



西南證券 (600369 SH)
控股公司

西證國際

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

Stock Code 股份代號: 812

Annual Report
年報 2015

(For the six months ended 31 December 2015)
(截至2015年12月31日止六個月)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. YU Weijia (*Chairman*)
Mr. PU Rui (*Chief Executive Officer*)
Mr. WU Jian
Mr. ZHANG Chunyong
Mr. XU Mingdi
Ms. LIANG Yiqing

Independent Non-executive Directors

Professor WU Jun
Mr. MENG Gaoyuan
Mr. LAM Kwok Cheong

AUDIT COMMITTEE

Mr. MENG Gaoyuan (*Chairman*)
Professor WU Jun
Mr. LAM Kwok Cheong

REMUNERATION COMMITTEE

Professor WU Jun (*Chairman*)
Ms. LIANG Yiqing
Mr. MENG Gaoyuan
Mr. LAM Kwok Cheong

NOMINATION COMMITTEE

Mr. YU Weijia (*Chairman*)
Professor WU Jun
Mr. MENG Gaoyuan
Mr. LAM Kwok Cheong

AUTHORISED REPRESENTATIVES

Mr. PU Rui
Mr. LUO Yi

JOINT COMPANY SECRETARIES

Mr. LUO Yi
Miss FUNG Suk Han

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

CORPORATE INFORMATION

**HEAD OFFICE AND
PRINCIPAL PLACE
OF BUSINESS IN HONG KONG**

Rooms 1601, 1606-08
16/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

**BERMUDA PRINCIPAL SHARE
REGISTRAR**

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

**BRANCH SHARE REGISTRAR
IN HONG KONG**

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

Pan-China (H.K.) CPA Limited
Certified Public Accountants
11/F, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

**LEGAL ADVISER AS TO
HONG KONG LAW**

Loong & Yeung Solicitors
Suites 2001-2006, 20th Floor
Jardine House
1 Connaught Place, Central
Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Stock Code: 812

WEBSITE

www.swsc.hk

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Weijia (余維佳), aged 52, has been appointed as an Executive Director, the Chairman of the Board and the chairman of the Nomination Committee of the Company since 27 February 2015. Mr. Yu graduated from 成都科技大學 (Chengdu University of Science and Technology*) (currently known as 四川大學 (Sichuan University*)) in the People's Republic of China (the "PRC"), with a bachelor degree in Mathematics in July 1983. He obtained a Master Degree in Science from 華中工學院 (Huazhong Institute of Technology*) in December 1985 and he obtained a doctorate in engineering from 天津大學 (Tianjin University*) in October 1989. Mr. Yu served in China Merchants Securities Co., Ltd. (stock code: 600999) which is listed on the Shanghai Stock Exchange consecutively as the vice president (from March 1999 to December 2003), executive vice president (from December 2003 to September 2010), chief operating officer (from September 2010 to October 2011). He had also been the chairman of China Merchants Securities (HK) Co., Limited from January 2002 to October 2011. Mr. Yu served in 西南證券股份有限公司 (Southwest Securities Co., Ltd.*) (stock code: 600369) ("SWSC") which is listed on the Shanghai Stock Exchange consecutively as the chief executive and the director since February 2012. Mr. Yu has been the chairman of 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*) and 西證重慶股權投資基金管理有限公司 (SWSC Chongqing Investment Fund Management Co., Ltd) since June 2012 and July 2013 respectively. He is currently the chairman of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Yu has been the chairman of 重慶證券期貨業協會 (Chongqing Securities & Futures Association*) since November 2012. Mr. Yu has over 16 years of experience in investment, finance, fund management and securities market.

Mr. PU Rui (蒲銳), aged 42, has been appointed as an Executive Director and the Chief Executive Officer of the Company since 27 February 2015. Mr. Pu obtained his Master Degree in economics majoring in Monetary Banking (貨幣銀行學) from 西南財經大學 (Southwestern University of Finance and Economics) in the PRC in June 1998. Mr. Pu served in 中國證券監督管理委員會四川監管局 (China Securities Regulatory Commission Sichuan Office) consecutively as deputy commissioner of the listed company supervision department one (上市公司監管一處), commissioner of the listed company supervision department two (上市公司監管二處) and commissioner of the division of investigation and enforcement department two during August 1998 to September 2012. He had also been the assistant to mayor of Suining government of the PRC during May 2007 to May 2008. Mr. Pu served in SWSC consecutively as the member of the party committee (黨委委員), assistant to chief executive (總裁助理) and vice president (副總裁) since October 2012 and he is responsible for assistant the chief executive to manage the securities sales department, credit transaction department, institutional sales department, wealth management centre and operations management department. He is currently a director and the general manager of Southwest Securities International Investment Limited, a substantial shareholder of the Company. He has abundant experience in investment, finance and securities market business.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Mr. WU Jian (吳堅), aged 51, has been appointed as an Executive Director of the Company since 27 February 2015. Mr. Wu graduated from 山西財經大學 (Shanxi University of Finance and Economics*) in the PRC, with a bachelor degree in economics in July 1985. He graduated from MBA Institute of Chongqing University with a MBA degree in February 2001. Mr. Wu served in China Securities Regulatory Commission Chongqing Office consecutively as the deputy commissioner of division of investigation and enforcement department and commissioner of the listed company supervision department during 1997 to 2005. Mr. Wu was appointed as the deputy general manager of 重慶渝富資產經營管理集團有限公司 (Chongqing Yufu Assets Management Group Co., Ltd.*) from December 2005 to November 2013 and he was responsible for investment management. Mr. Wu was also appointed as the chief executive of 重慶股權轉讓中心有限責任公司 (Chongqing Share Transfer Center Co., Ltd.*) since October 2013. Mr. Wu served in SWSC as a director during December 2006 to January 2014. He was appointed as the vice president of SWSC since February 2014. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Wu has over 19 years of experience in investment and securities market.

Mr. ZHANG Chunyong (張純勇), aged 50, has been appointed as an Executive Director of the Company since 27 February 2015. Mr. Zhang obtained his Bachelor Degree in Medicine from 四川醫學院 in the PRC in April 1985 and obtained a Master Degree in Medicine from 第三軍醫大學 (Third Military Medical University*) in the PRC in July 1989. Mr. Zhang served in 重慶市金融工作辦公室 (Chongqing Financial Services Office*) as the commissioner of the listed companies department and securities department during July 2003 to April 2007. He was the deputy chief executive of SWSC since July 2007. He has also been a director of 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*), 西證創新投資有限公司 (SWSC Innovation Investment Co., Ltd.*) and 西證重慶股權投資基金管理有限公司 (SWSC Chongqing Investment Fund Management Co., Ltd.*) since April 2013, March 2013 and July 2013 respectively. He has also been the chairman of 重慶西證渝富股權投資基金管理有限公司 (Chongqing SWSC Yufu Capital Equity Investment Fund Management Co., Ltd*), 西南期貨有限公司 (Southwest Futures Co., Ltd.*) and 重慶西證小額貸款有限公司 (Chongqing SWSC Micro-credit Co., Ltd.*) since May 2013, December 2013 and August 2014 respectively. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Zhang has over 12 years of experience in finance, fund management and securities market supervision.

Mr. XU Mingdi (徐鳴鎊), aged 46, has been appointed as an Executive Director of the Company since 27 February 2015. Mr. Xu obtained his bachelor degree in economics from 東北財經大學 (Dongbei University of Finance and Economics*) in the PRC in July 1991 and completed postgraduate course in accounting from 中央財經大學 (Central University of Finance and Economics*) in the PRC in October 2002. Mr. Xu served in SWSC consecutively as the assistant to president (總裁助理), vice president (副總裁), secretary to the board of directors (董事會秘書) since November 2001. Mr. Xu has been a director of 西證創新投資有限公司 (SWSC Innovation Investment Co., Ltd.*) since March 2013. He is currently a director of Southwest Securities International Investment Limited, a substantial shareholder of the Company. Mr. Xu has over 14 years of experience in securities.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Continued)

Ms. LIANG Yiqing (梁一青), aged 52, has been appointed as an Executive Director and a member of the Remuneration Committee of the Company since 27 February 2015. Ms. Liang obtained her diploma in financial accounting from 重慶商學院 (Chongqing Institute of Commerce*) in the PRC in June 1996. She completed her postgraduate studies majoring in economic management in 中國社會科學院研究生院 (Graduate School of Chinese Academy of Social Sciences*) in the PRC in September 2002. Ms. Liang served in SWSC consecutively as the assistant to the chairman of the Labour Union (工會主席助理), general manager of party relationship human resources department (黨群人事部總經理), general manager of human resources department (人力資源部總經理), secretary to Commission for Discipline Inspection (紀律檢查委員會書記), deputy secretary of the party committee (黨委副書記) since December 1999. She has also been the supervisor of 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*) and 西證重慶股權投資基金管理有限公司 (SWSC Chongqing Investment Fund Management Co., Ltd*) since March 2010 and July 2013 respectively. She is also the chairman of supervisor committee (監事會主席) of 重慶西證渝富股權投資基金管理有限公司 (Chongqing SWSC Yufu Capital Equity Investment Fund Management Co., Ltd*) since May 2013. She has abundant experience in human resources area.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WU Jun (吳軍), aged 62, has been appointed as an Independent Non-executive Director and the chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee of the Company since 27 January 2015. Professor Wu has been appointed as an independent director of SWSC since 16 March 2009 to present. He is also a professor in and a tutor of the Doctor of Philosophy students of Finance in 對外經濟貿易大學 (University of International Business and Economics*) (“UIBE”). He was also appointed as an independent director in 深圳市深信泰豐(集團)股份有限公司 (Shenzhen Shenxin Taifeng Group Co. Ltd*), whose shares are listed on the Main Board of Shenzhen Stock Exchange (Stock code: 000034) from June 2008 to June 2014 and 浙江紹興瑞豐農村商業銀行股份有限公司 (Zhejiang Shaoxing Ruifeng Rural Commercial Bank*) from January 2011 to present. Professor Wu graduated from 雲南財貿學院 (Yunnan Finance Institution*) in July 1981 majoring in Finance, and finished his doctorate in currency and banking in 中國人民銀行總行金融研究所 (The Financial Research Institute of People’s Bank of China*) in 1995. Professor Wu has extensive knowledge in economics and finance, and has strong organizational skill. He has been engaged in teaching and research in finance in Yunnan Finance Institution, 中國金融學院 (China Finance College*) and UIBE for 35 years. He is strong at the research skill in finance theory, its revolution and application.

Mr. MENG Gaoyuan (蒙高原), aged 44, has been appointed as an Independent Non-executive Director, the chairman of Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company since 27 January 2015. Mr. Meng has been qualified as an accountant in the PRC since 1999. He has also been qualified as a certified public valuer and a registered land valuer since 1998 and 2006 respectively. Mr. Meng served in 重慶康華會計師事務所有限責任公司 (Chongqing Kanghua Certified Public Accountants*) consecutively as a department senior manager (部門高級經理) and deputy general manager since September 1998. Mr. Meng graduated from 江西財經學院 (Jiangxi University of Finance and Economics*) in the PRC with a Bachelor degree majoring in Finance, Accounting and Auditing in July 1994. He obtained a Master of Business Administration from 重慶理工大學 (Chongqing University of Technology*). He has abundant experience in accounting, audit and finance.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. LAM Kwok Cheong (林國昌), aged 62, has been an Independent Non-executive Director of the Company since November 2013. Mr. Lam is a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He is a Justice of the Peace, a holder of Bronze Bauhinia Star (BBS) and a solicitor of the High Court of Hong Kong Special Administrative Region. He holds a Bachelor of Laws Degree from the University of Hong Kong and has been a solicitor practicing for over 32 years. Mr. Lam is currently a member of the Buildings Ordinance Appeal Tribunal Panel, a member of the Panel of Adjudicators of Obscene Articles Tribunal, an Ex-Officio Member of Heung Yee Kuk New Territories, a Civil Celebrant of Marriages, a China appointed Attesting Officer and a fellow of The Hong Kong Institute of Directors. He is a non-executive director of Mega Medical Technology Limited (formerly known as “Wing Lee Holdings Limited” and “Wing Tai Investment Holdings Limited”) (Stock Code: 876) and an independent non-executive director of Sparkle Roll Group Limited (Stock Code: 970), of which shares of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and an independent non-executive director of Prosten Technology Holdings Limited (Stock Code: 8026), shares of which are listed on the growth enterprise market (GEM) of the Stock Exchange. He was also an independent non-executive director of Mega Medical Technology Limited, Same Time Holdings Limited (now known as “GCL New Energy Holdings Limited”) (Stock Code: 451), shares of these companies are listed on the main board of the Stock Exchange, and Sky Forever Supply Chain Management Group Limited (Stock Code: 8047), shares of which are listed on the GEM of the Stock Exchange.

SENIOR MANAGEMENT

Mr. LUO Yi (羅毅), aged 35, is the Vice President of the Group, Joint Company Secretary and Authorised Representative of the Company. He is currently in charge of investment banking department and market research and product development department of the Group. He was appointed as an Executive Director, a member of the Remuneration Committee and the executive committee of the Company for the period from 27 January 2015 to 27 February 2015. Mr. Luo graduated from Carleton University in Canada, with a Bachelor of Arts Degree majoring in Economics in June 2004. He obtained a Master of Arts Degree from the University of Hong Kong in December 2006. He has obtained a license issued by the Securities and Futures Commission under the Securities and Futures Ordinance to carry out Type 6 Regulated Activity (Advising on Corporate Finance) since 2008, and has become a member of the Chinese People’s Political Consultative Conference of Guangzhou City since 2014. Mr. Luo had served in GF Capital (Hong Kong) Limited consecutively as the senior manager from June 2007 to August 2009. He had also served in China Merchants Securities (HK) Co., Limited as the executive director of the investment banking department from September 2009 to January 2013. Mr. Luo was appointed as the director of the institutional client department of SWSC, the controlling shareholder of the Company, from July 2013 to February 2015.

Mr. ZHANG Yi (張弋), aged 42, is the Vice President of the Group. He is currently in charge of information technology department, legal & compliance and internal audit department and risk control department of the Group. He was appointed as an Executive Director and a member of the executive committee of the Company for the period from 27 January 2015 to 27 February 2015. Mr. Zhang graduated from the 機電與控制工程學院 (College of Mechatronics and Control Engineering) of 深圳大學 (Shenzhen University) in the PRC majoring in Mechanic Manufacturing & Automation in July 1996. Mr. Zhang has been the vice general manager of the department of strategic development of SWSC since 2012. He was a general manager of the department of stock exchange of 西南證券深圳蛇口後海路證券營業部 (SWSC’s branch in Shenzhen Shekou Hou Hai Road).

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (Continued)

Mr. LIN Peng (林芑), aged 50, the Vice President of the Group. He is also a director of the main subsidiaries of the Company. Mr. Lin joined the Group in October 2011. He was appointed as an Executive Director and a member of the executive committee of the Company from 15 October 2012 to 27 January 2015. He is currently in charge of the brokerage business department of the Group. He has over 23 years' experience in banking and finance as well as financial servicing industry. Prior to joining the Group, Mr. Lin was an executive director and the chief operating officer of Finet Group Limited, and also worked for Infocast Limited as the senior vice president and chief financial officer. Mr. Lin has served with multinational enterprises and multi-industries in China, Hong Kong and North America. He has extensive knowledge in securities trading, corporate finance, merger and acquisition, bond issuance, direct investments, and financial servicing. Mr. Lin holds a Bachelor's Degree in finance from Xiamen University in the PRC and a Master's Degree in business administration from Ivey School of Business, University of Western Ontario.

Ms. WONG Lai Ping, Vicky (黃麗萍), aged 55, joined the Group in June 1990. Ms. Wong is currently the Vice President of the Group. She is also a director of the main subsidiaries of the Company. She is responsible for overseeing the Group's company secretary, human resources, administration as well as corporate communication and customer relation functions. Ms. Wong held various senior management positions, including an Executive Director and a member of the Remuneration Committee of the Company from 29 June 2006 to 27 January 2015, a member of the executive committee of the Company from 24 September 2008 to 27 January 2015, and a member of the Nomination Committee of the Company from 27 February 2012 to 27 January 2015. Ms. Wong has over 30 years of professional human resources and executive management experience. Ms. Wong obtained her Master's Degree in business administration from the University of Leicester, UK in 2006.

Ms. TAM Kar Bo, Carrie (譚嘉寶), aged 46, is the Vice President and Financial Controller of the Group. Ms. Tam joined the Group in 2011 as the Financial Controller. She was appointed as a member of the executive committee of the Company from 15 October 2012 to 27 January 2015. She is currently in charge of finance and account and settlement departments. Ms. Tam has worked for international accountancy firm and well known securities houses for over 20 years and experienced in the field of auditing and accounting in financial services industry. Ms. Tam obtained a Bachelor's Degree of Arts in Accountancy and a Master's Degree in Professional Accountancy in The Hong Kong Polytechnic University. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Miss FUNG Suk Han (馮淑嫻), aged 42, is the Joint Company Secretary of the Company. She joined the Group in October 2010. Miss Fung has over 18 years' experience in company secretarial field. She is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She holds a Master's Degree in Business Administration from The Open University of Hong Kong.

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director(s)") of Southwest Securities International Securities Limited (the "Company" or "SWSI"), I am pleased to present the annual report and audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the six months ended 31 December 2015. As mentioned in the Company's announcement dated 3 December 2015, the Board has resolved to change the end date of the Company's financial year from 30 June to 31 December. Accordingly, the annual report and audited consolidated financial statement cover the six-month period from 1 July 2015 to 31 December 2015 (the "Review Period").

