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

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "Board") of directors (the "Directors") of Southwest Securities International Securities Limited (the "Company") presents to its shareholders (the "Shareholders") the consolidated final results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Review Period"):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	**1/1/2016 – 31/12/2016** ***HK$'000***	1/7/2015 – 31/12/2015 *HK$'000*
Revenue	*2*	**92,038**	16,024
Other income and gains	*4*	**140,495**	206,877
Employee benefit expenses	*5a*	**(74,298)**	(38,829)
Depreciation		**(5,147)**	(2,007)
Commission expenses		**(12,173)**	(7,811)
Fair value change on derivative component of convertible bonds		**(9,405)**	–
Fair value change on derivative financial assets		**5,250**	601
Fair value change on derivative financial liabilities		**(59,715)**	(73,619)
Other operating expenses		**(124,740)**	(20,171)
Finance costs	*5c*	**(119,491)**	(62,760)
(Loss) Profit before tax	*5*	**(167,186)**	18,305
Income tax credit (expense)	*6*	**263**	(4,680)
(Loss) Profit for the year/period attributable to equity shareholders of the Company		**(166,923)**	13,625

	Note	**1/1/2016 – 31/12/2016** *HK$'000*	1/7/2015 – 31/12/2015 *HK$'000*
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(542)**	(580)
Change in fair value on available-for-sale financial assets		**(5,117)**	(38,981)
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets		**–**	(95,246)
Other comprehensive loss for the year/period, net of tax		**(5,659)**	(134,807)
Total comprehensive loss for the year/period attributable to equity shareholders of the Company		**(172,582)**	(121,182)
(Loss) Earnings per share			
– Basic *(HK cents)*	*7*	**(6.838)**	0.558
– Diluted *(HK cents)*	*7*	**(6.838)**	0.558

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Non-current assets			
Property, plant and equipment		**15,017**	7,261
Intangible assets		**–**	–
Held-to-maturity investments	*8*	**–**	350,486
Available-for-sale financial assets		**84,535**	70,455
Other non-current assets		**4,670**	5,124
		104,222	433,326
Current assets			
Held-to-maturity investments	*8*	**111,170**	–
Available-for-sale financial assets	*8(i), (ii)*	**233,477**	–
Loans and advances		**41**	70
Financial assets at fair value through profit or loss	*9*	**396,717**	447,088
Derivative financial assets		**5,851**	601
Accounts receivable	*10*	**391,477**	895,496
Deposits, prepayments and other receivables		**276,628**	156,171
Pledged deposits		**1,247**	2,028
Cash and bank balances		**623,543**	474,255
		2,040,151	1,975,709
Current liabilities			
Derivative financial liabilities	*11*	**187,230**	102,129
Accounts payable	*12*	**20,777**	103,943
Other payables and accrued charges		**42,140**	35,864
Tax payable		**–**	5,326
		250,147	247,262
Net current assets		**1,790,004**	1,728,447
Total assets less current liabilities		**1,894,226**	2,161,773
Non-current liabilities			
Bonds payable	*13*	**1,659,157**	1,754,122
NET ASSETS		**235,069**	407,651
Capital and reserves			
Share capital		**244,121**	244,121
Reserves		**(9,052)**	163,530
TOTAL EQUITY		**235,069**	407,651

Note:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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).

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 six months ended 31 December 2015.

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, was changed from 30 June to 31 December with effect from the financial period ended 31 December 2015. The reason for the change is to coincide with the financial year end date of Southwest Securities Co., Ltd. ("SWSC"), and thereby facilitating the preparation of SWSC's consolidated financial statements. As a result of the change, the current financial year covered a twelve-month period ended on 31 December 2016 and the last financial period covered a six-month period from 1 July 2015 to 31 December 2015. The comparative amounts for the consolidated statement of profit or loss and other comprehensive income and related notes are not entirely comparable.

