,000 (the "USD Bonds"). The USD Bonds bear interest from 15 May 2018 (inclusive) at the rate of 6.75% per annum. Interest on the USD Bonds is payable semi-annually in arrears. The USD Bonds are listed on HKEx and will mature on 13 May 2019 with the outstanding principal and interest payable at the maturity date.

The USD Bonds are carried at amortized cost using an effective interest rate of 7.45% per annum.

(iii) On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "RMB Bonds"). The RMB Bonds bore interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the RMB Bonds was payable semi-annually in arrears. The RMB Bonds were listed on HKEx and matured and were fully settled on 28 May 2018.

The RMB Bonds were carried at amortized cost using an effective interest rate of 6.84% per annum.

11. DERIVATIVE FINANCIAL LIABILITIES

	Note	**2018** ***HK$'000***	2017 *HK$'000*
Cross-currency swap	*(i)*	–	75,000
Futures contracts held for trading		–	19
		–	75,019

Notes:

(i) In June 2015, the Group entered into a cross-currency swap agreement with a bank in the United Kingdom to swap the Renminbi Bonds principal and the relevant interest payments, into Hong Kong dollars to manage the interest rate and currency risks. The cross-currency swap was settled in May 2018.

During the reporting period, the profit on change in fair value of the cross-currency swap of HK$77,413,000 *(2017: profit of HK$135,367,000)* were recognised in profit or loss.

12. ACCOUNTS PAYABLE

	Notes	2018 HK$'000	2017 HK$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(i)*	**–**	10,965
— securities margin clients	*(i)*	**267**	4,957
— securities clearing house	*(i)*	**1,242**	606
— futures clients	*(ii)*	**2,383**	3,779
Accounts payable arising from the provision of insurance broking services	*(iii)*	**110**	232
Accounts payable to brokers	*(i)*	**–**	4,987
		4,002	25,526

Notes:

Settlement terms

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction date.

(ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

(iii) Accounts payable arising from the provision of insurance broking services are payable within 30 days.

No ageing analysis is disclosed in respect of accounts payable. In the opinion of the Directors, an ageing analysis does not give additional value in view of the nature of broking business.

Interest with reference to savings rate of financial institutions is payable to accounts payable arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Macro Environment

Most of the major political and economic events that took place in 2018 did not come to a finish in the same year. This situation took a sudden turn and became worse rapidly while it was improving. After the levy of tariffs by China and the US, the heads of the two nations met last December and announced a temporary pause in the Sino-US trade war. However, the ZTE incident and US legal actions against Huawei had raised concerns about whether China and the US could finally clinch a trade agreement to end the trade war.

The deadline for Brexit was approaching. Although the British Parliament did not want to see a "hard Brexit" or to stay in the EU, it had substantial differences with EU's negotiations on the content of the Brexit agreement. The EU was also reluctant to make concessions, giving no more time for Theresa May to settle the Brexit issue. Angela Merkel, the leader of Germany and even the EU, was going to retire, while prestigious French President Emmanuel Macron was dealing with the "yellow vest" movement in the country. Together with the weak economy in the euro zone and high debt in individual countries, it was crucial whether Merkel or other leaders of the euro zone were able to unite other countries to maintain EU's stability.

In the US mid-term elections, the Democratic Party regained the control of the House of Representatives as expected, imposing constrains on Trump's administration and resulting in the government shutdown. Despite Fed's four interest hikes last year as expected, the US economic growth slowed down because it was hit by a number of events such as the Sino-US trade war and the government shutdown. Moreover, since both the World Trade Organization and the International Monetary Fund lowered their projections for global economic growth, the possibility for the US to keep interest rates unchanged or even cut interest rates will be higher than the move to raise interest rates again this year.

China made four Required Reserve Ratio ("RRR") cuts last year. It also announced a RRR cut by 1 percentage point in January 2019. If the impact of the trade war continues, it is possible for China to make further RRR cuts or even interest rate cuts this year. In other respects, OPEC announced an oil output increase in the first half of last year due to US sanctions against Iran. However, it said it would start to reduce oil output this year to keep oil prices stabilized as a result of a plunge in oil prices due to a number of factors such as the rise in US crude oil production and the decelerated global economic growth.