In 2015, China's gross domestic product growth decreased to 6.9%, being the first time that GDP growth in China has dropped below 7% since 1990. Against the slower economic growth, The People's Bank of China (the "PBOC") has cut both the RMB deposit reserve ratio ("deposit reserve ratio") for financial institutions and the RMB benchmark loan and deposit interest rates ("benchmark interest rates") for financial institutions five times during 2015 to continue its monetary easing policy. On 11 August 2015, PBOC announced a reform of the central parity quotation mechanism on the RMB foreign exchange rate in order to advance the market-oriented development of the RMB. However, this triggered substantial fluctuations of the RMB exchange rate. Affected by various factors, the Chinese economy encountered huge downward pressure during the second half of 2015. On a positive note, RMB was included in the Special Drawing Rights (SDR) currency basket of the International Monetary Fund ("IMF") on 29 November 2015. This marked an important milestone for the integration of the Chinese economy and the position of RMB into the global economy. It has facilitated the advance of Chinese enterprises, which have adopted "Going Out" strategy as advocated by the PRC Government, to achieve a reasonable allocation of the global industry chain and also underscores the accelerating internationalisation of the RMB in the global marketplace.

Year 2015 strengthened the connection between the stock markets in China and Hong Kong. The Shanghai-Hong Kong Stock Connect has been in stable operation after its launch more than a year ago. In the beginning of 2015, China's mutual funds have been allowed to participate in Hong Kong stock market through the Shanghai-Hong Kong Stock Connect. In December 2015, Hong Kong and Mainland Mutual Recognition of Funds were officially implemented. Accordingly, the Hong Kong stock market become more active. However, dragged by the dramatic volatility in China's stock market during 2015, the Hong Kong stock market experienced significant fluctuations. The Shanghai Stock Exchange Composite Index ("SSEC Index") experienced a more than doubled growth in the first half of 2015 but the growth was almost completely eliminated by August 2015. The slowdown of external markets, such as the international bulk commodity market, also affected the Hong Kong stock market. Hit by instability of external economies and affected by the fluctuation of the RMB exchange rates, the sentiment and the performance of the Hong Kong stock market weakened appreciably in the second half of 2015. The Hang Seng Index closed at 21,914 at the end of 2015, representing a drop of 7.2% as compared to 2014. On the other hand, the Hong Kong stock market led the world in proceedings from initial public offerings ("IPO") in 2015. A total of 138 new listings raised HK\$1,100 billion (including the total IPO and post IPO funds raised), which demonstrated investors' confidence and interest in Hong Kong capital markets.

CHAIRMAN'S STATEMENT

Year 2015 had been a year of transformation and reinforcement for SWSI. As the only overseas-listed platform of Southwest Securities Co., Ltd. ("SWSC"), SWSI serves as an important bridge to link southwestern China and the global capital markets and shoulders a major role in assisting the enterprises in southwestern China to tap the global capital markets. During the Review Period, with strong support from its parent company, SWSC, the Group has acquired a complete new business outlook through further adjustment to the operational management and optimisation of the business structure after the completion of the acquisition and the change of name. I am pleased to see that SWSI has managed to record a profit and made progress across all of its business segments through its relentless efforts despite the downward pressure on the economy and the shock created by the fluctuation in the exchange rate of the RMB. During the Review Period, the Group's net profit amounted to HK\$13,625,000 (*for the year ended 30 June 2015: HK\$11,291,000*).

Going forward, the recovery of the global economy is likely to continue, but divergences among regions still exist: the US will enter the interest rate rise cycle and its economy is expected to grow steadily; Europe and Japan will continue the implementation of the quantitative easing monetary policy and their economies will be on a slower recovery path; with a stronger US dollar, the emerging markets will likely experience an outflow of capital; and China will embark on structural economic adjustments. Year 2016 is the first year of China's Thirteenth Five-Year Plan. While it will take time for reform to be implemented and take effect, the fundamentals of the economy in China remain positive. The PRC government is continuing with stimulus measures including further cuts in the reserve requirement ratio and interest rates by the PBOC. As China faces further optimisation and adjustment to the structure of its economy, other important factors include the increased integration of global production capacity driven by the One Belt, One Road initiative, economic growth boosted by the rise of consumption and the continuous emergence of new industries and new types of operations. The reform of the financial markets has become a leading driver for structural reform and is set to facilitate a more flexible and open market environment. The commencement of the Shenzhen-Hong Kong Stock Connect is expected to further spur the activities in the Hong Kong stock market as well as bourses in mainland China. The investment scope of the Shanghai-Hong Kong Stock Connect is also likely to expand. The approved funds list under the Hong Kong and Mainland Mutual Recognition of Funds scheme is expected to be constantly expanded in the future. This closer cross-border cooperation will be positive in meeting the demand of Mainland citizens for asset allocation in global markets and will also boost the liquidity of capital markets in Hong Kong. The continued reform of the RMB international exchange rate will be favourable to the ongoing development of off-shore RMB markets.

CHAIRMAN'S STATEMENT

SWSI represents the first step by SWSC to tap the global markets and is set to play a vital role for enhancing the operational capability and strengthening the talent base. Looking ahead to the coming year, SWSI is well-positioned to seize market opportunities to consolidate internal and external resources, strengthen all the businesses and boost operational efficiency. To prepare for the upcoming commencement of the Shenzhen-Hong Kong Stock Connect, the Group is engaged in installing the networking technology and trading systems. The quality customer resources of SWSI form an important pillar for the Group's future development. To make the most of the market opportunities presented by the forthcoming Shenzhen-Hong Kong Stock Connect, the Group will launch a wide range of products to meet the needs of investors so as to spur income and profit growth. In the coming three-to-five years, I and the Group's management team aspire for SWSI to steadily enhance the operational capability, continuously increase the operating profit and remain at the forefront of the Chinese securities companies which are listed on the Hong Kong stock market. Based on this foundation, SWSI can set up branch organisations out of Hong Kong to aggressively enter global markets in a bid to develop a quality internationally-integrated financial services platform.

As our "Business Consolidation" has proceeded steadily and smoothly, a "Win-win Situation" for the Group and its customers and partners is likely to result in the near future. I sincerely hope that with the encouragement and support of all sectors of society and the Group's shareholders and dedicated efforts of my fellow members of the Board and the entire staff, that SWSI will "Lead Southwest Securities into a New Era." In this way, SWSI will become a model representative of the Chinese securities companies which are listed on the Hong Kong stock market, serve as a bridgehead of SWSC to access the global capital markets and become the preferred choice of partners for customers in the Greater China and Southeast Asian regions.

Last but not least, I would like to express my sincere gratitude for the diligence and contribution of the entire workforce of the Group, the trust and support of the shareholders, and the great interest in and solid support from all sectors of society for SWSI!

YU Weijia

Chairman

Hong Kong, 18 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's economic growth slowed down in 2015 with its annual GDP at 6.9%, which is the lowest expansion in the recent 25 years, and the annual Consumer Price Index of China recorded a year-on-year growth of only 1.4%, which is the lowest in the recent six years. The Peoples' Bank of China ("PBOC") has continued to ease the monetary policy of China. The PBOC has lowered the benchmark interest rate for RMB deposits and borrowings and revised the deposit reserve ratio for RMB deposit five times during the year and completely lifted the control over the interest rate cap. The PRC government has also been supportive for infrastructure development. It has implemented a local debt replacement mechanism to relieve the interest rate burden and economic downturn pressures, as well as facilitate economic transformation. In early 2015, the State Council has proposed the "One Belt, One Road" initiative and strengthened the "regional free trade agreement" arrangements with a number of countries to stimulate local and foreign trade investment and consumption and boost domestic demand and employment. In August 2015, the PBOC has announced the reform of the middle exchange rate quotation regime, which has substantially reduced the middle RMB-US dollar exchange rate and accelerated the internationalisation of RMB. The PBOC has also realised the inclusion of RMB into the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket of currencies in November 2015. These developments have highlighted further integration of the Chinese economy as well as the role of its currency in the global economic system.

The A-share market encountered a perilous situation and radical changes in 2015. The Shanghai Stock Exchange Composite Index closed at 3,539.2 for 2015, representing a drop of 0.94% compared with 2014, while the Shenzhen Stock Exchange Component Index closed at 12,664.9 for 2015, representing a drop of 1.75% compared with 2014. Affected by the notable drop in the A-share market, the Hong Kong stock market underperformed the stock indices of various major global markets. The Hong Kong stock market showed a good start at the beginning of 2015, but experienced boom-and-bust volatility in the middle of the year. There was a slight rebound towards the end of 2015 which lacked the strength of a rising trend. The Hang Seng Index closed at 21,914 for 2015, representing a drop of 7.2% compared with 2014. The year 2015 marked the 1st anniversary of the Shanghai-Hong Kong Stock Connect. The daily average transaction of the Shanghai-Hong Kong Stock Connect and Southbound was RMB\$6.4 billion and HK\$3.4 billion respectively, accounting for 0.6% and 3.2% of the average daily turnover on the bourses of Shanghai and Hong Kong respectively. The Shanghai-Hong Kong Stock Connect has also turned active in tandem with the improving stock market performances.

Hong Kong has led the global market in IPOs financing. As at 31 December 2015, a total of 138 companies have been listed in Hong Kong in the whole year, exceeding the 122 companies listed last year. Proceeds raised from listings grew 12.4% year-on-year to HK\$261.3 billion, remarking the highest amount in the global market. China has continued to encourage domestic companies to support the "Going Out" strategy. As an international fund-raising platform, Hong Kong has attracted a total of 31 H-shares to list in the city, which accounted for 90% of the funds raised during the year. This performance has demonstrated that Hong Kong's capital market remains active and continues to inspire the trust of global investors.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In January 2015, the Company was acquired by Southwest Securities Co., Ltd. (“SWSC”) and has been renamed as Southwest Securities International Securities Limited in May 2015 as it has become the overseas flagship business arm of SWSC. In 2015, the Group has adopted innovative measures and implemented business reforms and revised its own development pace based on market trends. It has leveraged the established integrated business platform of SWSC and capitalised on its own extensive customer base and operating capacity in China, enabling the Group to maintain overall profit amidst the weak economic environment in the second half of 2015. This was the result of riding on SWSC’s abundant resources and synergies among China and Hong Kong markets as part of its long-term sustainable development strategies.

Founded in 1999, SWSC, the parent company, is a national securities firm offering comprehensive and diversified financial products and services including listing sponsorship, securities research and underwriting, investment consultancy and asset management. As the first overseas integrated financial service platform of SWSC, the Group rides on its own industry position and regional advantage to offer quality financial products and services to domestic and overseas individual and institutional clients, making it a bridge for connecting and allocating regional domestic and overseas financial resources. As economic globalisation extends its reach, the Group can realise complementary strengths and appropriately allocate resources among its divisions after carefully analysing conditions.

The Group is principally engaged in securities brokerage, margin financing, corporate finance, wealth management, proprietary trading and other businesses. As stated in the announcement of the Company dated 3 December 2015, the Board has resolved to change the financial year end date of the Company from 30 June to 31 December. Accordingly, this annual report and audited consolidated financial statements cover a six-month period from 1 July 2015 to 31 December 2015 (the “Review Period”). During the Review Period, although the overall economic environment was sluggish, the Group was able to maintain overall satisfactory profit leveraging on its excellent business operating and risk control capacity. During the Review Period, the Group recorded a revenue of HK\$14.5 million (*for the year ended 30 June 2015: HK\$56.2 million*). Net profit before tax amounted to HK\$18.3 million (*for the year ended 30 June 2015: HK\$12.9 million*).

In May 2015, the Group successfully issued 3-year offshore RMB-denominated bonds with an aggregate principal amount of RMB1.5 billion due in May 2018 at the rate of 6.45% per annum. Proceeds from the bonds will be used as general working capital and funding various financing businesses of the Group.

Brokerage and Margin Financing Business

Revenue generated from the Group’s brokerage and margin financing business amounted to HK\$42.6 million during the Review Period (*for the year ended 30 June 2015: HK\$38.5 million*).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Brokerage and Margin Financing Business (Continued)

In the second half of 2015, both the stock market in China and Hong Kong saw intense volatility. The average daily turnover of the second half of 2015 of Hong Kong securities market declined by 30% to HK\$86.7 billion when compared with the first half of the year (*First half of 2015: HK\$125.3 billion*). However, the Group's average daily turnover in the Hong Kong stock market rose by 37% year-on-year. The number of brokerage business customers of the Group has doubled due to the referral of the Mainland customers by the parent company. In addition, customers' active participation in various placing projects have driven the increase in overall turnover. At the same time, the flexible adjustment in commission rate has boosted the commissions from the brokerage business and placing projects to increase to HK\$28.1 million (*for the year ended 30 June 2015: HK\$34.1 million*), representing a year-on-year rise of 64.8%.

For the margin financing business, as the Group successfully issued 3-year offshore RMB-denominated bonds with an aggregate principal amount of RMB1.5 billion in May 2015, it has abundant capital on hand enabling it to increase the financing quota to its existing and new customers. During the Review Period, the Group's overall outstanding borrowings from customers rose substantially by three times when compared with the previous financial year, making the interest income from the margin business surge to HK\$14.5 million during the Review Period (*for the year ended 30 June 2015: HK\$4.3 million*).

Corporate Finance

Revenue generated from the Group's corporate finance business amounted to HK\$6.9 million during the Review Period (*for the year ended 30 June 2015: HK\$7.2 million*), a year-on-year growth of 91.7%.

The Group continued to realise the strategy of offering comprehensive and professional one-stop investment banking services to its corporate finance customers. During the Review Period, the Group acted as the sponsor of a company which intended to be separately listed on the Stock Exchange. The Group has also completed a number of placings and financing project acquisitions by listed companies and independent financial advisory and joint financial advisory contracts during the Review Period, thereby generating satisfactory revenue from the corporate finance business segment. The Group has continued to implement sponsorship projects while seeking new sponsorship and other investment banking business projects.

Wealth Management

The Group's wealth management business recorded a revenue of HK\$1.2 million during the Review Period (*for the year ended 30 June 2015: HK\$10.8 million*). The decrease in revenue was due to integration of sales platform and departure of some sales person.

During the Review Period, the Group has shifted its wealth management business focus to the preparation for asset allocation of the Mainland high net worth customers. Towards this end, it has organised roadshows for introducing wealth management products and overseas asset allocation across the Mainland China. These activities have presented a more comprehensive understanding to domestic customers about overseas financial products and a clearer understanding of the overall sales flows and asset allocation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Wealth Management (Continued)

The launch of the Mainland-Hong Kong Mutual Recognition of Funds on 1 July 2015 has facilitated the circulation of qualified funds between China and Hong Kong. The market believes the above arrangement can largely diversify the types of fund products available for Hong Kong investors and enhance Hong Kong's role of wealth management. Thanks to the Group's introduction of new wealth management products and sales channels, the Mainland of China customers now have a greater trust in Hong Kong's financial products. The Group expects a strong growth in the wealth management business during the next financial year.

Proprietary trading

The proprietary trading business has recorded a loss of HK\$36.2 million for the Review Period (*for the year ended 30 June 2015: loss of HK\$0.3 million*).

During the Review Period, the market has further adjusted to the persistent slowdown of macroeconomic growth in China, the value of RMB entering into a reduction cycle and the highly volatile stock market. To cope with this uncertainty, the proprietary portfolio has implemented position control and hedging of derivatives. However, overall proprietary investment has still recorded a loss despite outperforming market indices.

Proprietary investment direction and profile has been authorized by the Company. Both the overall mix and stocks from individual companies have been immediately brought under risk control and subject to strict risk exposure limitation. The investment mix has also used various derivatives to avoid systematic market risk and risk associated with individual stock liquidity.

Proprietary investment in the coming year will basically be made in line with ongoing investment strategies. The Group is positive about the prospects of the stock market in Hong Kong as it has a relatively low valuation compared to bourses around the world, and it should also benefit from the investment opportunities arising from the Shenzhen-Hong Kong Stock Connect. The proprietary investment portfolio is guided by the bottom-up investment strategy and focuses on China stocks based on their valuation.

Other income

During the Review Period, the Group's other income amounted to HK\$208.4 million (*for the year ended 30 June 2015: HK\$79.4 million*). It was mainly attributable to the disposal of available-for-sale financial assets of the Group during the Review Period with an income of HK\$95.2 million (*for the year ended 30 June 2015: HK\$69.4 million*). The purpose of the disposal is to realise the long-term investment gain and to obtain additional cashflow. The Group also intends to use the proceeds of the disposal for general working capital. Also, the exchange gain of approximately HK\$97.4 million arised mainly from the exchange rate conversion on the issuance of bonds during the Review Period. In addition, interest income from the Group's acquired held-to-maturity investments amounted to HK\$7.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Staff benefit expenses

During the Review Period, staff benefit expenses amounted to HK\$39.1 million (*for the year ended 30 June 2015: HK\$39.0 million*).

Staff costs increased notably during the Review Period. This was mainly because the Group has strengthened staff deployment of its middle and back-end staff to optimise the system and organisation of different departments. The Group has also increased headcount to more effectively manage growth in business and strengthened internal risk control and supervision measures.

Commission expenses

The Group's commission expenses during the Review Period were HK\$7.8 million (*for the year ended 30 June 2015: HK\$22.5 million*).

Commission expenses mainly include the commissions paid in the course of conducting the brokerage business and wealth management business. The drop in commission expenses during the Review Period was mainly attributable to the relative decrease in commissions payable as a result of the drop in revenue from the wealth management business.

Finance costs

The Group's finance costs during the Review Period amounted to HK\$62.8 million (*for the year ended 30 June 2015: HK\$13.0 million*).

As the Group issued RMB bonds in May 2015, it had to pay bond interest expenses for six months during the Review Period, which led to a substantial increase in finance cost when compared to the bond interest expenses for less than one month paid for the year ended 30 June 2015.