2. REVENUE

	Note	**1/1/2016 – 31/12/2016** ***HK$'000***	1/7/2015 – 31/12/2015 *HK$'000*
Brokerage commission income:			
– securities dealing		**10,885**	13,846
– underwriting and placing commission income		**15,648**	13,327
– futures and options dealing		**2,382**	921
– distribution of investment-linked and insurance products		**706**	380
Advisory and insurance broking fee income:			
– corporate finance advisory		**24,909**	2,403
– commitment fee income		**–**	4,480
– insurance broking		**4,898**	847
Interest income:			
– margin financing		**51,780**	14,480
– loans and advances		**2**	2
Proprietary trading:			
– net results from proprietary trading	*(i)*	**(19,172)**	(34,662)
		92,038	16,024

Note:

	1/1/2016 – 31/12/2016 *HK$'000*	1/7/2015 – 31/12/2015 *HK$'000*
(i) Net results from proprietary trading		
Bond interest income	**271**	–
Net loss on trading equities	**(17,691)**	(40,548)
Net loss on fund investments	**(5,773)**	(5,740)
Net loss on bond investments	**(4,100)**	–
Net profit on derivatives	**2,009**	10,065
Dividend income from trading listed securities	**6,112**	1,561
	(19,172)	(34,662)

3. SEGMENT INFORMATION

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

– Segment revenue represents revenue generated from external customers; and

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

Reportable operating segments

The Directors consider brokerage and margin financing, wealth management, corporate finance and proprietary trading are the Group's major operating segments.

	For the year ended 31 December 2016					
	Brokerage and margin financing *HK$'000*	**Wealth management** *HK$'000*	**Corporate finance** *HK$'000*	**Proprietary trading** *HK$'000*	**Other operations** *HK$'000*	**Consolidated** *HK$'000*
Revenue	**80,695**	**5,604**	**24,909**	**(19,172)**	**2**	**92,038**
Commission expenses	**(5,490)**	**(2,215)**	**(1,255)**	**(3,213)**	**–**	**(12,173)**
Segment results	**(73,416)**	**(3,613)**	**(11,966)**	**(54,371)**	**42,607**	**(100,759)**
Unallocated expenses, represented central administration costs						**(23,088)**
Depreciation						**(5,147)**
Unallocated finance costs						**(38,192)**
Income tax credit						**263**
Loss for the year						**(166,923)**

	For the six months ended 31 December 2015					
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Proprietary trading *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Revenue	42,574	1,227	6,883	(34,662)	2	16,024
Commission expenses	(5,577)	(902)	–	(1,191)	(141)	(7,811)
Segment results	5,428	(5,102)	(1,611)	(52,377)	22,827	(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

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the year ended 31 December 2016 and the six months ended 31 December 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.

Major customers

At the end of the year/period, the following respective external customers contributed more than 10% of total revenue of the Group. The total revenue of the Group did not include the net results from proprietary trading.

	1/1/2016 – 31/12/2016 *HK$'000*	1/7/2015 – 31/12/2015 *HK$'000*
Customer A from brokerage and margin financing segment	**N/A** *	11,294
Customer B from brokerage and margin financing segment	**26,719**	10,072

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

* *Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2016.*

4. OTHER INCOME AND GAINS

	1/1/2016 – 31/12/2016 *HK$'000*	1/7/2015 – 31/12/2015 *HK$'000*
Other income		
Dividend income from available-for-sale financial assets	**2,019**	2,181
Handling income	**960**	999
Interest income	**42,516**	10,586
Sundry income	**192**	494
	45,687	14,260
Other gains		
Exchange gain*	**94,773**	97,371
Gain on disposal of available-for-sale financial assets	**–**	95,246
Reversal of allowance for doubtful debts	**35**	–
	94,808	192,617
	140,495	206,877

* *Include an amount of HK$101,006,000 for the year ended 31 December 2016 (for the six months ended 31 December 2015: HK$103,195,000) representing an exchange gain arising on retranslation to Hong Kong dollars at the spot rate at the end of the year/period in respect of bonds payable denominated in RMB. Detailed information is set out in note 13.*