Hong Kong Market

The Hang Seng Index rose above 33,000 points in January 2018, setting a record high of 33,154 points. However, it fell below 24,600 points at the end of October as it was hit by the Sino-US trade war, the rise in yields of US government bonds and the slowdown in global economic growth. It closed at 25,846 points at the end of December, down 13.6% from the end of 2017. The Hang Seng China Enterprises Index closed at 10,125 points at the end of last December, down 13.5% year-on-year. The average daily turnover of the Hong Kong equities market was HK$107.4 billion, in 2018 up 21.7% year-on-year. However, the average daily turnover in the second half of the year decreased by 11.1% year-on-year to HK$88.8 billion.

The total average daily turnover (buys + sells) of Southbound Trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect schemes was HK$12.7 billion in 2018, up 29.3% year-on-year. Southbound Trading in the total turnover of the Hong Kong market rose from approximately 5.6% in 2017 to approximately 5.9% in 2018.

At the end of December 2018, 2,315 companies were listed on the Main Board and the GEM, up 9.3% year-on-year and up 4.5% as compared with previous periodical data (1,926 companies were listed on the Main Board, up 7.4% year-on-year and up 4.2% as compared with previous periodical data). However, due to the declining market sentiment, the total value of the equities market decreased by 12.0% year-on-year to HK$29.9 trillion. In 2018, 218 new companies were listed in total (including ten companies which switched from the GEM to the Main Board), up 25.3% year-on-year. Among them were two companies with different voting rights structures and five biotechnology companies. Benefiting from the successful listing of these two companies with different voting rights structures in Hong Kong, namely Xiaomi (1810.HK) and Meituan (3690.HK), and the pick of Hong Kong for listing by China Tower (788.HK), the total amount of funds raised from IPOs in the Hong Kong stock market increased 1.2 times in 2018 year-on-year to HK$286.5 billion, making Hong Kong regain its position as the world's top IPO venue, which it lost previously for one year. However, the total fundraising amount decreased by 6.8% year-on-year to HK$541.7 billion. Market shares of Category A participants (1st to 14th) and Category B participants (15th to 65th) on the Stock Exchange in 2018 all rose from 2017, while the market share of Category C participants (after 65th) fell.

Business Review

In 2018, the US-China trade war started from the second quarter and the world economy grew slowly. Facing the complicated business environment, the Group consolidated its existing basic business while focusing on developing corporate finance business and asset management business, enabling the Company to develop steadily and orderly and improve income and profit structure. Meanwhile, the Group is continuously restructuring its organisation, consolidating its teams, mitigating the risks and strengthening internal monitoring procedures to spurt its operation efficiency.

In 2018, the Group recorded a total revenue of HK$122.2 million *(2017: HK$240.1 million)* and loss before tax of HK$196.7 million *(2017: profit before tax HK$4.1 million)*. Except for proprietary trading income dropped significantly, income of other principal businesses, including brokerage and margin financing, corporate finance, asset management, recorded growth respectively.

Brokerage and Margin Financing

Revenue generated from the Group's brokerage and margin financing business during the Review Period amounted to HK$100.0 million *(2017: HK$79.1 million)*.

During the year, revenue increase was mainly from margin financing business, revenue of the margin financing business increased by 69.2% to HK$81.7 million in 2018 *(2017: HK$48.3 million)*. The margin financing business is mainly target for high-net-worth customers with large principal amount. Other than general margin financing business, during the year, the Group mainly expanded high-quality project financing and acquired loan projects, and further improved the Company's capital utilization rate and return on the premise of monitoring credit risk and stocks concentration risk strictly.

The Group's commission revenue from brokerage business decreased by 40.6% to HK$18.3 million *(2017: HK$30.8 million)* for the year. The income from brokerage business mainly included commission income from providing brokerage services for securities, futures and options dealings and providing underwriting and placing services in primary and secondary market. As Hong Kong stock market's overall negative sentiment due to global trade war during the year, the Group's overall performance in brokerage business decreased as compared with that in last year.

The operation pressure of brokerage business, especially retailing business, has intensified in recent years, urgently needing transformation and upgrade to improve quality and enhance efficiency. The Group is committed to switching to aim at serving high-end and institutional customers, customizing and enriching its own products mix and improving sales capability.