Future Prospects

Looking ahead, the macroeconomic policies of China will place more emphasis on active fiscal policies in achieving steady growth in 2016. The government will continue to push forward financial reform and opening through implementation of a sound monetary policy. Our parent company, SWSC, is located in China's southwest region which is a key location in the "One Belt, One Road" initiative. Combining Hong Kong's position as a global financial centre with the favourable geographic location the Group will focus on brokerage and margin financing, corporate finance and assets management businesses. After weathering the fluctuations in the stock markets of China and Hong Kong, the Group will continue strengthening its operations and risk management, and use the capital raised from the issue of RMB bonds to boost business growth across all operations. It will also increase the investment in networking technology and transactions systems to enhance systems capacity and prepare to meet the increasing demand from customers. "People and Talent" is the key in the 21st century. Therefore, the Group will further optimize its talent nurturing system and create a better working environment with greater scope for career development, so as to attract more talent and thereby more strongly support our business growth.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Future Prospects (Continued)

With increasing integration and positive interaction between Hong Kong and the Mainland of China financial markets, the competition among Chinese securities firms is intensifying. As such, the Group will enhance business ties with the parent company by building an integrated platform that more closely connects the parties, so we can share resources and technological support, and strengthen our financial position so as to enhance our operations and tap the huge potential in the China market, and become one of the top players among local Chinese securities firms in Hong Kong. To advance the internationalisation of SWSC's business, the Group will fully utilise our competitive advantages, keep abreast of market and fiscal trends and adopt best business practices and leading-edge technology in China and overseas, with the aim to achieve sustainable profit growth, expand our business coverage, and lay a foundation for our internationalisation and professional development strategy. In the next five years, Hong Kong will act as our base for overseas expansion and the Group will strive to make progress as Southwest Securities and SWSC advance to become global enterprises.

FINANCIAL REVIEW

Liquidity, financial resources and gearing ratio

As at 31 December 2015, the Group had total cash and bank balances including pledge deposits of HK\$476.3 million (*at 30 June 2015: HK\$1,920.8 million*), while net current assets amounted to HK\$1,728.4 million (*at 30 June 2015: HK\$2,243.1 million*). The current ratio as a ratio of current assets to current liabilities was 8.0 times (*at 30 June 2015: 27.3 times*). The decrease in net current assets was mainly attributable to the acquisition of held-to-maturity investments, while the decrease in cash and bank balances was mainly caused by the business expansion of margin financing and the acquisition of held-to-maturity investments and financial assets at fair value through profit or loss.

At the end of the Review Period, the gearing ratio was 430.3% (*at 30 June 2015: 350.6%*). 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) 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 Review Period and up to the date of this report.

Banking facilities and charges on assets

As at 31 December 2015, the Group had no bank loans outstanding (*at 30 June 2015: Nil*) and had aggregate banking facilities of HK\$148.4 million (*at 30 June 2015: HK\$148.4 million*). The drawdown of certain banking facilities of HK\$142.9 million (*at 30 June 2015: HK\$142.9 million*) 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 Review Period, the Group pledged certain investments in listed securities of HK\$6.3 million (*at 30 June 2015: HK\$36.2 million*) and fixed deposits of HK\$2.0 million (*at 30 June 2015: HK\$2.0 million*) for the facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Material acquisitions, disposals and significant investments

The Group disposed certain listed equity investments and realised a long-term investment gain of HK\$95.2 million during the Review Period (*for the year ended 30 June 2015: HK\$69.4 million*).

Contingencies

The Group has no material contingent liabilities as at 31 December 2015 (*at 30 June 2015: 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. Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank. The amount to be paid is calculated on the final exchange amount of HK\$1.9 billion with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1.5 billion at 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK\$1.9 billion to RMB1.5 billion. The cross-currency swap is settled on gross basis.

In August 2015, the Group has entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Company agrees to convert RMB100.0 million to HK\$113.0 million.

Exposure to fluctuations in exchange rates and related hedges

As at 31 December 2015, 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. The Group will continuously monitor the mitigation effect and adjust if necessary.

EMPLOYEES

As at 31 December 2015, the Group had a total of 87 employees (*at 30 June 2015: 67 employees*). The Group operates different remuneration schemes for account executives and other supporting staff respectively. Account executives are remunerated on the basis of on-target-earning packages comprising base pay and allowances, commission and/or bonus. All supporting and general staff are also entitled to the year-end and the performance discretionary bonuses. The Company has adopted share option schemes under which the Company may grant options to eligible persons to subscribe for shares in the Company as a long-term incentive scheme.

The Group provides training programs for the staff to enhance their skills and knowledge in products, regulations and compliance. During the Review Period, the Group has conducted in-house training of 6.5 Continuous Professional Training hours for the licensed persons.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Good corporate governance practices improve transparency of the Company, optimize the Company's performance, and help create a corporate environment conducive to the efficient and sustainable growth. The Company strives to maintain a sound corporate governance system which could add value to the stakeholders.

During the six months ended 31 December 2015 (the "Period"), the Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board Composition

As at 31 December 2015, the Board comprises six Executive Directors and three Independent Non-executive Directors, namely:–

<i>Executive Directors:</i>	Mr. YU Weijia (<i>Chairman</i>)
	Mr. PU Rui (<i>Chief Executive Officer</i>)
	Mr. WU Jian
	Mr. ZHANG Chunyong
	Mr. XU Mingdi
	Ms. LIANG Yiqing

<i>Independent Non-executive Directors:</i>	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. LAM Kwok Cheong

Details of the biographies of the Directors are set out under the section "DIRECTORS AND SENIOR MANAGEMENT" in this report.

The Directors were appointed for a specific term where Executive Directors were appointed for a period of 3 years and the Independent Non-executive Directors, namely Professor WU Jun and Mr. MENG Gaoyuan, were appointed for a period of 3 years and Mr. LAM Kwok Cheong were appointed for 1 year. At least one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at least once every three years.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board Composition (Continued)

During the Period, the Company arranged for appropriate cover on Directors' and officers liability insurance policy to indemnify the Directors and officers for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company. No legal actions were made against any of the Directors in relation to their duties performed for the Company during the Period.

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business, with the ultimate goal of maximizing the shareholders' value and long-term success of the Company while the day-to-day management of business and operations are delegated to the Chief Executive Officer, respective Board committees and senior management of the Group.

To the best knowledge of the Directors, there are no relationships among the Board members, including financial, business, family or other material/relevant relationships.

Independent Non-executive Directors

During the Period, the Board has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in having 3 Independent Non-executive Directors (representing one-third of the Board) from time to time. The Independent Non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting or financial management.

The Company has received written confirmation from each Independent Non-executive Director of his independence to the Group and considers that all the Independent Non-executive Directors were acting independently throughout the Period.

Directors' Continuing Professional Development

Directors' training is an ongoing process. All Directors are encouraged to attend the seminars and courses on relevant topics when count towards continuous professional development training.

Pursuant to A.6.5 of the CG Code, Directors should participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the board remains informed and relevant. According to the records maintained by the Company, all current Directors, namely Mr. YU Weijia, Mr. PU Rui, Mr. WU Jian, Mr. ZHANG Chunyong, Mr. XU Mingdi, Ms. LIANG Yiqing, Professor WU Jun, Mr. MENG Gaoyuan and Mr. LAM Kwok Cheong, have participated in appropriate continuous professional development activities by way of attending training, reading articles, newspapers, journal and/or updates relevant to the Company's business or to the Directors' duties and responsibilities.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Board meetings

The Board meets regularly for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. Notice of not less than 14 days are given to all Directors in writing for all regular meetings. Each Director can access to the advices and services of the Joint Company Secretaries and is invited to include any matters in the agenda of the regular meetings. Agenda and materials for discussion in the meetings are circulated to all Directors at least 3 days prior to the date of the meetings.

Any Directors, who have declared to have a conflict of interest in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Senior management may be invited to attend the meetings to make presentations and answer the Board's enquiries. All draft and finalized minutes of each meeting are circulated to all Directors for comment within reasonable time after the meeting has been held.

During the Period, the Board held 1 meeting and the attendance of each Director is listed under the section "ATTENDANCE SUMMARY" below on a named basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Chairman and Chief Executive Officer of the Company are currently held by Mr. YU Weijia ("Mr. Yu") and Mr. PU Rui ("Mr. Pu") respectively. The roles of Chairman and Chief Executive Officer are segregated and there is no relationship between Mr. Yu and Mr. Pu. The Chairman provides leadership for the Board and ensures that there is clear division of responsibilities at the board level. The Chief Executive Officer is responsible for overseeing the day-to-day management of the Company, supervising the businesses of the Group and ensuring that the Board committees work smoothly and effectively.

BOARD COMMITTEES

The Company currently has three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All committees have been provided with sufficient resources to discharge their respective duties and all committee members may seek external professional advices, if necessary, at the costs of the Group.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Audit Committee

The Audit Committee currently comprises all 3 Independent Non-executive Directors, namely Mr. MENG Gaoyuen, who acts as the chairman, Professor WU Jun and Mr. LAM Kwok Cheong.

The duties of the Audit Committee include, inter alia, monitoring the integrity of financial statements and the accounting policies and practices, making recommendations to the Board on the appointment, reappointment and removal of external auditors, reviewing the Company's financial controls, internal controls and risk management systems. The Audit Committee meets at least twice a year to discuss and review the internal control, the financial information and relevant matters. The proceedings of the Audit Committee meetings are the same as the Board meetings.

During the Period, the Audit Committee has reviewed the annual results for the financial year ended 30 June 2015. The Audit Committee has also reviewed and followed-up with the findings and recommendations of the internal controls and management letter points made by our internal audit of the Company and the former external auditor, Mazars CPA Limited.

To align with the amended CG Code with effect from 1 January 2016, the revised terms of reference of the Audit Committee, currently made available on the HKExnews website and the Company's website, was adopted and approved by the Board on 31 December 2015.

The Audit Committee has reviewed the financial statements for the Period together with Pan-China (H.K.) CPA Limited ("Pan-China HK").

The Audit Committee has also reviewed the resources, qualifications and experience of the employees of the Group's accounting and financial reporting function, and their training programmes and budget at the meeting on 18 March 2016, and was satisfied with their adequacy and effectiveness.

The Audit Committee held 1 meeting during the Period and the attendance of each member is listed under the section "ATTENDANCE SUMMARY" below on a named basis.

Remuneration Committee

The Remuneration Committee currently comprises all 3 Independent Non-executive Directors, namely Professor WU Jun, who acts as the chairman, Mr. MENG Gaoyuan and Mr. LAM Kwok Cheong, and an Executive Director, namely Ms. LIANG Yiqing.

The responsibilities and authorities of the Remuneration Committee is clearly stated in its terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and review and approval of the compensation package to the Executive Directors and the senior management. The Board together with the Remuneration Committee monitor the performance of the Executive Directors and the senior management. Such division of responsibilities ensures a balance of power. The Remuneration Committee shall meet at any time when necessary. Terms of reference of the Remuneration Committee is currently available on the HKExnews website and the Company's website.

The Remuneration Committee did not hold any meeting during the Period.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee currently consists of 4 members, including an Executive Director, namely Mr. YU Weijia, who acts as the chairman, and all 3 Independent Non-executive Directors, namely Professor WU Jun, Mr. MENG Gaoyuan and Mr. LAM Kwok Cheong.

The main duties of the Nomination Committee include, inter alia, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of Independent Non-executive Directors and making recommendations to the Board on the appointment and removal of directors. Terms of reference of the Nomination Committee is currently available on the HKExnews website and the Company's website.

During the Period, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, assessed the independence of Independent Non-executive Directors and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Nomination Committee held 1 meeting during the Period, and the attendance of each member is listed under the section "ATTENDANCE SUMMARY" below on a named basis.

Summary of the Board Diversity Policy

The Company has adopted a board diversity policy (the "Board Diversity Policy") setting out the objectives and the factors to be considered for achieving the diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be based on meritocracy and competence, and the candidates will be considered against certain objective criteria such as gender, age, cultural and educational background, ethnicity, professional qualifications, areas of experience, skill, knowledge and length of services, etc. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the same as appropriate.

CORPORATE GOVERNANCE REPORT

ATTENDANCE SUMMARY

The following table shows the attendance of each individual member of the Board and the Board committees at the regular Board meetings, the respective Board committee meetings and the annual general meeting of the Company held on 20 November 2015 ("2015 AGM") during the Period:

Name of members of the Board/ the Board Committees	Attendance/Number of meetings held during the Period				
	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	2015 AGM
Executive Directors:					
Mr. YU Weijia (<i>Chairman</i>)	1/1	N/A	N/A	1/1	1/1
Mr. PU Rui (<i>Chief Executive Officer</i>)	1/1	N/A	N/A	N/A	1/1
Mr. WU Jian	1/1	N/A	N/A	N/A	1/1
Mr. ZHANG Chunyong	0/1	N/A	N/A	N/A	1/1
Mr. XU Mingdi	0/1	N/A	N/A	N/A	0/1
Ms. LIANG Yiqing	1/1	N/A	0/0	N/A	0/1
Independent Non-executive Directors:					
Professor WU Jun	1/1	1/1	0/0	1/1	1/1
Mr. MENG Gaoyuan	1/1	1/1	0/0	1/1	1/1
Mr. LAM Kwok Cheong	1/1	1/1	0/0	1/1	1/1

INTERNAL CONTROL

The Legal & Compliance Department ("L&C") of the Company is responsible for an adequate internal control system to facilitate effective and efficient operations, to protect the Group's assets and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public. The Company conducts regular reviews of the effectiveness of the Group's internal controls. The scope of these reviews includes, amongst others, finance, operations, regulation compliance and risk management of the Group.

A Consolidated Compliance Review and Internal Control Review Report was reviewed and considered by the Audit Committee on 18 March 2016. The reviews covered the areas of regulatory compliance, internal control of operations, policies and procedures of internal functions, and the compliance of the respective procedures of the 6 major businesses of the Group, namely securities broking and margin financing, futures broking, wealth management, asset management, insurance agency and corporate finance services. No material exceptions have been identified and L&C will keep monitoring the follow up work of the minor deviations as stated in the Consolidated Compliance Review and Internal Control Review Report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board acknowledges the responsibility for preparing the accounts which gives a true and fair view, appropriate accounting policies are selected and applied consistently and judgment and estimates were made prudently and reasonably on a going concern basis.

The reporting responsibilities of the Company's external auditor in relation to the financial reporting are set out under the section "INDEPENDENT AUDITOR'S REPORT" in this annual report.

AUDITOR'S REMUNERATION

The appointment of Pan-China HK as the external auditor of the Group was approved by the shareholders of the Company (the "Shareholders") at 2015 AGM. The fee paid/payable to Pan-China HK amounted to HK\$800,000 for audit service rendered to the Group for the six months ended 31 December 2015. Save as herein disclosed, no services have been rendered by Pan-China HK other than statutory audits during the Period.

COMPANY SECRETARY

Miss FUNG Suk Han ("Miss Fung") has been appointed as the company secretary of the Company since 1 July 2013. She is a full time employee of the Company and has day-to-day knowledge of the Company's affairs.

Mr. LUO Yi ("Mr. Luo") has been appointed as a joint company secretary of the Company ("Joint Company Secretary") with effect from 19 March 2015 and Miss Fung has become the other Joint Company Secretary on the same date. As announced by the Company on 19 March 2015, Mr. Luo currently does not possess the qualifications of company secretary as required under Rule 3.28 of the Listing Rules. The Company has applied, and the Stock Exchange has granted, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules with respect to the appointment of Mr. Luo as a Joint Company Secretary for a period of three years from 19 March 2015 to 18 March 2018 (the "Waiver Period") on condition that the Company engages Miss Fung, to fully comply with the requirements set out under Note 1 to Rule 3.28 of the Listing Rules, to assist Mr. Luo and enable him to acquire the relevant experience to discharge the functions of a company secretary during the Waiver Period as required under Note 2 to Rule 3.28 of the Listing Rules (the "Waiver"). The Waiver will be revoked immediately when Miss Fung ceases to be the Joint Company Secretary. The Stock Exchange may withdraw or change the Waiver if the Company's situation changes. Upon expiry of the Waiver Period, the Company will notify the Stock Exchange to re-visit the situation. Since his appointment as a Joint Company Secretary, Mr. Luo has gained the relevant experience in the course of discharging his duties with the professional assistance of Miss Fung and has undertaken training courses to enhance his knowledge of this area. During the Period, Miss Fung has undertaken no less than 6 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Group has been devoted to maintaining effective communications with the Shareholders and the general public with an aim to improve the transparency of the Group and to provide them with channels to appraise the position of the Group. During the Period, 2015 AGM was held and the notice of 2015 AGM was given to the Shareholders at least 20 clear business days before the meeting. The Chairman of the Board, the chairmen of the Audit, Remuneration and Nomination Committees; and other all members of the Board and the external auditor were all present at 2015 AGM to answer the questions from the Shareholders. Each substantially separate issue was dealt with in a separate resolution so that the Shareholders were able to comprehend the matter easily.

Annual and interim reports and any significant events of the Company fall to be disclosed in accordance with the disclosure requirements under the Listing Rules and other applicable regulatory requirements have been published in a timely manner through the websites of the Company and HKExnews.

The Company has adopted a Shareholders' Communication Policy and will review it on a regular basis to ensure its effectiveness. The purpose of this policy is to ensure the Shareholders be provided with prompt and equal access to information about the Company (including but not limited to its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the Shareholders to assess the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

SHAREHOLDERS' RIGHTS

The Company holds an annual general meeting every year and may hold a general meeting known as a special general meeting whenever necessary. Pursuant to the Bye-law 58 of the Company, Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

Proposals at Shareholders' meetings can be put forward by the members of the Company holding at the date of the submission of the proposals not less than one-tenth (10%) of such of the paid-up capital of the company as at the date of the submission carries the right of voting at general meetings of the company. The submission of the proposals must be made within 3 business days after a notice of the Shareholders' meeting have been served to all registered Shareholders by the Board. The proposals must be written and must state the objects of the proposals, and must be signed by the proposers, and mailed and deposited at Rooms 1601, 1606-08, 16/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for attention of the company secretary of the Company; and may consist of several documents in like form, each signed by one or more proposers. The Company will verify the requisition and upon confirmation that the requisition is proper and in order, the Board will update the resolutions by serving sufficient notice in accordance with the statutory requirements to all registered shareholders, provided that the proposers have deposited a sum of money reasonably sufficient to meet the Company's expenses involved in publishing supplementary circular and updating related resolutions. Alternatively, if the requisition has been verified as not in order, the proposer will be advised of this outcome and accordingly, no resolution will be updated as requested.