5. (LOSS) PROFIT BEFORE TAX

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
(Loss) Profit before tax is arrived at after charging:		
(a) Employee benefit expenses		
Salaries, commission and allowances	**72,728**	38,096
Contributions to retirement benefit schemes	**1,570**	733
	74,298	38,829
(b) Other items		
Auditor's remuneration		
– Audit-related assurance services	**1,495**	800
– Other services	**154**	–
Impairment loss on accounts receivable	**81,275**	–
Operating lease payments on premises	**11,365**	5,657
(c) Finance costs		
Bank loan interest expenses	**2**	–
Bond interest expenses	**113,443**	59,746
Imputed interest expenses on bonds payable	**6,041**	3,011
Other interest expenses	**5**	3
	119,491	62,760

6. INCOME TAX CREDIT (EXPENSE)

No provision for income tax had been made for the current year as there was no taxable profits for the year ended 31 December 2016. The tax credit represents over-provision of Hong Kong Profits Tax in prior years.

During the six months ended 31 December 2015, Hong Kong Profits Tax has been provided in the consolidated financial statements at the rate of 16.5% on a subsidiary's estimated assessable profits arising from Hong Kong. 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 are wholly absorbed by unrelieved tax losses brought forward from previous years.

The income tax provision in respect of operations in the People's Republic of China ("PRC"), if applicable, is calculated at the applicable tax rates on the estimated assessable profits for the year/period 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 year/period are wholly absorbed by unrelieved tax losses brought forward from previous years.

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

7. (LOSS) EARNINGS PER SHARE

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

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
(Loss) Profit attributable to equity shareholders of the Company	**(166,923)**	13,625
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue for the purpose of basic (loss) earnings per share	**2,441,220**	2,441,220
Effect of dilutive potential shares:		
Share option issued by the Company *(Note)*	**–**	2
Weighted average number of ordinary shares in issue for the purpose of diluted (loss) earnings per share	**2,441,220**	2,441,222
Basic (loss) earnings per share *(HK cents)*	**(6.838)**	0.558
Diluted (loss) earnings per share *(HK cents)*	**(6.838)**	0.558

Note:

There were no dilutive potential ordinary shares outstanding during the year ended 31 December 2016. Accordingly, the diluted loss per share is the same as basic loss per share.

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

8. HELD-TO-MATURITY INVESTMENTS

	Note	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Convertible bonds	*(i)*		
– Debt component		**233,477**	223,141
– Derivative component		**–**	9,395
		233,477	232,536
Less: Reclassification to available-for-sale financial assets	*(ii)*	**(233,477)**	–
		–	232,536
Guaranteed notes	*(iii)*	**111,170**	117,950
At 31 December		**111,170**	350,486
Less: Non-current portion		**–**	(350,486)
Current portion		**111,170**	–

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 were listed on the Main Board of the Singapore Exchange Securities Trading Limited, in relation to the subscription of convertible bonds 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 had 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 Singapore dollars ("SG$") 1.01 per share (using a fixed US$ to SG$ conversion rate of US$1=SG$1.326).

On 24 May 2016, all the issued and paid-up ordinary shares of XinRen were acquired by an offeror through a voluntary conditional cash offer (the "Acquisition"). Subsequent to the completion of the Acquisition, XinRen was delisted from the Main Board of the Singapore Exchange Securities Trading Limited on the same day (the "Delisting").

Since the Delisting of XinRen, the management of the Company considered that there is no observable market data to assess the fair value of the derivative component of the Convertible Bonds. Consequently, the fair value of the conversion options embedded in the Convertible Bonds became nil balance from the date of Delisting and as at 31 December 2016. The change in fair value (including exchange difference) of conversion options embedded in the Convertible Bonds of HK$9,405,000 for the year ended 31 December 2016 *(for the six months ended 31 December 2015: HK$Nil)* is recognised in the profit or loss.

Moreover, having considered the lack of liquidity of the conversion shares following the Delisting, the management of the Company are of the view that to dispose the Convertible Bonds will enable the Group to realise the investment and use the net proceeds from the disposal for general corporate purposes.