Wealth Management

The Group's wealth management business recorded a revenue of HK$4.4 million during the Review Period *(2017: HK$6.7 million)*.

The requirement from insurance regulatory and required disclosure became strictly and, in 2018, China government restricted China citizen withdraw RMB100,000 in overseas per person yearly. It affected the insurance business and the revenue decreased by 34.3% during the year. The Group will closely monitor the advisory measures related to insurance industry in the Outline Development Plan for Guangdong-Hong Kong-Macau Greater Bay Area issued by the State Council on 18 February 2019, thus to formulate cooperated strategy of insurance business. Furthermore, the voluntary healthcare plan, which has been prepared years, will be officially launched to the market on 1 April 2019, its potential commercial opportunities will stimulate business' income growth.

Corporate Finance

Revenue generated from the Group's corporate finance business amounted to HK$37.3 million during the year *(2017: HK$34.1 million)*.

Corporate finance department has focused on developing and executing the IPO projects and financial consultation projects. Since 2017, the corporate finance department has also developed projects loan and acquisition financing businesses. The department had completed the financing for 2 exclusive IPO projects and 3 projects in 2018, achieving satisfactory results during the year. The department had submitted 5 IPO projects' listing applications which are in the process of approval so far, 1 of the projects has passed the listing hearing of the Stock Exchange. Meanwhile, the department also has multiple existing projects under negotiation.

During 2018, the Group also integrated global capital market department, reallocating resources. As for underwriting projects, except for completing 2 underwriting projects for which the corporate finance department acted as sponsors during the year, we also finished the underwritings of 2 projects and 3 bonds, succeeding in increasing the company's activation rate in the market and improving the capability to undertake various projects in the future.

In 2018, Hong Kong Stock Exchange revised numerous listing rules, raising requirements of fund raising for listing on the Main Board and the financial requirements for GEM. Meanwhile, it also adopted multiple innovative policies. Since the end of April, the Hong Kong Stock Exchange has accepted new economy companies, such as innovative industry companies with weighted voting rights and biotech companies without profit, to apply for listing. The reform of the Hong Kong listing regime will bring new developmental possibility for Hong Kong's capital market, improving the competitiveness of Hong Kong's financial hub, and will also bring new opportunities for Hong Kong's investment banking industry, encouraging more excellent international corporations to list in Hong Kong.

The formal implementation of "The New Third Board + H Shares" policy in mainland, China encourages qualified listed company to list in the Hong Kong Stock Exchange, making listing in Hong Kong more tempting for new third board enterprises. It is expected that this policy will attract industry companies with high value of stocks to list in Hong Kong. Corporate finance department will communicate with the parent Company's business departments located in different regions more closely on new third board companies of different industries coming to Hong Kong for listing.

Asset Management

Revenue generated from the Group's asset management business amounted to HK$2.7 million during the Review Period *(2017: HK$0.2 million)*.

The first hedge fund established by the Group commenced operation at the end of 2016, the total invested amount was HK$230 million. As at the end of 2018, the accumulated results of the hedge fund had beaten the market. In addition, the Group also established a structured fund at the end of 2017, whose 3 investment portfolios commenced operation at the end of 2017 and in 2018 respectively. As at the end of 2018, the third investment portfolio was still in operation, bringing stable asset management fees income for the Group.

The business team is also continuing to look for excellent investment opportunities actively, plans to seek a series of quality projects reserves for assets securitization in 2019, attempts to establish and issue specific assets management products for assets securitization and selects assets management business teams to be fund managers, summarizes reserved projects, exploits outstanding proactive management capability and performance to attract external investor to purchase fund share, strengthens cooperation with the parent Company, discovers business opportunities, maintains active communication and close contact with business partners, forges solid partnership, enlarges the scale of assets under management further and continues to develop and expand asset management business.

Proprietary Trading

The proprietary trading business of the Group recorded a loss of revenue of HK$22.3 million during the Review Period *(2017: revenue gain of HK$109.4 million)*.

The scale of proprietary trading was developed based on the Company's credit limit, it was mainly invested in stocks, equity fund and bonds products with fixed income.