The Group values feedback from Shareholders on its efforts to promote transparency and foster investor relationships. Shareholders' enquiries, comments and suggestions to the Board or the Company are welcome and can be addressed to the Company Secretary by mail to Rooms 1601, 1606-08, 16/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

During the Period, there was no change in the Company's memorandum of association and bye-laws and these documents can be found in the websites of the Company and HKExnews.

SOCIAL RESPONSIBILITY

The Group was devoted to implementing sustainable development and fulfilling corporate social responsibility, concentrated on incorporating environmental protection and community care measures into business operations. The Group supported activities which were beneficial to employees, community and the environment, especially for the most vulnerable groups.

Apart from its business operation, the Group also desired to practice what it preaches by contributing to the society. On 15 August 2015, the employees of the Group organized and participated in the "Visiting Hong Kong Space Museum" charitable activity, which took children from low income families to visit Hong Kong Space Museum as well as watch "Omnimax Show", and was aimed at acquiring astronomical knowledge through sightseeing and learning from recreation. In addition, the Group supported the "Home for Dinner" campaign organized by Oxfam Hong Kong, which suggested employees leave an hour early or on time to have dinner at home on 20 October 2015, and encouraged them to donate their dinner money to help people in need.

In the aspect of environmental protection, a series of related measures had been implemented into office operations, to minimize the consumption of electricity, paper and stationery, as well as to promote the "Use Less, Waste Less" lifestyle. In 2015, the Group set clear and feasible targets which were supported by employees enthusiastically. During the Period, the Group was awarded "Class of Excellence" Wastewi\$e Label by Environmental Campaign Committee, which manifested the achievement and commitment in the role of corporate social responsibility. The Group expected further environmental initiatives to be taken in the future and aimed to be a green enterprise continuously.

DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Group for the six months ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

An analysis of the Group's performance for the six months ended 31 December 2015 by business segment is set out in note 4 to the consolidated financial statements. The activities of the Group are mainly carried out in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Group for the six months ended 31 December 2015 are set out in the consolidated statement of profit and loss and other comprehensive income on page 39.

The Directors do not recommend the payment of a final dividend (*for the year ended 30 June 2015: Nil*).

BUSINESS REVIEW

Business review of the Group for the six months ended 31 December 2015 is set out in the Chairman's Statement and the Management Discussion and Analysis on pages 9 to 18 of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the six months ended 31 December 2015, as far as the Board and the management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the six months ended 31 December 2015, there were no material and significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operating in compliance with the applicable environmental laws as well as protecting the environment by minimizing the negative impact of the Group's existing business activities on the environment. Details are set out in the paragraph of "Social Responsibility" of the Corporate Governance Report on page 27 of this report.

RESERVES

Movements in reserves of the Group and of the Company during the six months ended 31 December 2015 are set out in the consolidated statement of changes in equity on pages 40 to 41 and note 35(b) to the consolidated financial statements of this report respectively.

As at 31 December 2015, the reserves of the Company available for distribution to Shareholders amounted to HK\$Nil (*at 30 June 2015: HK\$Nil*).

DIRECTORS' REPORT

DONATIONS

During the six months ended 31 December 2015, the Group made charitable and other donations amounted to HK\$6,000 (*for the year ended 30 June 2015: HK\$22,500*).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

SHARE ISSUED

Details of the Company's shares issued during the six months ended 31 December 2015 are set out in note 25 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 106.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the the six months ended 31 December 2015.

DIRECTORS

The Directors who held office during the six months ended 31 December 2015 and up to the date of this report are:

<i>Executive Directors:</i>	Mr. YU Weijia (<i>Chairman</i>)
	Mr. PU Rui (<i>Chief Executive Officer</i>)
	Mr. WU Jian
	Mr. ZHANG Chunyong
	Mr. XU Mingdi
	Ms. LIANG Yiqing
<i>Independent Non-executive Directors:</i>	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. LAM Kwok Cheong

In accordance with Bye-law 87 of the Company, Mr. PU Rui, Mr. ZHANG Chunyong and Mr. MENG Gaoyuan will, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

DIRECTORS' REPORT

DIRECTORS (Continued)

Directors of Subsidiaries

Other than the Directors named under "DIRECTORS" above, the persons who have served on the boards of the subsidiaries of the Company during the six months ended 31 December 2015 and up to the date of this report included Mr. LUO Yi, Mr. ZHANG Yi, Mr. LIN Peng, Ms. WONG Lai Ping, Vicky, Mr. CHAN Lee Yeung, Mr. CHEUNG Yin Ling, Mr. NIP Yiu Chuen, Ms. LAU Yim Ling Elaine, Mr. WAN Joseph Jason, Mr. LUI Tak Yan and Mr. YING Yan Kei.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's memorandum of association and bye-laws, subject to the statutes, every Director shall be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of their office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against the Directors.

DIRECTORS' SERVICE CONTRACTS

Save as disclosed above, none of the Directors has entered into nor is proposing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the section "DIRECTORS AND SENIOR MANAGEMENT" of this report.

RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are set out in note 28 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as those disclosed under "RELATED PARTY TRANSACTIONS" above, no contracts of significance in relation to the Group's businesses to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the six months ended 31 December 2015.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the six months ended 31 December 2015.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2015, none of the Directors, the chief executives and their associates of the Company had any interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities transactions by Directors of Listed Companies of the Listing Rules on the Stock Exchange.

EQUITY-LINK AGREEMENTS

Apart from as disclosed in the "Share Option Schemes" below or in note 26 to the consolidated financial statements, no equity-link agreements were entered into during the six months ended 31 December 2015 or subsisted at end of the period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the "Share Option Schemes" below and in note 26 to the consolidated financial statements, at no time during the six months ended 31 December 2015 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under the age of 18 to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

2004 Share Option Scheme

The 2004 share option scheme (the "2004 Share Option Scheme") was adopted on 30 January 2004. The summary of the 2004 Share Option Scheme is as follows:

1. The purposes of the 2004 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.
2. The participants of the 2004 Share Option Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.
3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.
4. Share options may be exercised in accordance with the terms of the 2004 Share Option Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.

DIRECTORS' REPORT

SHARE OPTION SCHEMES (Continued)

2004 Share Option Scheme (Continued)

- No consideration for the grant of an option is required to be paid upon acceptance of the option.
- The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.
- The 2004 Share Option Scheme was terminated on 12 November 2013. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of 2004 Share Option Scheme.
- The total number of shares issuable upon exercise of outstanding options are 200,000, representing 0.008% of the existing issued share capital of the Company as at the date of this report.

Details of the share options outstanding as at 31 December 2015 which have been granted under the 2004 Share Option Scheme are as follows:

	Number of shares issuable under the options				Closing price per share immediately before the grant date
	As at 01/07/2015 and 31/12/2015 (<i>'000</i>)	Exercise price HK\$	Grant date	Exercise Period	HK\$
Continuous contract employee(s)	200	0.8880	04/01/2011	04/01/2012 – 03/01/2021	0.840
Total	200				

Note: No share options were granted, exercised, cancelled or lapsed during the six months ended 31 December 2015.

2013 Share Option Scheme

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the "2013 Share Option Scheme"). The summary of the 2013 Share Option Scheme is as follows.

- The purposes of the 2013 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.

DIRECTORS' REPORT

SHARE OPTION SCHEMES (Continued)

2013 Share Option Scheme (Continued)

2. The participants of the 2013 Share Option Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.
3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.
4. Share options may be exercised in accordance with the terms of the 2013 Share Option Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.
5. No consideration for the grant of an option is required to be paid upon acceptance of the option.
6. The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.
7. The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption.
8. During the six months ended 31 December 2015, no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the persons (other than Directors and Chief Executive of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO are as follows:

Interests in long positions in the shares of the Company

Name of Shareholders	Note	Capacity and nature of interest	Number of ordinary shares held	Approximate % of holding
Southwest Securities International Investment Limited ("SSII")	1	Beneficial owner	1,811,796,822	74.22%
Southwest Securities Co., Ltd ("SWSC")	1	Interest of controlled corporation	1,811,796,822	74.22%
重慶渝富資產經營管理集團有限公司 Chongqing Yu Fu Assets Operation Management Group Company Limited ("Chongqing Yu Fu")	2	Interest of controlled corporation	1,811,796,822	74.22%

Notes:

1. SSII is wholly-owned by SWSC. SWSC is therefore deemed, or taken to be, interested in all shares which SSII is interested for the purpose of the SFO.
2. Chongqing Yu Fu is interested in approximately 26.99% of the issued shares of SWSC. According to an announcement issued by SWSC dated 25 September 2015, Chongqing Yu Fu, through a fund management company, established a special asset management plan in August 2015. In September 2015, this special asset management plan acquired a total of 6,009,102 shares in SWSC, representing approximately 0.21% of the issued shares of SWSC. Chongqing Yu Fu is deemed, or taken to be, interested in all shares which SWSC is interested (or deemed or taken to be interested) for the purpose of the SFO.

Save as disclosed above, as at 31 December 2015, the Company has not been notified of any substantial shareholders (other than Directors or Chief Executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' REPORT

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

There is no change of information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda that would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the six months ended 31 December 2015, the percentage of the Group's turnover attributable to the Group's largest client and the five largest clients in aggregate were 22.3% and 52.6% respectively. None of the Directors of the Company; or any of their associates; or any shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) has any beneficial interest in any of the Group's five largest customers.

The Group has no major supplier due to the nature of principal activities of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

The main risks for the Group include interest rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. Details of the main risks and risk management are set out in note 30 to the consolidated financial statements.

The principal risks and uncertainties facing the Group for the six months ended 31 December 2015 can be found in the Chairman's Statement and the Management Discussion and Analysis on pages 9 to 18 of this report.

EVENTS AFTER THE BALANCE SHEET DATE

There was no important events affecting the Group that have occurred since the end of 31 December 2015.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements for the six months ended 31 December 2015 have been audited by Pan-China (H.K.) CPA Limited ("Pan-China HK"), who will retire and, being eligible, offer itself for re-appointment in the forthcoming AGM.

During the six months ended 31 December 2015, Pan-China HK has been appointed as the auditor of the Company to fill the vacancy arising from the retirement of Mazars CPA Limited ("Mazars") at the annual general meeting held on 20 November 2015. Mazars has confirmed in its letter of retirement that there are no matters that need to be brought to the attention of the shareholders, and there are no circumstances connected with its retirement that they consider should be brought to the attention of the members or creditors of any of those subsidiaries of the Company incorporated in Hong Kong. Save for the above, there has been no other change in the auditor of the Company in any of the preceding three years.

By order of the Board

YU Weijia

Chairman

Hong Kong, 18 March 2016

INDEPENDENT AUDITOR'S REPORT



PAN-CHINA (H.K.) CPA LIMITED Certified Public Accountants

天健(香港)會計師事務所有限公司

To the shareholders of

Southwest Securities International Securities Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Southwest Securities International Securities Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 39 to 105, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 1 July 2015 to 31 December 2015, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda (as amended), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the period from 1 July 2015 to 31 December 2015 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 30 June 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 18 September 2015.

Pan-China (H.K.) CPA Limited

Certified Public Accountants

Lee Ping Kai

Practising Certificate number: P02976

11/F., Hong Kong Trade Centre,
161-167 Des Voeux Road Central,

Hong Kong, 18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period from 1 July 2015 to 31 December 2015

	<i>Note</i>	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
		HK\$'000	<i>HK\$'000</i>
Revenue	<i>3</i>	14,463	56,245
Other revenue and income	<i>5</i>	208,438	79,427
Employee benefit expenses	<i>6a</i>	(39,091)	(38,987)
Depreciation		(2,007)	(2,035)
Commission expenses		(7,811)	(22,534)
Fair value change on derivative financial assets	<i>16</i>	601	–
Fair value change on derivative financial liabilities	<i>20</i>	(73,619)	(12,971)
Other operating expenses		(19,909)	(33,021)
Finance costs	<i>6c</i>	(62,760)	(12,996)
Share of result of an associate		–	(165)
Share of results of joint ventures		–	(22)
Profit before tax	<i>6</i>	18,305	12,941
Income tax expense	<i>8</i>	(4,680)	(1,650)
Profit for the period/year attributable to equity shareholders of the Company		13,625	11,291
Other comprehensive (loss) income			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign subsidiaries		(580)	(67)
Reclassification of foreign exchange reserve upon disposal of investment in an associate		–	(553)
Change in fair value on available-for-sale financial assets		(38,981)	95,084
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets		(95,246)	(69,437)
Other comprehensive (loss) income for the period/year, net of tax		(134,807)	25,027
Total comprehensive (loss) income for the period/year attributable to equity shareholders of the Company		(121,182)	36,318
Earnings per share			
– Basic (<i>HK cents</i>)	<i>9</i>	0.558	0.630
– Diluted (<i>HK cents</i>)	<i>9</i>	0.558	0.629

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 July 2015 to 31 December 2015

	Attributable to equity shareholders of the Company								
	Note	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Share premium HK\$'000	*Capital reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated losses HK\$'000	Total reserve HK\$'000	Total HK\$'000
At 1 July 2014		119,147	101,628	9,794	40,836	1,506	(109,895)	43,869	163,016
Profit for the year		-	-	-	-	-	11,291	11,291	11,291
Exchange difference on translation of financial statements of foreign subsidiaries		-	-	-	-	(67)	-	(67)	(67)
Reclassification of foreign exchange reserve upon disposal of investment in an associate		-	-	-	-	(553)	-	(553)	(553)
Change in fair value on available-for-sale financial assets		-	95,084	-	-	-	-	95,084	95,084
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets		-	(69,437)	-	-	-	-	(69,437)	(69,437)
Other comprehensive income for the year, net of tax		-	25,647	-	-	(620)	-	25,027	25,027
Total comprehensive income for the year		-	25,647	-	-	(620)	11,291	36,318	36,318
Transactions with equity shareholders:									
<i>Contributions and distributions</i>									
Issue of shares under share option scheme	25	462	-	728	-	-	-	728	1,190
Issue of shares upon share subscription	25	124,512	-	203,797	-	-	-	203,797	328,309
Total transactions with equity shareholders		124,974	-	204,525	-	-	-	204,525	329,499
At 30 June 2015		244,121	127,275	214,319	40,836	886	(98,604)	284,712	528,833

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 1 July 2015 to 31 December 2015

	Attributable to equity shareholders of the Company							Total
	Share capital	Investment revaluation reserve	Share premium	*Capital reserve	Foreign exchange reserve	Accumulated losses	Total reserve	
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2015	244,121	127,275	214,319	40,836	886	(98,604)	284,712	528,833
Profit for the period	-	-	-	-	-	13,625	13,625	13,625
Exchange difference on translation of financial statements of foreign subsidiaries	-	-	-	-	(580)	-	(580)	(580)
Change in fair value on available-for-sale financial assets	-	(38,981)	-	-	-	-	(38,981)	(38,981)
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	-	(95,246)	-	-	-	-	(95,246)	(95,246)
Other comprehensive loss for the period, net of tax	-	(134,227)	-	-	(580)	-	(134,807)	(134,807)
Total comprehensive loss for the period	-	(134,227)	-	-	(580)	13,625	(121,182)	(121,182)
At 31 December 2015	244,121	(6,952)	214,319	40,836	306	(84,979)	163,530	407,651

* The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Non-current assets			
Property, plant and equipment	10	7,261	4,913
Intangible assets	11	–	–
Held-to-maturity investments	12	350,486	–
Available-for-sale financial assets	13	70,455	128,558
Other non-current assets	14	5,124	6,471
Loans and advances		–	68
		433,326	140,010
Current assets			
Loans and advances		70	115
Financial assets at fair value through profit or loss	15	447,088	190,756
Derivative financial assets	16	601	–
Accounts receivable	17	895,496	210,126
Deposits, prepayments and other receivables	18	156,171	6,629
Pledged deposits	19	2,028	2,026
Cash and bank balances	19	474,255	1,918,761
		1,975,709	2,328,413
Current liabilities			
Derivative financial liabilities	20	102,129	12,971
Accounts payable	21	103,943	44,160
Other payables and accrued charges	22	35,864	26,410
Tax payable		5,326	1,743
		247,262	85,284
Net current assets		1,728,447	2,243,129
Total assets less current liabilities		2,161,773	2,383,139
Non-current liabilities			
Bonds payable	23	1,754,122	1,854,306
NET ASSETS		407,651	528,833
Capital and reserves			
Share capital	25	244,121	244,121
Reserves		163,530	284,712
TOTAL EQUITY		407,651	528,833

The consolidated financial statements on pages 39 to 105 were approved and authorised for issue by the Board of Directors on 18 March 2016 and are signed on its behalf by:

Yu Weijia
Director

Pu Rui
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 July 2015 to 31 December 2015

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
<i>Note</i>	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before tax	18,305	12,941
Adjustments for:		
Impairment of goodwill	–	100
Depreciation	2,007	2,035
Gain on disposal of property, plant and equipment	–	(2)
Fair value change on derivative financial instruments	73,018	12,971
Gain on disposal of available-for-sale financial assets – listed equity securities	(95,246)	(69,437)
Loss on other financial assets upon maturity	–	1,394
Reversal of allowance for doubtful debts, net	–	(1,456)
Gain on deemed disposal of investment in an associate	–	(82)
Gain on disposal of investment in an associate	–	(545)
Share of result of an associate	–	165
Share of results of joint ventures	–	22
Exchange (gain) loss	(96,440)	702
Interest income	(10,586)	(1,997)
Interest expenses	62,760	12,996
Dividend income	(3,742)	(3,738)
Changes in working capital:		
Decrease (Increase) in other non-current assets	1,347	(2,893)
Decrease in loans and advances	113	8
Increase in financial assets at fair value through profit or loss	(256,332)	(184,883)
Increase in accounts receivable	(685,370)	(19,913)
Increase in deposits, prepayments and other receivables	(145,142)	(658)
Decrease in short-term loan for margin financing	–	(187,900)
Increase in accounts payable	59,783	13,067
Increase (Decrease) in other payables and accrued charges	10,098	(2,545)
Cash used in operations	(1,065,427)	(419,648)
Hong Kong Profits Tax paid	(1,097)	–
Interest received	3,206	1,997
Interest paid	(3)	(1,153)
Net cash used in operating activities	(1,063,321)	(418,804)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 1 July 2015 to 31 December 2015