On 30 December 2016, the Group entered into a sale and purchase agreement to dispose the Convertible Bonds in the principal amount of US$30,000,000 (equivalent to approximately HK$234,000,000) for a cash consideration of not exceeding US$31,172,000 (equivalent to approximately HK$243,141,600). Completion of the disposal of the Convertible Bonds is conditional upon the fulfillment of the following conditions: i) compliance with all requirements of the Listing Rules; ii) necessity to obtain all necessary consent, authorisations, approvals including but not limited to the approval from the shareholders of the Company; iii) no default having taken place or event of default having occurred and continuing; iv) each of the warranties made by the Company being correct; v) the registrar and the common security agent of the Convertible Bonds having accepted or otherwise completed the "know your client" process with respect to the purchaser; and vi) the registrar and the common security agent of the Convertible Bonds having acknowledged that the relevant transfer documents and information in relation to the transaction under the sale and purchase agreement are in place and they will implement the transfer (including but not limited to issuance of a new bond certificate in the name of the purchaser and enter the name of the purchaser into the convertible bond register) upon receipt of the executed transfer documents. The details were set out in the Company's announcement dated 30 December 2016 available in the websites of the Company and Hong Kong Exchanges and Clearing Limtied.

In relation to the proposed disposal of the Convertible Bonds, in the opinion of the Directors of the Company, Convertible Bonds is expected to be realised within twelve months after the end of the reporting period. Accordingly, the debt portion of the Convertible Bonds is reclassified from "Non-current assets" to "Current assets" at 31 December 2016. As a result of a change in intention, it is no longer appropriate to classify the investment as "held-to-maturity investments" and reclassified as "available-for-sale financial assets" and remeasured at fair value.

Subsequent to the end of the reporting period, all conditions were satisfied and the disposal was completed in February 2017. The consideration of HK$241,779,000 was received in February 2017 and the loss was HK$1,377,000.

(ii) The amount was remeasured at fair value at the date of reclassification and as at 31 December 2016 with reference to the consideration as stipulated in the sale and purchase agreement dated 30 December 2016.

(iii) 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 notes 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"). Interest on the Guaranteed Notes is receivable semi-annually in arrears. The effective interest rate is 9.25% per annum. The Guarantor of the Guaranteed Notes is HNA Tourism Group Co., Ltd., a company incorporated in the PRC.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Held for trading			
Equity securities			
– Listed in Hong Kong	*(i) and (iv)*	**340,875**	286,482
– Listed outside Hong Kong	*(i)*	**2,186**	106,106
		343,061	392,588
Bond investment listed outside Hong Kong	*(ii)*	**26,568**	–
Unlisted fund investments	*(iii)*	**27,088**	54,500
		396,717	447,088

Notes:

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

(ii) Fair values of the listed bond investment is determined with reference to quoted active market bid price on the respective stock exchange at the end of each reporting period.

(iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds.

(iv) The Group has not pledged any listed equity securities of aggregate carrying amount at 31 December 2016 to a bank as collateral for the banking facilities granted *(at 31 December 2015: HK$6,301,000)*.

10. ACCOUNTS RECEIVABLE

	Note	At 31/12/2016 HK$'000	At 31/12/2015 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	*(b)(i)*	**5,127**	6,223
– securities margin clients	*(b)(ii)*	**280,766**	833,747
– securities subscription clients	*(b)(iii)*	**–**	11,824
– securities and options clearing houses and brokers	*(b)(iii)*	**98,868**	36,540
– futures clients	*(b)(iv)*	**20**	–
– futures clearing house and brokers	*(b)(iv)*	**3,604**	5,393
Accounts receivable arising from the provision of corporate finance advisory services	*(b)(v)*	**2,669**	1,384
Accounts receivable arising from the provision of investment-linked and insurance products broking services	*(b)(vi)*	**423**	385
		391,477	895,496

Notes:

(a) Settlement terms

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are one to 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 houses 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.

(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 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.

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from securities cash clients had been made *(at 31 December 2015: HK$Nil)*.

(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 the 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$923,628,000 *(at 31 December 2015: HK$2,936,491,000)*.

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.