During the year, affected by issues like U.S interest rate hike and international trade wars, global major markets such as U.S stocks, China's A shares, Hong Kong stocks experienced dramatic fluctuations. The Hong Kong Hang Seng Index dropped 13.6% accumulatively the whole year. Financial products invested by the Group and investment return were also implicated. In accordance with the Group's risk control index, major stocks investment holdings had been flattened to eliminate losses before the end of the year. As at the end of 2018, only an appropriate amount of financial products were maintained to invest in fully-hedged stocks fund and products with fixed income.

Money Lending

During the Review Period, the Group has no interest income from money lending business *(2017: HK$10.7 million)*. In 2017, the Group has utilized its cross-platform advantage to seize a business opportunity and advanced HK$200 million to a customer with a high interest yield per annum. The customer has repaid the advance according to the terms of the agreement in good order.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to HK$8.5 million *(2017: HK$27.1 million)*.

In 2018, other income and gains included bank interest income of HK$6.9 million and handling fee income of HK$1.1 million, whereas interest income from bond investments amounted to HK$9.6 million and gain on disposal of listed equities of available-for-sale financial assets amounted to HK$8.9 million in 2017.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK$96.4 million *(2017: HK$96.2 million)*.

With the overall business and scale expansion of the Group, the number of staff as well as the staff costs slightly increased. The Group's expense on salaries, benefits and training for the staff are also increased. It is important for the Group to deploy resource on staff in order to maintain its competitiveness.

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK$24.7 million *(2017: HK$24.9 million)*. Fee and commission expenses mainly included commissions paid in the course of conducting the brokerage and margin financing business, proprietary trading business and corporate finance deals. The slight decrease in commission expenses during the Review Period was mainly a result of the decrease in trading volume of proprietary trading business.

Finance Costs

The Group's finance costs during the Review Period amounted to HK$146.5 million *(2017: HK$117.9 million)*.

The Group issued USD and HKD denominated bonds and repaid RMB denominated bonds in May 2018. The finance costs during the year were mainly bonds interest expenses.

Future Prospects

In 2019, the international environment has become brighter than last year. The US interest rate hike slowed down, and the international capital markets recovered in the first quarter, with the domestic macro economy still bottoming out. In 2019, the international capital markets will focus more on deepening internal reforms. In December 2018, the Central Economic Work Conference pointed out clearly the need to deepen reforms to create a standard, transparent, open, dynamic and resilient capital market, improve the quality of listed companies, and accelerate the establishment of the sci-tech innovation board and the implementation of the pilot registration system as soon as possible at the SSE. Amid the gradual easing of the international capital markets and the deepening reform of the domestic capital markets, challenges and opportunities co-exist in the Chinese securities industry in 2019. As the bridgehead for overseas business of our domestic parent company Southwest Securities Co., Ltd. ("SWSC"), on the one hand, the Group should seize the great opportunity that the international economy is warming up to further tap potential business, and improve the capital use efficiency and the overall profitability of the Company with stringent risk control; on the other hand, under the general trend of deepening reform in the domestic capital markets, the Group will, in concert with our parent company SWSC, identify new development opportunities during the transformation, further open up domestic and overseas business channels and respond to the national call for "bringing in" capital and "going global".

In 2019, the Group will focus on boosting its overall level of business and profitability from three aspects. First, the Group will increase the quantity and enhance the quality of its IPO business, expand the scale of business lines such as project loans, cross-border mergers and acquisitions, underwriting and placing, strengthen service awareness, raise investment banking service standards and strive to create a brand name effect in the industry. Second, the Group will actively explore the model of its asset management business, strengthen the risk management of asset management products and expand the overall scale of asset management products. Third, its wealth management business will be further transformed to serve institutional clients and high net worth clients so as to improve the overall operational efficiency of this business segment.

In 2019, under the premise of maintaining a stable business foundation, the Group will seek new opportunities and areas of business growth during the transformation and continue to be committed to brand building and promotion, laying a solid foundation for further expanding and strengthening overseas business in the future.

Financial Review

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2018, the Group had total cash and bank balances of HK$441.8 million *(2017: HK$645.2 million)*, while net current assets amounted to HK$7.3 million *(2017: HK$221.2 million)*. The current ratio as a ratio of current assets to current liabilities was 1.0 times *(2017: 1.1 times)*.