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
<i>Note</i>	HK\$'000	<i>HK\$'000</i>
INVESTING ACTIVITIES		
Proceeds from obtaining control of subsidiaries, net of cash and cash equivalents acquired	–	1,091
Proceeds from disposal of investment in an associate	–	514
Proceeds from other financial assets upon maturity	–	7,729
Payments made on other financial assets	–	(1,460)
Dividend received	3,742	3,738
Interest received from held-to-maturity investments	2,842	–
Acquisitions of held-to-maturity investments	(357,103)	–
Acquisitions of available-for-sale financial assets	(76,160)	–
Proceeds from cross-currency swap	–	1,853,032
Payments made on cross-currency swap	–	(1,853,032)
Interest received from cross-currency swap, net	15,539	–
Proceeds from disposal of available-for-sale financial assets	95,282	69,437
Payment for purchase of property, plant and equipment	(4,355)	(2,094)
Proceeds from disposal of property, plant and equipment	–	2
Net cash (used in) from investing activities	(320,213)	78,957
FINANCING ACTIVITIES		
Change in ownership interest in subsidiaries	–	(235)
Proceeds from issue of shares under share option schemes	–	1,190
Proceeds from issue of shares upon share subscription	–	348,635
Payment of transaction costs on issue of shares upon share subscription	–	(20,326)
Proceeds from issue of bonds	–	1,872,659
Payment of transaction costs on issue of bonds	–	(19,627)
Interest paid on bonds issued	(60,390)	–
Net cash (used in) from financing activities	(60,390)	2,182,296
Net (decrease) increase in cash and cash equivalents	(1,443,924)	1,842,449
Cash and cash equivalents at beginning of the period/year	1,920,787	78,340
Effect on exchange rate changes	(580)	(2)
Cash and cash equivalents at end of the period/year	476,283	1,920,787

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

CORPORATE INFORMATION

Southwest Securities International Securities Limited (the “Company”) is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The immediate holding company of the Company is Southwest Securities International Investment Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Southwest Securities Co., Ltd. (“SWSC”). SWSC is the ultimate holding company of the Company, which is incorporated in the People’s Republic of China (the “PRC”) with limited liability and its shares are listed on the Shanghai Stock Exchange.

Change of financial year end date

The financial year end date of the Company and its subsidiaries, other than 西證諮詢服務(深圳)有限公司 and 西證(大連)投資管理有限公司, of which the financial year end date is 31 December, were changed from 30 June to 31 December. The reason for the change is to coincide with the financial year end date of SWSC, and thereby facilitating the preparation of SWSC’s consolidated financial statements. As a result of the change, the current financial period covered a six months period from 1 July 2015 to 31 December 2015 and the last financial year covered a twelve months period from 1 July 2014 to 30 June 2015. The comparative amounts for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes are not entirely comparable.

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 certain available-for-sale financial assets, financial assets/liabilities at fair value through profit or loss and derivative financial instruments, which are measured at fair value as explained in the accounting policies set out below.

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the consolidated financial statements for the year ended 30 June 2015 and there is no new/revised HKFRSs effective from the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of consolidation of the consolidated financial statements

The consolidated financial statements comprise financial statements of the Company and all of its subsidiaries for six months ended 31 December 2015 (*for the year ended 30 June 2015*). During the reporting period, there is a change of financial year end date from 30 June to 31 December. The reason thereof is set out in the paragraph “change of financial year end date”. The financial statements of the subsidiaries are prepared for the same reporting period/year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company’s statement of financial position which is presented within these notes, the interests in subsidiaries are stated at cost less impairment losses. The carrying amounts of the interests in subsidiaries are reduced to their recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates and joint ventures

An associate is an entity over which the Group or Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but no control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group reassesses whether it has joint control of an arrangement and whether the type of joint arrangement in which it is involved has changed, if facts and circumstances change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Associates and joint ventures (Continued)

The Group's investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

If an investment in a joint venture becomes an investment in an associate or vice versa, any retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, on the loss of significant influence or joint control, the Group remeasures any retained interest in the former investee at fair value. The difference between the fair value of any retained investment and proceeds from disposing of the partial interest in the investee and the carrying amount of the investment at the date when significant influence or joint control is lost is recognised in profit or loss. In addition, all amounts previously recognised in other comprehensive income in respect of the former investee are accounted for on the same basis as would be required if the former investee had directly disposed of the related assets or liabilities. The fair value of the retained interest on the date of ceasing to be an associate or joint venture is regarded as the fair value on initial recognition as a financial asset.

Goodwill

Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary.

Goodwill on acquisition of subsidiary is recognised as a separate asset and is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

On the other hand, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as an income from bargain purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	Over the unexpired term of lease
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicle	5 years

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Other intangible assets

The Group holds two trading rights on the Stock Exchange and two trading rights on The Hong Kong Futures Exchange Limited (the "Futures Exchange"). One trading right on the Stock Exchange was purchased during the year ended 30 June 2003 while the remaining three trading rights are recorded at zero book value. The useful life of the trading right acquired in 2003 is estimated to be ten years, and its cost had been fully amortised.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or it expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

1) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

2) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risk and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

3) Investments in convertible bonds

The component parts of the convertible bonds are classified separately as debt component and conversion option derivative.

At the date of acquisition of the convertible bonds, the debt and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the acquisition of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the tenor of the convertible bonds using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

4) Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include those held for trading and those designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

Financial assets or financial liabilities are classified as held for trading if they are (i) acquired or incurred principally for the purpose of selling or repurchasing in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets or financial liabilities are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a Group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

5) Loans and receivables

Loans and receivables including accounts receivable, other receivables, loans and advances, pledged deposits and cash and bank balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the loans and receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

6) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

7) Financial liabilities at amortised cost

The Group's financial liabilities include accounts payable, other payables and accrued charges and bonds payable. All financial liabilities are measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

8) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within other payables and accrued charges at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated). Subsequently, it is measured at the higher of (i) the amount initially recognised, less accumulated amortisation, and (ii) the amount of the provision, if any, that is required to settle the commitment at the end of the reporting period.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When the accounts receivable and loans receivable are considered uncollectible, it is written off against the allowance account.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

If in a subsequent period, an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

When an available-for-sale financial asset is impaired, a cumulative loss comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss in profit or loss, is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss in respect of available-for-sale financial instrument are not reversed through profit or loss. Any subsequent increase in fair value of available-for-sale equity instrument after recognition of impairment loss is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Trust accounts

Trust accounts maintained by the Group to hold clients' monies are treated as off-statement of financial position items and offset against accounts payable.

In the course of the conduct of the regulated activities of ordinary business, subsidiaries which are licensed corporations, act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position, and the corresponding amounts classified under accounts payable are treated as items not recognised in the consolidated statement of financial position.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For classification in the consolidated statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted to use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Commission income on dealing in securities, futures contracts and options is recognised on the transaction dates when the contracts are executed.

Commission income on sale of unit trusts, investment-linked and insurance products is recognised in the period when services are rendered.

Underwriting commission income, sub-underwriting commission income, placing commission income and sub-placing commission income are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed.

Corporate finance advisory fees are recognised when the services are rendered and on the basis of the stage of completion of each individual project.

Insurance broking fees and investment immigration consulting services fees are recognised when the services are rendered.

Net income from sale of investments held for trading are recognised on the transaction date for realised profit or loss whilst the unrealised profits or losses are recognised from valuation at the end of the reporting period.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Group's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

The results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at that end of the reporting period;
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rate;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity.

Upon disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, other intangible assets, certain available-for-sale financial assets and other non-current assets may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Short term employee benefits

Salaries, bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Long service payments

The Group's net obligation in respect of long service payments under the Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person, or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of the parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 1	<i>Disclosure Initiative¹</i>
Amendments to HKASs 16 and 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation¹</i>
Amendments to HKASs 16 and 41	<i>Agriculture: Bearer Plants¹</i>
Amendments to HKAS 27	<i>Equity Method in Separate Financial Statements¹</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	<i>Investment Entities: Applying the Consolidation Exception¹</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations¹</i>
HKFRS 14	<i>Regulatory Deferral Accounts¹</i>
Amendments to HKFRS 15	<i>Annual Improvements to HKFRSs 2012 – 2014 Cycle¹</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
HKFRS 9	<i>Financial Instruments²</i>

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

³ Effective for annual periods beginning on or after a date to be determined

The Directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Company's consolidated financial statements.

2. ACCOUNTING JUDGMENTS AND ESTIMATES

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

2. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty

1) *Impairment allowances on loans and receivables*

The provisioning policy for impairment allowances of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers are to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the end of the reporting period, the carrying amount of accounts receivable after provision for impairment amounted to HK\$895,496,000 (at 30 June 2015: HK\$210,126,000).

2) *Impairment of investments and receivables*

The Group assesses annually if investments and receivables have suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the entities and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

3) *Held-to-maturity investments*

The Directors of the Company have reviewed the Group's held-to-maturity investments in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. At the end of the reporting period, the certain carrying amount of the held-to-maturity investments excluding the derivative component of Convertible bonds, which is stated at fair value, is HK\$341,091,000 (at 30 June 2015: Nil).

4) *Fair value estimation on derivative financial assets and liabilities*

The Group's derivative financial instruments have been valued based on the discounted cash flow which is the estimated amount that the issuer would receive or pay to terminate the cross-currency swap agreement at the end of reporting period, taking into account observable interest rates and exchange rates. At the end of the reporting period, the fair value of the derivative financial assets and liabilities are HK\$601,000 and HK\$102,129,000 respectively (at 30 June 2015: Nil and HK\$12,971,000 respectively).

During the six months ended 31 December 2015, the Group acquired convertible bonds (note 12(i)), the fair value of embedded conversion options of convertible bonds invested by the Group is calculated using Binomial tree pricing model. The model makes the maximum use of market inputs, and involves estimates on time to expiration, risk-free rate, historical share price volatility and others. At the date of initial recognition and at 31 December 2015, the fair value of the embedded conversion options of convertible bonds invested by the Group were HK\$9,395,000 (at 30 June 2015: Nil). Should any of the estimates be revised, it may lead to a significant change to the fair value of the embedded conversion options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

3. REVENUE

The principal activities of the Group comprise:

- broking index, commodity and currency futures, options and securities, unit trusts, investment-linked and insurance products for its clients;
- provision of margin financing, underwriting and placements, corporate finance advisory services, asset management services, insurance broking services, investment immigration consulting services and money lending; and
- trading in securities, equity index, commodity and currency futures contracts on its own account.

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	HK\$'000	HK\$'000
Brokerage commission income:		
– securities dealing	13,846	21,356
– underwriting and placing commission income	13,327	10,474
– futures and options dealing	921	2,307
– distribution of investment-linked and insurance products	380	8,211
Advisory and insurance broking fee income:		
– corporate finance advisory	2,403	7,194
– commitment fee income	4,480	–
– insurance broking	847	2,346
– investment immigration consulting	–	264
Interest income:		
– margin financing	14,480	4,347
– loans and advances	2	13
Proprietary trading:		
– net results from proprietary trading of securities	(46,288)	(267)
– net results from proprietary trading of futures and options	10,065	–
	14,463	56,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

4. 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 earned or loss incurred by each segment without allocation of central administration costs, depreciation, impairment of goodwill, finance costs, gain on disposal of an associate, share of result of an associate, gain on deemed disposal of an associate, share of results of joint ventures, 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 as crucial for resources allocation and thereby not being regularly provided to the Directors.

In January 2015, the Group was acquired by SWSC and has implemented business reforms. Being one of the key business segments, the Group will develop and expand the wealth management business and will closely connected with parent company's corresponding division.

In view of the above, the management has separately reported the performance of wealth management business to the Directors. Hence, with effective from the financial period of six months ended on 31 December 2015, the operating segment has changed accordingly as detailed in the following paragraph.

The broking in investment-linked products and mandatory provident fund products and provision of investment immigration consulting services, previously reported under "Wealth management, brokerage and margin financing", were combined with broking in insurance products and formed an operating segment "Wealth management". Previous operating segment "Wealth management, brokerage and margin financing" will be renamed to "Brokerage and margin financing".

Regarding the operating segment "Money lending" presented for the year ended 30 June 2015, it is not reported to the current period since it did not exceed the quantitative thresholds.

Prior year corresponding segment information that is presented for comparative purposes has been reclassified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

4. SEGMENT INFORMATION (Continued)

Reportable operating segments

The Directors consider brokerage and margin financing, wealth management, corporate finance and proprietary trading 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, investment-linked products and insurance products and provision of investment immigration consulting services
Corporate finance	Provision of corporate finance advisory services
Proprietary trading	Proprietary trading in securities, futures and options, and fund investments

For the period from 1 July 2015 to 31 December 2015

	Brokerage and margin financing	Wealth management	Corporate finance	Proprietary trading	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	42,574	1,227	6,883	(36,223)	2	14,463
Commission expenses	(5,577)	(902)	-	(1,191)	(141)	(7,811)
Results	5,428	(5,102)	(1,611)	(53,938)	24,388	(30,835)
Unallocated expenses, represented central administration costs						(15,052)
Depreciation						(2,007)
Unallocated finance costs						(29,047)
Gain on disposal of available-for-sale financial assets						95,246
Income tax expense						(4,680)
Profit for the period						13,625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	For the year ended 30 June 2015					Consolidated HK\$'000 (restated)
	Brokerage and margin financing HK\$'000 (restated)	Wealth management HK\$'000 (restated)	Corporate finance HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000 (restated)	
Revenue	38,484	10,821	7,194	(267)	13	56,245
Commission expenses	(13,015)	(9,005)	-	(514)	-	(22,534)
Results	(5,225)	(6,489)	(3,157)	51	(13,186)	(28,006)
Unallocated expenses, represented						
central administration costs						(14,952)
Depreciation						(2,035)
Impairment of goodwill						(100)
Unallocated finance costs						(11,843)
Gain on disposal of an associate						545
Share of result of an associate						(165)
Gain on deemed disposal of an associate						82
Share of results of joint ventures						(22)
Gain on disposal of available-for-sale financial assets						69,437
Income tax expense						(1,650)
Profit for the year						11,291

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the six months ended 31 December 2015 and the year ended 30 June 2015, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

4. SEGMENT INFORMATION (Continued)

Major customers

For the year ended 30 June 2015, there was no single external customer who contributed more than 10% revenue of the Group.

For the six months ended 31 December 2015, the following respective external customers who contributed more than 10% of total revenue of the Group. The total revenue of the Group did not include the net result from proprietary trading.

	1/7/2015 – 31/12/2015 <i>HK\$'000</i>	1/7/2014 – 30/6/2015 <i>HK\$'000</i>
Customer A from brokerage and margin financing segment	11,294	N/A
Customer B from brokerage and margin financing segment	10,072	N/A

The revenues from both customers were attributable to the provision of brokerage and margin financing.

5. OTHER REVENUE AND INCOME

	1/7/2015 – 31/12/2015 <i>HK\$'000</i>	1/7/2014 – 30/6/2015 <i>HK\$'000</i>
	<i>Note</i>	
Other revenue		
Dividend income from listed investments	3,736	3,732
Dividend income from unlisted investments	6	6
Handling income	999	948
Interest income	10,586	1,997
Management fee income	–	710
Sundry income	494	514
	15,821	7,907
Other income		
Exchange gain	97,371	–
Gain on disposal of available-for-sale financial assets	95,246	69,437
Gain on deemed disposal of investment in an associate	–	82
Gain on disposal of investment in an associate	–	545
Reversal of allowance for doubtful debts	–	1,456
	192,617	71,520
	208,438	79,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

5. OTHER REVENUE AND INCOME (Continued)

Notes:

- (i) Include an amount of HK\$103,195,000 (for the year ended 30 June 2015: gain of HK\$1,930,000 which had been aggregated into exchange loss for disclosure purpose) representing an exchange gain arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in RMB. Detailed information is set out in note 23.
- (ii) In March 2015, the Group entered into a purchase contract with Tanrich-FundStreet Limited ("TFSL") and the associate, FundStreet AG ("FundStreet"), a company engaged in fund management in Switzerland which is incorporated in Zurich, Switzerland, pursuant to which the Group agreed to sell all its shares in FundStreet in exchange for all the shares in TFSL held by FundStreet plus a cash consideration of HK\$514,000 ("Cross-Shareholding"). As a result, the Group recorded a gain on disposal of investment in an associate amounted to HK\$545,000.