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

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Gross amount of accounts receivable:		
At the end of the year/period	**361,341**	833,747
Accumulated impairment losses:		
At the beginning of the year/period	**–**	–
Impairment loss recognised	**80,575**	–
At the end of the year/period	**80,575**	–
Net carrying amount of accounts receivable	**280,766**	833,747

As at 31 December 2016, the gross amount of certain margin loans amounted to HK$117,779,000 *(as at 31 December 2015: HK$115,573,000)* were due from certain individual margin clients. During the year ended 31 December 2016, an aggregate impairment loss for these specific margin clients was recognised amounting to HK$80,575,000 *(for the six months ended 31 December 2015: HK$Nil)*. The impairment amount was determined, in accordance with the loan impairment policy of the Group; taking into account of the volatility of share price of the collaterals, the Group used the lowest transaction price of the collaterals in the preceding 52-week period to determine the amount of the impairment loss. These individually impaired margin clients relate to customers that were in default in payments and only a portion of the account receivables is expected to be recovered. The remaining balances of loans and advances that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or are secured by securities collateral pledged by the customers to the Group that are sufficient to cover the loan amount as at the end of reporting period.

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

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not yet due and repayable on demand.

The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of options broking. At the end of reporting period, deposit not otherwise dealt with in the consolidated financial statements amounted to HK$6,381,000 *(at 31 December 2015: HK$3,529,000)*.

(iv) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$4,430,000 *(at 31 December 2015: HK$3,681,000)*, which was not dealt with in the consolidated financial statements. At the end of the reporting period, accounts receivable from futures clients, 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 clients, futures clearing house and brokers were as follows:

	1/1/2016 – 31/12/2016 ***HK$'000***	1/7/2015 – 31/12/2015 *HK$'000*
Gross amount of accounts receivable:		
At the end of the year/period	**3,743**	5,547
Accumulated impairment losses:		
At the beginning of the year/period	**154**	154
Reversal of allowance for doubtful debts	**(35)**	–
At the end of the year/period	**119**	154
Net carrying amount of accounts receivable	**3,624**	5,393

(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 31/12/2016 ***HK$'000***	At 31/12/2015 *HK$'000*
Current	**180**	824
Overdue:		
Within 30 days	**1,020**	–
31 – 90 days	**1,168**	–
91 – 180 days	**120**	60
Over 180 days	**881**	500
	3,189	560
	3,369	1,384

The gross carrying amount of accounts receivable and the movements in the provision for impairment of accounts receivable from corporate finance advisory services were as follows:

	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015
	HK$'000	*HK$'000*
Gross amount of accounts receivable:		
At the end of the year/period	**3,369**	1,384
Accumulated impairment losses:		
At the beginning of the year/period	**–**	–
Impairment loss recognised	**700**	–
At the end of the year/period	**700**	–
Net carrying amount of accounts receivable	**2,669**	1,384

(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 were as follows:

	At 31/12/2016	At 31/12/2015
	HK$'000	*HK$'000*
Current	**143**	204
Overdue:		
Within 30 days	**70**	33
31 – 90 days	**38**	34
91 – 180 days	**4**	56
Over 180 days	**168**	58
	280	181
	423	385

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 31 December 2015: HK$Nil)*.

Accounts receivable that are not impaired

At the end of reporting period, accounts receivable from the futures clearing house and brokers, customers of corporate finance advisory and investment-linked and insurance products broking services with carrying amount of HK$6,393,000 *(at 31 December 2015: HK$6,134,000)* 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.

11. DERIVATIVE FINANCIAL LIABILITIES

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Cross-currency swap	*(i)*	**186,900**	102,129
Futures contracts held for trading	*(ii)*	**330**	–
		187,230	102,129

(i) In June 2015, the Group entered into a three-year cross-currency swap agreement with a bank in United Kingdom to swap the Renminbi Bonds principal 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 in Hong Kong Dollar. 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 the rate of 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 (i.e. pay HK$1,872,659,000 and receive RMB1,500,000,000). The cross-currency swap is settled on gross basis.

The cross-currency swap is accounted for by the Group as a derivative in accordance with HKAS 39 Financial Instruments: Recognition and Measurement.

During the reporting period, the loss on change in fair value of the cross-currency swap of HK$59,715,000 *(for the six months ended 31 December 2015: HK$73,619,000)* was recognised in the profit or loss.