At the end of the year, the gearing ratio was 6,529.8% *(2017: 722.2%)*. Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

The Group monitored its capital structure in order to ensure the compliance of the capital requirements under the Securities and Futures (Financial Resources) Rules (Cap. 571N of the Laws of Hong Kong) for its licensed subsidiaries and to support the development of new business. All licensed corporations within the Group complied with their respective liquid capital requirements during the year and up to the date of this report.

Banking Facilities and Charges on Assets

As at 31 December 2018, the Group had no bank loans outstanding *(2017: Nil)* and had an aggregate banking facilities of HK$290.0 million *(2017: HK$676.0 million)*. In the case of certain banking facilities of HK$220.0 million *(2017: HK$326.0 million)*, the drawdown of which is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group did not have any assets pledged for the facilities *(2017: Nil)*.

Material Acquisitions, Disposals and Significant Investments

During the period under review, there were no material acquisitions and disposals of investments *(2017: the Group disposed of the convertible bonds issued by XinRen Aluminum Holdings Limited and all listed equities, both of which included in the available-for-sale financial assets and realised a loss on disposal of HK$1.4 million and a gain on disposal of HK$8.9 million respectively)*.

Contingencies

The Group has no material contingent liabilities as at 31 December 2018 *(2017: Nil)*.

Commitments

In June 2015, the Group has entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1.5 billion and HK$1.9 billion. Upon maturity of the cross-currency swap, the Group converts the final exchange amount of HK$1.9 billion to RMB1.5 billion (i.e. pay HK$1.9 billion and receive RMB1.5 billion). During the period under review, the cross-currency swap was settled in May 2018 and the Group has no material capital commitment as at 31 December 2018.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2018, the Group has no material exposure to fluctuations in exchange rates *(2017: the Group has RMB exposure arising from the issuance of bonds. Considered the major operating cash flow is in Hong Kong dollars and to mitigate the relevant currency risks, the Group had entered into a three-year cross-currency swap as mentioned in the paragraph of "Commitments" in this report. During the period under review, the bonds were matured and the cross-currency swap was settled in May 2018)*.

EMPLOYEES

As at 31 December 2018, the Group had a total of 117 employees *(at 31 December 2017: 110 employees)*. The Group regards employees as an important asset. We continue to improve our human resources management system. We aim to create a good work environment that attracts, identifies and nurtures talent. The Group has an employment policy which covers recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. In line with the Group's business and job requirements, we offer competitive remuneration packages and a comprehensive performance appraisal system. Base salary is being reviewed on an annual basis. Discretionary Performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

In order to promote mutual development of our employees and the Group, we implement the sustainable development strategy and facilitate employees' on-the-job training and development. The Group provides various kind of on-the-job training, external and internal training programs, including financial and business knowledge, product and operational management, compliance and risk management. The training programs enrich employees' professional knowledge and help ensure employees have the latest information and technical skills to perform their duties, sustain and enhance its competitiveness.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 *(2017: Nil)*.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Friday, 28 June 2019. Notice of the AGM will be published on the Company's website at www.swsc.hk and the HKEXnews at www.hkexnews.hk and despatched to the Shareholders on or before 10 May 2019.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules throughout the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with each Director and was confirmed that all the Directors have complied with the required standard set out in the Model Code during the Review Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the Review Period.

AUDIT COMMITTEE

An Audit Committee was established by the Board on 27 February 2012. All members of the Audit Committee are independent non-executive Directors. The Audit Committee has met with the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of this announcement of final results of the Group for the year ended 31 December 2018.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.swsc.hk and the HKEXnews website at www.hkexnews.hk. The 2018 annual report will be despatched to the Shareholders on or before 30 March 2019 and will be available at the aforesaid websites at the same time.

By order of the Board
Southwest Securities International Securities Limited
Wu Jian*
Chairman

Hong Kong, 22 March 2019

As at the date of this announcement, the executive Directors are Mr. Wu Jian (Chairman), Mr. Pu Rui* (Chief Executive Officer), Ms. Zhao Dongmei*, Ms. Wang Huiyun* and Mr. Xiong Xiaoqiang*; and the independent non-executive Directors are Professor Wu Jun*, Mr. Meng Gaoyuan* and Dr. Guan Wenwei.*

* *For identification purpose only*