6. PROFIT BEFORE TAX

	1/7/2015 – 31/12/2015 HK\$'000	1/7/2014 – 30/6/2015 HK\$'000
Profit before tax is arrived at after charging:		
(a) Employee benefit expenses		
Salaries, commission and allowances	38,358	37,898
Contributions to retirement benefit schemes (Note 27)	733	1,089
	39,091	38,987
(b) Other items		
Auditor's remuneration		
– Audit-related assurance services	800	1,000
– Other services*	–	229
	800	1,229
Operating lease payments on premises	5,395	8,226
Loss on other financial assets upon maturity	–	1,394
Impairment of goodwill	–	100
(c) Finance costs		
Bond interest expenses	59,746	11,271
Imputed interest expenses on bonds payable	3,011	572
Interest expenses for securities broking and margin financing	–	523
Other interest expenses	3	630
	62,760	12,996

- * The amounts included other services performed by the auditors in connection with the share subscription and bonds issuance during the year ended 30 June 2015. The fee of HK\$110,000 was deducted directly in share premium and the fee of HK\$110,000 was included in the bonds issuance costs detailed in note 23 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The analysis of the aggregate amount of emoluments received or receivable by the Directors are as follows:

For the period from 1 July 2015 to 31 December 2015:

Name of Director	As a Director of the Company					Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Employer's contributions to retirement benefit schemes HK\$'000	Other services in connection with the management of affairs of its subsidiaries HK\$'000	
Executive Directors:						
Yu Weijia (Note i)	-	-	-	-	-	-
Pu Rui (Note i)	-	-	-	-	-	-
Wu Jian (Note i)	-	-	-	-	-	-
Zhang Chunyong (Note i)	-	-	-	-	-	-
Xu Mingdi (Note i)	-	-	-	-	-	-
Liang Yiqing (Note i)	-	-	-	-	-	-
Independent Non-executive Directors:						
Wu Jun (Note iv)	102	-	-	-	-	102
Meng Gaoyuan (Note iv)	102	-	-	-	-	102
Lam Kwok Cheong	102	-	-	-	-	102
	306	-	-	-	-	306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 30 June 2015:

Name of Director	As a Director of the Company					Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Employer's contributions to retirement benefit schemes HK\$'000	Other services in connection with the management of affairs of its subsidiaries HK\$'000	
Executive Directors:						
Yu Weijia (Note i)	-	-	-	-	-	-
Pu Rui (Note i)	-	-	-	-	-	-
Wu Jian (Note i)	-	-	-	-	-	-
Zhang Chunyong (Note i)	-	-	-	-	-	-
Xu Mingdi (Note i)	-	-	-	-	-	-
Liang Yiqing (Note i)	-	-	-	-	-	-
Wang Zhixian (Note ii)	-	-	-	-	-	-
Luo Yi (Note ii)	-	-	-	-	483	483
Zhang Yi (Note ii)	-	-	-	-	63	63
Yip Man Fan (Note iii)	-	635	101	20	-	756
Kwok Kam Hoi (Note iii)	32*	657	102	20	-	811
Tsunoyama Toru (Note iii)	-	564	90	20	-	674
Wong, Vicky Lai Ping (Note iii)	-	589	94	20	540	1,243
Lin Peng (Note iii)	-	700	110	11	635	1,456
Independent Non-executive Directors:						
Wu Jun (Note iv)	88	-	-	-	-	88
Meng Gaoyuan (Note iv)	88	-	-	-	-	88
Lam Kwok Cheong	204	-	-	-	-	204
Ma, Andrew Chiu Cheung (Note v)	170	-	-	-	-	170
Yu King Tin (Note v)	156	-	-	-	-	156
	738	3,145	497	91	1,721	6,192

* Mr. Kwok Kam Hoi, who resigned as Executive Director of the Company on 27 January 2015, received the emoluments from a subsidiary, amounted to HK\$32,000, which was in respect of services to the Company and its subsidiaries. No apportionment has been made as the Directors consider that it is impractical to apportion this amount between the Company and the subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Notes:

- (i) Mr. Yu Weijia, Mr. Pu Rui, Mr. Wu Jian, Mr. Zhang Chunyong, Mr. Xu Mingdi and Ms. Liang Yiqing were appointed as Executive Directors with effect from 27 February 2015.
- (ii) Mr. Wang Zhixian, Mr. Luo Yi and Mr. Zhang Yi were appointed as Executive Directors on 27 January 2015 and resigned on 27 February 2015.
- (iii) Mr. Yip Man Fan, Mr. Kwok Kam Hoi and Mr. Tsunoyama Toru, Ms. Wong, Vicky Lai Ping and Mr. Lin Peng resigned as Executive Directors of the Company on 27 January 2015. Ms. Wong, Vicky Lai Ping and Mr. Lin Peng continued to be Directors of the Group's subsidiaries.
- (iv) Professor Wu Jun and Mr. Meng Gaoyuan were appointed as Independent Non-executive Directors on 27 January 2015.
- (v) Mr. Ma, Andrew Chiu Cheung and Mr. Yu King Tin resigned as Independent Non-executive Directors on 27 January 2015.

(b) Loans, quasi-loans and other dealings in favour of Directors

There are no loans, quasi-loans or other dealings in favour of the Directors of the Company or its holding company or its subsidiaries that were entered into or subsisted during the six months ended 31 December 2015 (*for the year ended 30 June 2015: Nil*).

(c) Directors' material interests in transactions, arrangements or contracts

After due and careful consideration, the Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its holding company or its subsidiaries was a party and in which Directors of the Company or a connected entity of the Directors had a material interest, whether directly or indirectly, subsisted as at 31 December 2015 (*at 30 June 2015: Nil*) or at any time during the six months ended 31 December 2015 (*for the year ended 30 June 2015: Nil*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, none (*for the year ended 30 June 2015: two*) were Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the five (*for the year ended 30 June 2015: three*) individuals, excluding Directors' emoluments, are as follows:

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	2,874	2,612
Discretionary bonus	5,389	328
Contributions to retirement benefit schemes	53	52
	8,316	2,992

	Number of individuals	
	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015

The emoluments, excluding Directors' emoluments, fell within the following bands:

Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	3	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	1	–
	5	3

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the six months ended 31 December 2015 and the year ended 30 June 2015. There were no arrangements under which Directors waived or agreed to waive any remuneration for the six months ended 31 December 2015 and the year ended 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

8. INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided in the consolidated financial statements at the rate of 16.5% (*for the year ended 30 June 2015: 16.5%*) on a subsidiary's estimated assessable profits arising from Hong Kong during the six months ended 31 December 2015. Hong Kong Profits Tax has not been provided for other entities within the Group as they either incurred losses for taxation purpose or their estimated assessable profits for the period/year are wholly absorbed by unrelieved tax losses brought forward from previous years.

The income tax provision in respect of operations in the PRC, if applicable, is calculated at the applicable tax rates on the estimated assessable profits for the period/year based on existing legislation, interpretations and practices in respect thereof. PRC Enterprise Income Tax has not been provided as the operations in PRC either had no assessable profits or the estimated assessable profits for the period/year are wholly absorbed by unrelieved tax losses brought forward from previous years.

In the opinion of the Directors, the Group did not subject to taxation in any other jurisdictions.

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	4,680	1,650
Reconciliation between tax expense and accounting profit at applicable tax rates:		
Profit before tax	18,305	12,941
Income tax at applicable tax rate of 16.5% <i>(for the year ended 30 June 2015: 16.5%)</i>	3,020	2,135
Tax effect on non-deductible expenses	1,890	3,655
Tax effect on non-taxable items	(18,420)	(12,551)
Unrecognised temporary difference	(457)	25
Utilisation of previously unrecognised tax losses	9	(86)
Tax effect on unrecognised tax losses	18,645	8,410
Effect of different tax rate of PRC subsidiaries	(7)	62
Total tax expense for the period/year	4,680	1,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company and the weighted average number of ordinary shares in issue during the period/year.

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	HK\$'000	HK\$'000
Profit attributable to equity shareholders of the Company	13,625	11,291

Number of shares	'000	'000
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	2,441,220	1,793,111
Effect of dilutive potential shares:		
Share option issued by the Company (<i>Note</i>)	2	937
Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share	2,441,222	1,794,048
Basic earnings per share (<i>HK cents</i>)	0.558	0.630
Diluted earnings per share (<i>HK cents</i>)	0.558	0.629

Note:

Diluted earnings per share for the six months ended 31 December 2015 and year ended 30 June 2015 assumed the effect of exercise of share options outstanding during the period/year since they would have a dilutive effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reconciliation of carrying amount – year ended 30 June 2015						
At 1 July 2014	3,682	250	43	879	–	4,854
Additions	1,368	2	107	617	–	2,094
Depreciation	(1,474)	(67)	(16)	(478)	–	(2,035)
At 30 June 2015	3,576	185	134	1,018	–	4,913
Reconciliation of carrying amount – period ended 31 December 2015						
At 1 July 2015	3,576	185	134	1,018	–	4,913
Additions	1,670	338	46	1,615	686	4,355
Depreciation	(1,448)	(55)	(19)	(439)	(46)	(2,007)
At 31 December 2015	3,798	468	161	2,194	640	7,261
At 30 June 2015						
Cost	5,409	1,391	1,695	10,340	–	18,835
Accumulated depreciation and impairment losses	(1,833)	(1,206)	(1,561)	(9,322)	–	(13,922)
	3,576	185	134	1,018	–	4,913
At 31 December 2015						
Cost	7,079	1,729	1,741	11,955	686	23,190
Accumulated depreciation and impairment losses	(3,281)	(1,261)	(1,580)	(9,761)	(46)	(15,929)
	3,798	468	161	2,194	640	7,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

11. INTANGIBLE ASSETS

	Trading licenses <i>HK\$'000</i>	Goodwill <i>HK\$'000</i> <i>(Note)</i>	Total <i>HK\$'000</i>
Reconciliation of carrying amount			
– year ended 30 June 2015			
At 1 July 2014	–	100	100
Impairment	–	(100)	(100)
At 30 June 2015	–	–	–
Reconciliation of carrying amount			
– period ended 31 December 2015			
At 1 July 2015	–	–	–
Amortisation	–	–	–
Impairment	–	–	–
At 31 December 2015	–	–	–
At 30 June 2015			
Cost	600	100	700
Accumulated amortisation	(600)	–	(600)
Accumulated impairment	–	(100)	(100)
	–	–	–
At 31 December 2015			
Cost	600	100	700
Accumulated amortisation	(600)	–	(600)
Accumulated impairment	–	(100)	(100)
	–	–	–

Note: Goodwill is allocated to the Group's cash generating units identified according to operating and business segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

12. HELD-TO-MATURITY INVESTMENTS

	Note	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Convertible bonds	(i)		
– Debt component		223,141	–
– Derivative component		9,395	–
		232,536	–
Guaranteed notes	(ii)	117,950	–
		350,486	–

Notes:

- (i) On 2 October 2015, the Group entered into a subscription agreement with XinRen Aluminum Holdings Limited (“XinRen”), a company incorporated in Singapore whose shares are listed on the Main Board of the Singapore Exchange Securities Trading Limited, in relation to the subscription of convertible bond in the principal amount of US\$30,000,000, carries interest of 8% per annum and has a maturity date of 27 August 2020 (the “Convertible Bonds”). The Convertible Bonds are secured by a security package including a charge over certain assets and undertaking of the guarantors, share mortgages over each of the guarantors and equity pledges over four subsidiaries of XinRen in the PRC, certain bank accounts and security accounts and equipment mortgages.

The Group shall have the right exercisable to convert the whole or part of the outstanding principal amount of the Convertible Bonds held by the Group into such number of shares of XinRen as at the conversion price SG\$1.01 per share (using a fixed US\$ to SG\$ conversion rate of US\$1=SG\$1.326).

The fair value of debt component of the Convertible Bonds on initial recognition is determined using the prevailing market interest rate of similar non-convertible debts and is carried at amortised cost subsequently. The effective interest rate is 12.20% per annum. The fair values of the conversion options embedded in the Convertible Bonds are calculated using Binomial tree pricing model. The inputs to the model at the respective dates were as follows:

	Note	At 31/12/2015	At initial recognition
Stock price		SG\$0.400	SG\$0.435
Exercise price		SG\$1.010	SG\$1.010
Expected volatility	(a)	46.78%	46.74%
Risk-free rate	(b)	1.68%	1.59%
Expected dividend yield		1.85%	1.79%
Option life		4.66 years	4.82 years

Notes:

- a: Expected volatility is the based price volatility of XinRen for the period from 27 October 2010 (First listing date) up to date of issuance or up to the end of the reporting period.
- b: Risk-free rate is determined by reference to the US Generic Government Bond Yields.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

12. HELD-TO-MATURITY INVESTMENTS (Continued)

Notes: (Continued)

(i) (Continued)

In the opinion of the Directors of the Company, the fair values of the conversion options embedded in the Convertible Bonds of XinRen at the date of initial recognition and at 31 December 2015 calculated using Binomial tree pricing model is HK\$9,395,000.

Debt portion of the Convertible Bonds is classified as “Held-to-maturity investments” at initial recognition.

(ii) On 5 August 2015, the Group entered into a subscription agreement with HNA Tourism Finance Limited (“HNA”), a company incorporated in the PRC, in relation to the subscription of guaranteed bond in the principal amount of RMB100,000,000, carries interest of 9.25% per annum and has a maturity date of 12 August 2017 (the “Guaranteed Notes”). The effective interest is 9.25% per annum. Interest on the Guaranteed Notes is receivable semi-annually in arrears. The Guarantor of the Guaranteed Notes is HNA Tourism Group Co., Ltd., a company incorporated in the PRC.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

		At 31/12/2015	At 30/6/2015
	Note	HK\$'000	HK\$'000
Unlisted equity securities, at cost	(i)	14,268	14,268
Impairment losses		(13,021)	(13,021)
		1,247	1,247
Equity securities – listed in Hong Kong at fair value	(ii)	69,208	127,311
		70,455	128,558

Notes:

(i) The unlisted equity securities represent the Group’s investments in three (at 30 June 2015: three) private entities.

Given the equity securities are unlisted, the range of fair value estimated is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed, the Directors are of the opinion that their fair values cannot be reliably measured and hence they are measured at cost less impairment at the end of each reporting period.

(ii) Fair values are determined with reference to quoted market bid prices at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

During the period, the Group disposed of certain listed securities on-market at a total consideration of HK\$95,282,000 (*for the year ended 30 June 2015: HK\$69,437,000*). As a result, a gain on disposal of available-for-sale financial assets amounted to HK\$95,246,000 (*for the year ended 30 June 2015: HK\$69,437,000*) was reclassified from investment revaluation reserve upon disposal to profit or loss as reclassification adjustment.

At the end of the reporting period, the Group has pledged listed equity securities of aggregate carrying amount of HK\$Nil (*for the year ended 30 June 2015: HK\$27,320,000*) to banks as collateral for the banking facilities granted to the Group.

14. OTHER NON-CURRENT ASSETS

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Reserve fund deposits with the Futures Exchange	1,511	1,573
Statutory deposits with the Stock Exchange	1,953	3,049
Statutory deposits with the Securities and Futures Commission ("SFC")	100	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	1,460	1,649
Admission fees paid to the Hong Kong Securities Clearing Company Limited	100	100
	5,124	6,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
	<i>Note</i>		
Held for trading			
Equity securities			
– Listed in Hong Kong	<i>(i) and (iii)</i>	286,482	103,184
– Listed outside Hong Kong	<i>(i)</i>	106,106	27,324
		392,588	130,508
Unlisted fund investments	<i>(ii)</i>	54,500	60,248
		447,088	190,756

Notes:

- (i) Fair values of the listed equity securities are determined with reference to quoted active market bid price at the end of each reporting period.
- (ii) 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 listed securities) of the funds.
- (iii) The Group has pledged certain listed equity securities of aggregate carrying amount of HK\$6,301,000 at 31 December 2015 (*at 30 June 2015: HK\$8,882,000*) to a bank as collateral for the banking facilities granted.

16. DERIVATIVE FINANCIAL ASSETS

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Derivatives – Foreign currency forward contract	601	–

In August 2015, the Group entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to convert RMB100,000,000 to HK\$112,994,000.

The change in fair value of the foreign currency forward contract of HK\$601,000 are recognised in the profit or loss for the six months ended 31 December 2015 (*for the year ended 31 June 2015: Nil*). Forward Contract revaluation rate at the reporting date was used to convert value in foreign currency to local currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

17. ACCOUNTS RECEIVABLE

		At 31/12/2015	At 30/6/2015
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	<i>(b)(i)</i>	6,223	13,626
– securities margin clients	<i>(b)(ii)</i>	833,747	124,916
– securities subscription clients	<i>(b)(iii)</i>	11,824	51,096
– securities and options clearing houses and brokers	<i>(b)(iii)</i>	36,540	14,869
– futures clearing house and brokers	<i>(b)(iv)</i>	5,393	4,504
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)(v)</i>	1,384	500
Accounts receivable arising from the provision of investment-linked and insurance products broking services	<i>(b)(vi)</i>	385	615
		895,496	210,126

Notes:

(a) Settlement terms

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are two or three trading days after the transaction dates.

Accounts receivable arising from the subscription of initial public offer ("IPO") of listed companies in Hong Kong on behalf of clients are settled upon the share allotments of such listed companies.

Accounts receivable arising from the ordinary course of business of broking in index, commodity and currency futures contracts and options represent the margin deposits maintained with futures clearing house, options clearing house or brokers to meet the margin requirements of open contracts. Margin calls from clearing house and brokers are settled on a daily basis. The excess amounts over the required margin deposits stipulated are repayable on demand.

Accounts receivable arising from the provision of corporate finance advisory services and investment-linked and insurance products broking services are repayable within 30 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis

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

The gross carrying amount of accounts receivable and the movements in the provision for impairment loss of accounts receivable from securities cash clients were as follows:

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	HK\$'000	HK\$'000
Gross amount of accounts receivable:		
At the end of the reporting period/year	6,223	13,626
Provision for impairment loss:		
At the beginning of the reporting period/year	–	3,384
Amount recovered	–	(1,400)
Amount written off	–	(1,984)
At the end of the reporting period/year	–	–
	6,223	13,626

- (ii) 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\$2,936,491,000 (at 30 June 2015: HK\$347,912,000).

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

At the end of the reporting period, no provision for impairment loss of accounts receivable from securities margin clients had been made (at 30 June 2015: HK\$Nil).