(ii) The futures contracts are classified as held for trading. At 31 December 2016, the notional value amounting to HK$56,328,000 *(at 31 December 2015: HK$Nil)* and the fair value amounting to HK$330,000 *(at 31 December 2015: HK$Nil)*. Fair value was determined with reference to quoted active market price on Hong Kong Futures Exchange. During the reporting period, the profit on change in fair value of futures contracts amounting to HK$2,009,000 *(for the six months ended 31 December 2015: Profit HK$10,065,000).*

12. ACCOUNTS PAYABLE

	Note	**At 31/12/2016 *HK$'000***	At 31/12/2015 *HK$'000*
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	*(i)*	**10,740**	8,079
– securities margin clients	*(i)*	**1,830**	19,117
– securities clearing house	*(i)*	**4,406**	64,363
– futures clients	*(ii)*	**3,598**	5,387
Accounts payable to brokers	*(i)*	**–**	6,561
Accounts payable arising from the provision of investment-linked and insurance products broking services	*(iii)*	**203**	436
		20,777	103,943

Notes:

Settlement terms

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction 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 future 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 reporting period, accounts payable are stated net of clients' segregated assets of HK$204,726,000 *(at 31 December 2015: HK$392,947,000)*.

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.

13. BONDS PAYABLE

	HK$'000
Carrying amount upon issuance	1,854,306
Imputed interest expenses for the period	3,011
Exchange realignment	(103,195)
Carrying amount at 31 December 2015 and 1 January 2016	**1,754,122**
Imputed interest expenses for the year	**6,041**
Exchange realignment	**(101,006)**
Carrying amount at 31 December 2016	**1,659,157**

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 of Hong Kong and will be mature on 28 May 2018 with the outstanding principal and interest payable at the maturity date. At 31 December 2016, the fair value of the Bonds was RMB1,501,665,000 *(at 31 December 2015: RMB1,504,050,000)*.

The Bonds are carried at amortised cost using an average effective interest rate of 6.84% per annum at the end of each reporting period.

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

	At 31/12/2016 **_HK$'000_**	At 31/12/2015 *HK$'000*
Within 1 year or on demand	**–**	–
After 1 year but within 2 years	**1,659,157**	–
After 2 years but within 5 years	**–**	1,754,122
	1,659,157	1,754,122
	1,659,157	1,754,122

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

There were unpredictable changes in the global political landscape in 2016. The Brexit referendum and the US presidential election result defied mainstream expectation and the frequent visits by the "Black Swan" caused fluctuation in the financial market: the US stock market surged to historical high, the value of the US dollar rallied to 14-year high, while that of the British pound sunk to a 31-year low, and like dominos bond markets collapsed. As for the Chinese economy, it has gained a firmer footing and made progress with supply-side reform, but the investment sentiment in stocks continued to be weak. Although the PRC government has introduced a series of financial reform policies, investor jittery continued after the circuit-breaker mechanism triggered a plunge of the stock market at the beginning of 2016. In the second half year of 2016, with economic data being improved, the Shanghai Stock Exchange Composite Index warmed up slowly to the 3,300 point level. However, due to the continuous fluctuation of the RMB to USD exchange rate, the PRC government strengthened risk management at the end of 2016 and subsequently the stock market index descended from the peak. The Shanghai Stock Exchange Composite Index closed at 3,103.6 in 2016, representing a drop of 12.3% for the year, and the Shenzhen Stock Exchange Composite Index closed at 10,177 in 2016, down by 19.6% for the year.

External issues have impacted the Hong Kong stock market. Since February 2016, after a bad start because of the A-share circuit-breaker incident, the Hong Kong stock market went on a seven-month upward trend with the Hang Seng Index surging to the high of more than 24,000 points, with a variance of 5,700 points. With the US dollar staying strong after Donald Trump was elected as the US President, Hong Kong stocks have been under downward pressure. After the US Federal Reserve raised interest rates at the end of 2016, the first time in the past year, Hong Kong stocks declined. The Shenzhen-Hong Kong Stock Connect kicked off on 5 December 2016, however, the market did not respond to it as well as expected. The Hang Seng Index closed on 30 December 2016 at 22,000.56 points, up only a slight 0.39%, losing to most of the major market indices worldwide. In 2016, stock transactions remain sluggish with the average daily market turnover at only HK$66.92 billion *(2015: HK$105.63 billion)*.