- (iii) At the end of the reporting period, accounts receivable from securities subscription clients, securities and options clearing houses and brokers were not yet due. These accounts receivables 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, deposits not otherwise dealt with in the consolidated financial statements amounted to HK\$3,529,000 (at 30 June 2015: HK\$14,670,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

- (iv) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounted HK\$3,681,000 (at 30 June 2015: HK\$3,961,000), 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 all overdue within 30 days and repayable on demand.

The gross carrying amount of accounts receivable and the movements in the provision for impairment of accounts receivable from futures clearing house and brokers were as follows:

	1/7/2015 – 31/12/2015 HK\$'000	1/7/2014 – 30/6/2015 HK\$'000
Gross amount of accounts receivable:		
At the end of the reporting period/year	5,547	4,658
Provision for impairment loss:		
At the beginning of the reporting period/year	154	210
Amount recovered	–	(56)
At the end of the reporting period/year	154	154
	5,393	4,504

- (v) 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:

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Current	824	–
Overdue:		
Within 30 days	–	–
31 – 90 days	–	500
91 – 180 days	60	–
Over 180 days	500	–
	1,384	500

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of corporate finance advisory services had been made (at 30 June 2015: HK\$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

- (vi) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of investment-linked and insurance products broking services was as follows:

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Current	204	421
Overdue:		
Within 30 days	33	56
31 – 90 days	34	97
91 – 180 days	56	38
Over 180 days	58	3
	385	615

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of investment-linked and insurance products broking services had been made (*at 30 June 2015: HK\$Nil*).

(c) Accounts receivable that are not impaired

At the end of the reporting period, accounts receivable with carrying amount of HK\$6,134,000 (*at 30 June 2015: HK\$5,198,000*) are past due but not impaired. The management of the Group is of the opinion that no provision for impairment is 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 does not hold any collateral or other credit enhancements over these balances other than accounts receivable from securities margin clients.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Deposits, prepayments and other receivables	10,603	6,629
Deposit with bank in respect of cross-currency swap*	145,568	–
	156,171	6,629

* Deposit with bank in respect of cross-currency swap agreement is due on June 2018. Details of information are set out in note 33.

19. CASH AND CASH EQUIVALENTS

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Pledged deposits	2,028	2,026
Cash and bank balances	474,255	1,918,761
Cash and cash equivalents in the consolidated statement of cash flows	476,283	1,920,787

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the consolidated financial statements amounted to HK\$385,737,000 (at 30 June 2015: HK\$563,769,000).

20. DERIVATIVE FINANCIAL LIABILITIES

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Cross-currency swap (Note 33)	102,129	12,971

In June 2015, the Group entered into a cross-currency swap with a bank in the United Kingdom to swap the Renminbi Bonds principal and the relevant interest payments, as detailed in note 23 to the consolidated financial statements, into Hong Kong dollars to manage the interest rate and currency risks.

During the reporting period, the loss on change in fair value of the cross-currency swap of HK\$73,619,000 (for the year ended 30 June 2015: loss of HK\$12,971,000) are recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

21. ACCOUNTS PAYABLE

		At 31/12/2015	At 30/6/2015
	Note	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	(i)	8,079	31,589
– securities margin clients	(i)	19,117	7,045
– securities clearing house	(i)	64,363	37
– futures clients	(ii)	5,387	4,494
Accounts payable to brokers	(i)	6,561	401
Accounts payable arising from the provision of investment-linked and insurance products broking services	(iii)	436	594
		103,943	44,160

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 and clearing house are two or three trading days after the transaction dates.
- (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 investment-linked and insurance products broking services are payable within 30 days.

At the end of the reporting period, accounts payable are stated net of clients' segregated assets of HK\$392,947,000 (at 30 June 2015: HK\$582,400,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

22. OTHER PAYABLES AND ACCRUED CHARGES

	At 31/12/2015 <i>HK\$'000</i>	At 30/6/2015 <i>HK\$'000</i>
Accrued charges	25,181	14,607
Interest payables	10,005	11,260
Other payables	678	543
	35,864	26,410

23. BONDS PAYABLE

	<i>HK\$'000</i>
Carrying amount upon issuance	1,855,664
Imputed interest expenses for the year	572
Exchange realignment	(1,930)
Carrying amount at 30 June 2015 and 1 July 2015	1,854,306
Imputed interest expenses for the period	3,011
Exchange realignment	(103,195)
Carrying amount at 31 December 2015	1,754,122

On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "Bonds"). The Bonds bear interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the Bonds is payable semi-annually in arrears. The Bonds are listed on the Stock Exchange and mature on 28 May 2018 at their principal amount. At 31 December 2015, the fair value of the Bonds was RMB1,504,050,000 (at 30 June 2015: RMB1,501,650,000).

On the issue date, the Bonds were recognised based on the residual principal amounts, net of issuance costs of approximately RMB15,932,000. The Bonds are subsequently carried at amortised cost using an average effective interest rate of 6.84% per annum.

At the end of the reporting period, the bonds were repayable as follows:

	At 31/12/2015 <i>HK\$'000</i>	At 30/6/2015 <i>HK\$'000</i>
Within 1 year or on demand	–	–
After 1 year but within 2 years	–	–
After 2 years but within 5 years	1,754,122	1,854,306
After 5 years	–	–
	1,754,122	1,854,306
	1,754,122	1,854,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Depreciation allowances	-	-	(247)	(187)
Tax losses	247	187	-	-
Deferred tax assets (liabilities)	247	187	(247)	(187)
Offset deferred tax assets and liabilities	(247)	(187)	247	187
Net deferred tax assets (liabilities)	-	-	-	-

Unrecognised deferred tax assets arising from

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Deductible temporary differences	80	65
Tax losses	432,564	319,904
	432,644	319,969

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. SHARE CAPITAL

	Note	At 31/12/2015		At 30/6/2015	
		Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:					
Ordinary shares of HK\$0.10 each					
At beginning of the period/year		4,000,000	400,000	2,000,000	200,000
Increase in authorised share capital	(i)	-	-	2,000,000	200,000
At end of the period/year		4,000,000	400,000	4,000,000	400,000
Issued and fully paid:					
At beginning of the period/year		2,441,220	244,121	1,191,476	119,147
Issue of shares under share option scheme	(ii)	-	-	4,620	462
Issue of shares upon shares subscription	(iii)	-	-	1,245,124	124,512
At end of the period/year		2,441,220	244,121	2,441,220	244,121

Notes:

- (i) By an ordinary resolution passed on 19 September 2014, the authorised share capital of the Company was increased from HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.10 each to HK\$400,000,000 divided into 4,000,000,000 shares of HK\$0.10 each by the creation of additional 2,000,000,000 shares of HK\$0.10 each.
- (ii) On 10 October 2014 and 18 December 2014, 2,220,000 and 2,400,000 share options were exercised to subscribe for a total of 4,620,000 ordinary shares of the Company at an exercise price of HK\$0.355 and HK\$0.1675 respectively. The total consideration amounted to HK\$1,190,000, of which HK\$462,000 was credited to share capital and the balance of HK\$728,000 was credited to the share premium account.
- (iii) On 6 January 2015, 1,245,124,409 shares were subscribed at a subscription price of HK\$0.28 each. The total consideration amounted to HK\$348,635,000, of which HK\$124,512,000 was credited to share capital and the balance of HK\$203,797,000, being after deducting the outgoing expenses of HK\$20,326,000, was credited to the share premium account.

All new shares issued during the year ended 30 June 2015 rank pari passu in all respects with the then existing shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

26. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the “2013 Share Option Scheme”) and the termination of the share option scheme which was adopted by the Company on 30 January 2004 (the “2004 Share Option Scheme”). The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2004 Share Option Scheme.

During the period, no share option was granted under the 2013 Share Option Scheme (*for the year ended 30 June 2015: Nil*).

Movements in the number of share options outstanding during the period/year under the 2004 Share Option Scheme are as follows:

Exercise price	Number of options ('000)			Total
	HK\$0.1675	HK\$0.888	HK\$0.355	
At 1 July 2014	2,400	200	2,220	4,820
Exercised	(2,400)	–	(2,220)	(4,620)
At 30 June 2015 and 1 July 2015	–	200	–	200
Exercised	–	–	–	–
At 31 December 2015	–	200	–	200

At the end of the reporting period, the weighted average remaining contractual life of the Company's share options was 5.01 years (*at 30 June 2015: 5.51 years*).

At 31 December 2015 and 30 June 2015, all share options outstanding under 2004 Share Option Scheme are exercisable.

Details of the share option schemes are set out in the Directors' Report on pages 31 to 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

27. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution retirement scheme (the “ORSO Scheme”) and a mandatory provident fund scheme (the “MPF Scheme”) which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

Contributions to the ORSO Scheme depend on employees’ service years, and range from five to seven per cent of their basic salaries.

Employees under the ORSO Scheme are entitled fully to the employer’s contributions upon completion of ten service years, or at a reduced scale upon completion of three to nine service years. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group’s contributions.

Contributions to the MPF Scheme are calculated at five percent of the relevant income of each employee subject to a maximum amount of HK\$1,500 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer’s contributions, net of forfeited contributions, which have been dealt with in profit or loss for the period/year amounted to:

	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015
	HK\$’000	HK\$’000
Gross employer’s contributions	733	1,226
Less: Forfeited contributions utilised to offset employer’s contributions for the period/year	–	(137)
Net employer’s contributions charged to profit or loss	733	1,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, there were related party transactions entered into by the Group during the period/year, details of which are set out below:

Related party relationship	Nature of transaction	Note	1/7/2015 –	1/7/2014 –
			31/12/2015	30/6/2015
			HK\$'000	HK\$'000
Key management personnel, other than Directors	Salaries, commission and allowances		7,950	6,129
	Contributions to retirement benefit schemes		62	121
A former related company, THKHL	Management fee received	(i)	–	(560)
	Motor vehicle lease payment		–	140
A former related company, Union Light	Interest payment	(ii)	–	344

Notes:

- (i) Up to January 2015, the Group charged and paid to a related company, Tanrich (Hong Kong) Holdings Limited (“THKHL”) management fee of HK\$80,000 per month and lease payment of HK\$20,000 per month for the management and personnel supportive services provided by the Group and for the use of a motor vehicle respectively.
- (ii) Up to January 2015, the Group paid interest expense of HK\$344,000 to Union Light Investment Limited (“Union Light”) pursuant to the agreement as detailed below.

On 3 August 2011, Southwest Securities (HK) Financial Management Limited (“SFML”) entered into an agreement with Union Light which has obtained credit facility granted by a bank in Hong Kong amounted to HK\$170,000,000 and has agreed to grant such facility to SFML and its subsidiaries for working capital and business development. SFML would subject to the same terms and conditions under the banking facility granted to Union Light.

On 6 June 2013, the facility was renewed and the facility limit was revised to HK\$150,000,000. The agreement between SFML and Union Light was revised on 4 July 2013. Further on 21 February 2014, the facility was renewed with no change in terms and the facility limit.

At 30 June 2014, both Union Light and SFML were under the common directorship of Dr. Yip Man Fan and Mr. Tsunoyama Toru. Subsequent to the change of Directors of SFML in January 2015, Union Light is no longer a related company.

The amount due was fully repaid in May 2015.

No disclosures of connected transactions or continuing connected transactions are required to be reported under the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

At 31 December 2015	Financial assets at amortised cost		Available-for-sale financial assets		Financial assets at fair value through profit or loss		Total HK\$'000
	Held-to-maturity HK\$'000	Loans and receivables HK\$'000	At cost HK\$'000	At fair value HK\$'000	Derivative financial assets HK\$'000	Held for trading HK\$'000	
Financial assets							
Held-to-maturity financial assets							
Convertible bonds							
	223,141	-	-	-	-	-	223,141
	-	-	-	-	9,395	-	9,395
	117,950	-	-	-	-	-	117,950
	341,091	-	-	-	9,395	-	350,486
Available-for-sale financial assets							
	-	-	1,247	69,208	-	-	70,455
Other non-current assets							
	-	5,124	-	-	-	-	5,124
Loans and advances							
	-	70	-	-	-	-	70
Financial assets at fair value through profit or loss							
	-	-	-	-	-	447,088	447,088
Derivative financial assets							
	-	-	-	-	601	-	601
Accounts receivable							
	-	895,496	-	-	-	-	895,496
Deposits and other receivables							
	-	154,260	-	-	-	-	154,260
Cash and cash equivalents							
	-	476,283	-	-	-	-	476,283
	341,091	1,531,233	1,247	69,208	9,996	447,088	2,399,863

At 31 December 2015	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities			
	102,129	-	102,129
	-	103,943	103,943
	-	35,864	35,864
	-	1,754,122	1,754,122
	102,129	1,893,929	1,996,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

At 30 June 2015	Financial assets at amortised cost	Available-for-sale financial assets		Financial assets at fair value through profit or loss	Total HK\$'000
	Loans and receivables HK\$'000	At cost HK\$'000	At fair value HK\$'000	Held for trading HK\$'000	
Financial assets					
Available-for-sale financial assets	–	1,247	127,311	–	128,558
Other non-current assets	6,471	–	–	–	6,471
Loans and advances	183	–	–	–	183
Financial assets at fair value through profit or loss					
loss	–	–	–	190,756	190,756
Accounts receivable	210,126	–	–	–	210,126
Deposits and other receivables	4,399	–	–	–	4,399
Cash and cash equivalents	1,920,787	–	–	–	1,920,787
	2,141,966	1,247	127,311	190,756	2,461,280

At 30 June 2015	Financial liabilities at fair value through profit or loss HK\$'000	Financial liabilities at amortised cost HK\$'000	Total HK\$'000
Financial liabilities			
Derivative financial liabilities	12,971	–	12,971
Accounts payable	–	44,160	44,160
Other payables and accrued charges	–	26,410	26,410
Bonds payable	–	1,854,306	1,854,306
	12,971	1,924,876	1,937,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. The Group's overall risk control focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Risk Control Committee ("RCC") is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks of the Group. The RCC is also responsible for assessing the risk of long term investments and proprietary trading.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations. As mentioned in notes 20 and 23 to the consolidated financial statements, the Group has entered into a cross-currency swap to reduce the interest rate expenses of the Bonds.

The Group had short-term borrowings for providing margin financing to clients, with interest rates fixed with the banks upon withdrawal. Hence, the Group has minimal interest-rate risk exposure in this regard. The interest rates charged and margin ratio allowed to the Group's securities margin clients are determined with reference to the terms from the banks while the interest rate for loans and advances are fixed. The Group determined the interest rate for loans and advances with appropriate premium to deal with interest-rate risk. Management considers that the Group has limited exposure to interest rate risk relating to the margin financing to the Group's securities margin clients and the loans and advances to entities as the changes in interest rates for these items are minimal.

Credit risk

The Group is exposed to credit risk for all financial assets that a client or counterparty in a transaction may default on settlement. The maximum exposure equals to the carrying amount of the accounts receivable less the market value of the underlying pledged securities. Details are set out in note 17 to the consolidated financial statements.

The Group has concentration of credit risk as 31% (*at 30 June 2015: 6%*) and 63% (*at 30 June 2015: 21%*) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the brokerage and margin financing business segment, wealth management business segment and corporate finance business segment.

The Group's other financial assets, including bank balances, loans and advances, other non-current assets and deposits and other receivables have a maximum exposure of credit risk without taking account of any collateral held or other credit enhancements equal the carrying amounts of these instruments.

The Group's bank balances and deposit with bank in respect of cross currency swap are placed with credit-worthy financial institutions in Hong Kong, PRC and the United Kingdom.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of United States dollar ("US dollar") and Renminbi.

The Group considers the risk exposure to foreign currency fluctuation in US dollar would be minimal as long as the Hong Kong dollar remains pegged to the US dollar. The analysis is performed on the same basis for the year ended 30 June 2015.

The Group has entered into a cross-currency swap to mitigate the effect of its foreign currency exposure arising from the fixed-rate Bonds payable denominated in Renminbi (*note 23*), in which the Group agrees to exchange, at specific intervals, Renminbi principal and interest of the Bonds payable into Hong Kong dollars.

The Group has entered into a foreign currency forward contract to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to exchange the Renminbi contract amount into Hong Kong dollars at fixed rate.

Liquidity risk

The Group manages to maintain its liquidity position at a prudent and adequate level. The Directors monitor the cash flows daily to ensure sufficient funds are available. The senior management would also review the liquidity level in compliance with the statutory requirements for the licensed subsidiaries.

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle, and the Group's derivative financial liabilities at the end of the reporting period, based on the remaining contractual maturities, is summarised below:

	At 31/12/2015					At 30/6/2015				
	Less than 3 months or on demand	3 to 12 months	1-5 years	Total	Carrying amount	Less than 3 months or on demand	3 to 12 months	1-5 years	Total	Carrying amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-derivative financial liabilities										
Accounts payable	103,943	-	-	103,943	103,943	44,160	-	-	44,160	44,160
Other payables and accrued charges	25,859	10,005	-	35,864	35,864	12,166	14,244	-	26,410	26,410
Bonds payable	-	114,117	1,940,425	2,054,542	1,754,122	-	120,879	2,115,859	2,236,738	1,854,306
Derivative financial liabilities										
Cross-currency swap					102,129					12,971
- Receipts	-	(114,117)	(1,940,425)	(2,054,542)		-	(120,879)	(2,115,859)	(2,236,738)	
- Payments	-	88,015	2,004,682	2,092,697		-	88,015	2,048,689	2,136,704	
	129,802	98,020	2,004,682	2,232,504	1,996,058	56,326	102,259	2,048,689	2,207,274	1,937,847

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risks arising from individual equity investments classified as available-for-sale investments and financial assets at fair value through profit or loss as at 31 December 2015, details of which have been set out in notes 13 and 15 to the consolidated financial statements respectively. The Group's listed investments are mainly listed on the Stock Exchange, the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("SSE") and are valued at quoted market prices at the end of the reporting period.

The market equity index for the Stock Exchange, SZSE and SSE at the close of business of the nearest trading day in the period/year to the end of the reporting period, and its respective highest and lowest points during the period/year were as follows:

	For the period from		For the year ended	
	1 July 2015 to 31 December 2015		30 June 2015	
	At 31/12/2015	High/Low from 1/7/2015 to 31/12/2015	At 30/6/2015	High/Low from 1/7/2014 to 30/6/2015
Hong Kong – Hang Seng Index	21,914	26,282/20,557	26,250	28,443/22,586
PRC – SZSE Component Index	12,665	13,755/9,291	14,338	18,098/7,160
PRC – SSE Composite Index	3,539	4,124/2,927	4,277	5,166/2,038

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the reasonably possible changes in the fair value of equity investments, with all other variables held constant had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The analysis is performed on the same basis for the year end 30 June 2015.

At the end of the reporting period, if the equity price had been 5% (at 30 June 2015: 5%) higher/lower with all other variables held constant, the Group's profit before tax would be increased/decreased by HK\$19,629,000 (for the year ended 30 June 2015: HK\$6,525,000) as a result of changes in fair value of listed financial assets at fair value through profit or loss investments. Investment revaluation reserve would be increased/decreased by HK\$3,460,000 (at 30 June 2015: HK\$6,366,000) as a result of changes in fair value of listed available-for-sale investments. For sensitivity analysis on available-for-sale investments, no account has been taken on factors such as impairment which might impact on profit or loss.

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For the period from 1 July 2015 to 31 December 2015

31. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2015 and 30 June 2015 across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

At 31 December 2015

	Total <i>HK\$'000</i>	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>
Assets measured at fair value				
Available-for-sale financial assets				
Equity securities listed in Hong Kong	69,208	69,208	-	-
Financial assets at fair value through profit or loss				
– Equity securities listed in Hong Kong	286,482	286,482	-	-
– Equity securities listed outside Hong Kong	106,106	73,475	639	31,992
– Unlisted fund investments	54,500	-	54,500	-
Derivative financial assets				
– Foreign currency forward contract	601	-	601	-
– Conversion options embedded in investments in				
Convertible Bonds	9,395	-	-	9,395
Liabilities measured at fair value				
Derivative financial liabilities				
– Cross-currency swap	102,129	-	102,129	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

31. FAIR VALUE MEASUREMENTS (Continued)

At 30 June 2015

	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets measured at fair value				
Available-for-sale financial assets				
Equity securities listed in Hong Kong	127,311	127,311	–	–
Financial assets at fair value through profit or loss				
Equity securities listed in Hong Kong	103,184	103,184	–	–
Equity securities listed outside Hong Kong	27,324	18,986	3,092	5,246
Unlisted fund investments	60,248	–	60,248	–
Liabilities measured at fair value				
Derivative financial liabilities				
– Cross-currency swap	12,971	–	12,971	–

Movements in Level 3 fair value measurements of financial assets

	1/7/2015 – 31/12/2015 HK\$'000	1/7/2014 – 30/6/2015 HK\$'000
Financial assets at fair value through profit or loss		
At the beginning of the period/year	5,246	–
Transfers into Level 1	(4,607)	–
Transfers into Level 2	(639)	(3,092)
Transfers into Level 3	31,992	8,338
At the end of the period/year	31,992	5,246
Change in unrealised gain for the period/year included in profit or loss for assets held at the end of the reporting period/year	1,549	1,352

Certain listed equity securities outside Hong Kong amounting to HK\$30,443,000 (*for the year ended 30 June 2015: HK\$3,894,000*) purchased during the period was classified as Level 1 upon purchase. These listed equity securities had been suspended for trading since Oct 2015. In the absence of an active market, these investments' fair values of HK\$31,992,000 (*at 30 June 2015: HK\$5,246,000*) are estimated on the basis of the quoted price before trading suspension, an analysis of the investees' prospects and other factors. These investments were transferred to Level 3 on the dates when the trading suspended. During the reporting period, the net unrealised gains amounting to HK\$1,549,000 (*for the year ended 30 June 2015: HK\$1,352,000*) arising from these listed equity securities was recognised in profit or loss.

Assuming other factors remain unchanged, if the market condition of SZSE, where the listed securities under suspension were listed, was improved/deteriorated by 10%, the Group's net profit would be increased/decreased by HK\$3,199,200 (*for the year ended 30 June 2015: HK\$524,600*) as a result of change in fair value of these Level 3 investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

31. FAIR VALUE MEASUREMENTS (Continued)

Description of the valuation techniques and inputs used in Level 3 fair value measurement

Fair value of conversion options embedded in investments in convertible bonds is determined by using valuation techniques and inputs using the underlying share price and expected volatility.

(a) Conversion options embedded in investments in convertible bonds

The fair value is estimated based on risk-free rate for the life of the option and share price (from observable market data), expected volatility of the share price of XinRen, expected dividend yield on the share and exercise price. Expected volatility of the share price of XinRen is determined by reference to the historical share price of XinRen. A slight increase in the expected volatility of the share price of XinRen used in valuation would result in an increase/decrease in the fair value measurement of the conversion options embedded in investments in convertible bonds. A 5% increase/decrease in the expected volatility of the share price of XinRen holding all other variables constant would increase/decrease the carrying amount of the conversion options embedded in the convertible bonds by HK\$700,000/(HK\$311,000). A 5% increase/decrease in the share price of XinRen holding all other variables constant would increase/decrease the carrying amount of the conversion options embedded in the convertible bonds by HK\$1,607,000/(HK\$283,000).

Description of the valuation techniques and inputs used in Level 2 fair value measurement

The fair values of certain equity securities listed outside Hong Kong, unlisted fund investments, derivative financial assets, derivative financial liabilities and swap are determined by using valuation techniques and inputs using third-party pricing information without adjustment from the fund managers and the bank.

(a) Certain equity securities listed outside Hong Kong

Certain equity securities listed outside Hong Kong amounting to HK\$639,000 (at 30 June 2015: HK\$3,092,000) purchased during the period was classified in Level 2 upon purchase. These listed equity securities temporarily suspended trading at the end of the reporting period/year and resumed from suspension before the date of authorisation of the consolidated financial statements. In the absence of quoted price in an active market, the Group applied market approach in which the last traded prices before their trading suspension were used without adjustment as there has been no expected material gap-down between the date of suspension and resumption. To the extent that the significant inputs are observable, the Group categories these investments as Level 2.

(b) Unlisted fund investments

Note 15 to the consolidated financial statements provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments.

(c) Derivative financial assets

Derivative financial assets, representing foreign currency forward contract, are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. To the extent that these significant inputs are observable, the Group categories these investments as Level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

31. FAIR VALUE MEASUREMENTS (Continued)

Description of the valuation techniques and inputs used in Level 2 fair value measurement

(Continued)

(d) *Derivative financial liabilities*

Derivative financial liabilities, representing cross-currency swap, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs, which are major inputs without any adjustment, including the credit quality of counterparties, currency and interest rate curves.

(e) *SWAP*

The valuation technique used to determine the fair value of the SWAP is the discounting cashflow based on methodologies which is the estimated amount that the issuer would receive or pay to terminate the SWAP agreement at the end of the reporting period, taking into account of observable interest rates.

Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

32. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support the Group's growth and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, future capital requirement of the Group and investment opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives policies or processes during the six months ended 31 December 2015 and the year ended 30 June 2015.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and investment advisory services and insurance broking services which are regulated entities under the Securities and Futures Commission, The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association and subject to the respective minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity. The Group's policy is to maintain the gearing ratio at a reasonable level. At the end of the reporting period, there were borrowings of HK\$1,754,122,000 (*at 30 June 2015: HK\$1,854,306,000*) for financing the operations of the Group which resulted in a gearing ratio of 430.3% (*at 30 June 2015: 350.6%*).

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33. COMMITMENTS

Commitments under operating leases

The Group leases a number of properties and other items under operating leases, which typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Within one year	13,893	13,766
In the second to fifth year inclusive	4,572	11,269
	18,465	25,035

Commitments under foreign currency forward contract

In August 2015, the Group entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to convert RMB100,000,000 to HK\$112,994,000.

The foreign currency forward contract is accounted for by the Group in accordance with HKAS 39 accordingly and included in derivative financial assets set out in note 16 to the consolidated financial statements.

Commitments under cross-currency swap agreement

In June 2015, the Group entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1,484,279,000 and HK\$1,853,032,000.

Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank. The amount to be paid is calculated on the final exchange amount of HK\$1,872,659,000 with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1,500,000,000 at 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK\$1,872,659,000 to RMB1,500,000,000. The cross-currency swap is settled on gross basis.

The cross-currency swap is accounted for by the Group in accordance with HKAS 39 accordingly and included in derivative financial liabilities set out in note 20 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK\$55,000,000 (*at 30 June 2015: HK\$55,000,000*) and unlimited guarantee for a facility amounted to HK\$65,500,000 (*at 30 June 2015: HK\$65,500,000*) for banking facilities granted to subsidiaries from banks, which none of the amount was utilised (*at 30 June 2015: Nil*).

The Company has not recognised any deferred income for the corporate guarantee given in respect of the banking facilities for subsidiaries as their fair value cannot be reliably measured and their transactions price was zero.

At the end of the reporting period, the Directors do not consider probable that a claim will be made against the Company under any of the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Pursuant to the Hong Kong Companies Ordinance, the statement of financial position of the Company and the movements in its reserves are set out below:

	Note	At 31/12/2015 HK\$'000	At 30/6/2015 HK\$'000
Non-current assets			
Interests in subsidiaries	(a)	1,073,038	268,336
Held-to-maturity investments		350,486	–
Available-for-sale financial assets		68,754	90,702
		1,492,278	359,038
Current assets			
Financial assets at fair value through profit or loss		447,082	190,752
Derivative financial assets		601	–
Deposits, prepayments and other receivables		207,913	51,620
Pledged deposits		783	782
Cash and bank balances		122,515	1,803,837
		778,894	2,046,991
Current liabilities			
Derivative financial liabilities		102,129	12,971
Other payables and accrued charges		11,066	14,413
		113,195	27,384
Net current assets		665,699	2,019,607
Total assets less current liabilities		2,157,977	2,378,645
Non-current liabilities			
Bonds payable		1,750,326	1,849,812
NET ASSETS		407,651	528,833
Capital and reserves			
Share capital		244,121	244,121
Reserves	(b)	163,530	284,712
TOTAL EQUITY		407,651	528,833

Approved and authorised for issue by the Board of Directors on 18 March 2016 and signed on its behalf by:

Yu Weijia
Director

Pu Rui
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(a) Interests in Subsidiaries

Interests in subsidiaries is stated at cost less accumulated impairment, if any.

(b) Movements of the Reserves

	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i> <i>(Note (ii))</i>	Contributed surplus <i>HK\$'000</i> <i>(Note(i))</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2014	72,988	9,554	65,059	(103,732)	43,869
Profit for the year	-	-	-	24,048	24,048
Other comprehensive income for the year, net of tax					
Change in fair value on available-for-sale financial assets	77,771	-	-	-	77,771
Reclassification of investment revaluation reserve upon disposal	(65,501)	-	-	-	(65,501)
Other comprehensive income for the year	12,270	-	-	-	12,270
Total comprehensive income for the year	12,270	-	-	24,048	36,318
Transactions with equity shareholders					
<i>Contributions and distributions</i>					
Issue of shares under share option scheme	-	728	-	-	728
Issue of shares upon share subscription	-	203,797	-	-	203,797
Total transactions with equity shareholders	-	204,525	-	-	204,525
At 30 June 2015	85,258	214,079	65,059	(79,684)	284,712
At 1 July 2015	85,258	214,079	65,059	(79,684)	284,712
Loss for the period	-	-	-	(28,737)	(28,737)
Other comprehensive loss for the period, net of tax					
Change in fair value on available-for-sale financial assets	(29,863)	-	-	-	(29,863)
Reclassification of investment revaluation reserve upon disposal	(62,582)	-	-	-	(62,582)
Other comprehensive loss for the period	(92,445)	-	-	-	(92,445)
Total comprehensive loss for the period	(92,445)	-	-	(28,737)	(121,182)
At 31 December 2015	(7,187)	214,079	65,059	(108,421)	163,530

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

(b) Movements of the Reserves

Notes:

(i) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) Share premium

The share premium account of the Company of HK\$214,079,000 (at 30 June 2015: HK\$214,079,000) can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda.

(iii) Distributable reserves

At the end of the reporting period, in the opinion of the Directors, there is no reserve of the Company available for distribution to shareholders subject to the restriction stated above (at 30 June 2015: Nil).

36. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Financial Management Limited ("SFML")	British Virgin Islands/ Hong Kong	US\$10,000 (divided into 10,000 ordinary shares of US\$1 each)	100%	100%	-	Investment holding and proprietary trading
Southwest Securities (HK) Asset Management Limited ("SAML")	Hong Kong/ Hong Kong	HK\$30,000,000 ordinary shares and HK\$6,000,000 non- voting deferred shares	100%	-	100%	Provision of asset management services, distribution of unit trusts and mutual funds
Southwest Securities (HK) Capital Limited ("SCL")	Hong Kong/ Hong Kong	HK\$45,000,000 ordinary shares (at 30 June 2015: HK\$30,000,000 ordinary shares)	100%	-	100%	Provision of corporate finance advisory services
Southwest Securities (HK) Finance Limited ("SFIN")	Hong Kong/ Hong Kong	HK\$1,000 ordinary shares and HK\$10,000 non- voting deferred shares	100%	-	100%	Provision of corporate and personal financing services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

36. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Futures Limited ("SFL")	Hong Kong/ Hong Kong	HK\$20,000,000 ordinary shares and HK\$10,000,000 non- voting deferred shares	100%	–	100%	Futures broking and proprietary trading
Southwest Securities (HK) Brokerage Limited ("SBL")	Hong Kong/ Hong Kong	HK\$775,000,000 ordinary shares and HK\$25,000,000 non- voting deferred shares <i>(at 30 June 2015: HK\$130,000,000 ordinary shares and HK\$25,000,000 non- voting deferred shares)</i>	100%	–	100%	Securities broking, margin financing and distribution of unit trusts and mutual funds
Tanrich Wealth Management Limited ("TWML")	Hong Kong/ Hong Kong	HK\$24,000,000 ordinary shares <i>(at 30 June 2015: HK\$21,000,000 ordinary shares)</i>	100%	–	100%	Distribution of investment- linked products, mandatory provident fund products, provision of personal financial consulting and planning services and provision of insurance broking services
Southwest Securities (HK) Investments Limited ("SIL")	Hong Kong/ Hong Kong	HK\$1 ordinary share	100%	–	100%	Investment holding
Southwest Securities (HK) Investment Management Limited ("SIML")	Hong Kong/ Hong Kong	HK\$1,000,000 ordinary shares	100%	–	100%	Investment holding
Southwest Securities (HK) Promotion Limited ("SPL")	Hong Kong/ Hong Kong	HK\$300,000 ordinary shares	100%	–	100%	Provision of advertising services
Southwest Securities (HK) Properties Agency Limited ("SPA") (formerly known as Tanrich Properties Agency Limited)	Hong Kong/ Hong Kong	HK\$10,000 ordinary shares	100%	–	100%	Property agency

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 July 2015 to 31 December 2015

36. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
TOP Commodity Capital Management Limited ("TOP")	Hong Kong/ Hong Kong	HK\$150,000 ordinary shares	100%	–	100%	Investment holding
西證諮詢服務(深圳)有限公司 (formerly known as 敦沛科技發展(深圳)有限公司)	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK\$5,000,000	100%	–	100%	Provision of corporate finance advisory services
西證(大連)投資管理有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK\$6,000,000	100%	–	100%	Not yet commenced business
Tanrich-FundStreet Limited ("TFSL")	Hong Kong/ Hong Kong	HK\$2,000,000 ordinary shares	100%	–	100%	Investment holding
Tanrich Fund Investment Management (Cayman) Limited ("TFIM")	Cayman Islands/ Hong Kong	US\$10,000 ordinary shares	100%	–	100%	Not yet commenced business

In accordance with Articles of Association of each of SAML, SFIN, SFL and SBL, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK\$0.01) per non-voting deferred share when the profit exceeds HK\$100 Billion in any financial year.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS:

	Financial year/period				
	1/7/2015 – 31/12/2015 <i>HK\$'000</i>	1/7/2014 – 30/6/2015 <i>HK\$'000</i>	1/7/2013 – 30/6/2014 <i>HK\$'000</i>	1/7/2012 – 30/6/2013 <i>HK\$'000</i>	1/7/2011 – 30/6/2012 <i>HK\$'000</i>
Revenue	14,463	56,245	69,912	55,175	67,238
Profit (Loss) before tax	18,305	12,941	(17,646)	(32,470)	(45,008)
Income tax credit (expenses)	(4,680)	(1,650)	(93)	–	12
Profit (Loss) for the period/year	13,625	11,291	(17,739)	(32,470)	(44,996)
Attributable to:					
Equity shareholders of the Company	13,625	11,291	(17,739)	(32,470)	(44,996)

ASSETS AND LIABILITIES:

	Assets and liabilities at				
	31/12/2015 <i>HK\$'000</i>	30/6/2015 <i>HK\$'000</i>	30/6/2014 <i>HK\$'000</i>	30/6/2013 <i>HK\$'000</i>	30/6/2012 <i>HK\$'000</i>
Non-current assets	433,326	140,010	113,097	96,358	109,026
Current assets	1,975,709	2,328,413	286,689	157,887	195,668
Total assets	2,409,035	2,468,423	399,786	254,245	304,694
Current liabilities	(247,262)	(85,284)	(236,770)	(92,481)	(115,846)
Non-current liabilities	(1,754,122)	(1,854,306)	–	–	–
Total liabilities	(2,001,384)	(1,939,590)	(236,770)	(92,481)	(115,846)
Net total assets	407,651	528,833	163,016	161,764	188,848
Current ratio	7.99	27.30	1.21	1.71	1.69
Gearing ratio	430%	351%	115%	45%	45%

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