Hong Kong's IPO market also paled against last year. According to the data of Hong Kong Exchanges and Clearing Limited ("HKEX"), a total of 126 companies were been listed in Hong Kong in 2016 (including six companies transferred from GEM), 12 less than in 2015. Proceeds from IPOs declined 25.8% year-on-year to HK$195.30 billion. In terms of the total fund raised from IPOs, at US$25.14 billion, HKEX still topped the world.

BUSINESS REVIEW

2016 is the Group's first full financial year after it was acquired by its parent company Southwest Securities Co., Ltd. ("SWSC") and changed the financial year end date. Facing complicated market conditions, the Group continued to work on optimising business, adjusting the structure of the organisation and consolidating its teams. At the same time, the Group dug deep into the customer resources of SWSC to unearth new business growth drivers and make sure all businesses will go back on the right track. Last year, the Group was the sole sponsor of two listings on the main board of The Stock Exchange of Hong Kong and had built up a pipeline of projects for rollout gradually in the future. Its investment banking business thus has a foundation to thrive in the future and those projects are expected to bring sustainable stable returns to the Group. Asset management business was a new major focus of the Group last year. An indirect subsidiary of the Group launched its first fund product in July 2016 and operation of the fund in the form of a hedge fund began in October 2016, opening a new chapter for the Group in the development of asset management business.

During the Review Period, the Group pursued internal transformation and adjustment, while facing a rather volatile external market environment. Although it has worked hard at exploring new income streams and implemented strict cost control measures, its operating results still fell short of expectation. During the Review Period, the Group recorded revenue of HK$92.0 million *(for the six months ended 31 December 2015: HK$16.0 million)* and loss before tax of HK$167.2 million *(for the six months ended 31 December 2015: profit before tax of HK$18.3 million)*.

Brokerage and Margin Financing Business

Revenue brought by the Group's brokerage and margin financing business amounted to HK$80.7 million *(for the six months ended 31 December 2015: HK$42.6 million)*.

The notable shrinkage of turnover of the Hong Kong stock market in 2016, a drop of 36.6% from HK$105.63 billion in 2015 to HK$66.92 billion, dealt a blow to the Group's retail brokerage business. During the Review Period, the Group's average daily turnover was down by 47.6%, which in turn led to a year-on-year decline in commission income. However, benefited by the strong customer relationship network of SWSC, the Group was able to secure a large number of quality margin business customers, and as such its interest income from the business for the review doubled to HK$51.8 million *(for the six months ended 31 December 2015: HK$14.5 million)*. Currently, the Group's customer base is gradually shifting from constituting mainly Hong Kong customers to mainland customers. The Group will continue to explore new institutional customers and review its business model, as well as enhance business efficiency with risk control as the underlying principle. It will strive to find new profit growth drivers for the segment so that it may breakeven.

During the Review Period, the Group made provisions for impairment of HK$80.6 million for margin financing customers. This was mainly attributable to the decrease in market value of the stock collateral provided by customers. The Group will continue to adopt a cautious and conservative approach in handling shortfall margin loans, and strengthen credit risk management, tighten high-risk credit, pay close attention to liquidity position and require frontline staff to get to know their customers better and strengthen customer relationship.

Corporate Finance

Revenue generated from the Group's corporate finance business increased markedly to HK$24.9 million during the Review Period *(for the six months ended 31 December 2015: HK$6.9 million)*.

The Group pushed ahead with developing and executing IPO projects, underwriting placing projects, offering independent financial advisory service and financial advisory service during the Review Period. The Group completed two IPO projects and filed listing application for some IPO projects, which are pending approval. Further, it has a pipeline of projects lined up for rollout in the future. The Group is committed to providing corporate finance services to quality SMEs with strong growth potential. To capitalise on the growing trend of mainland enterprises pursuing acquisitions in Hong Kong, the Group will strive to solicit more business by drawing on the strong M&A business capability of its parent company SWSC in Mainland China and the integrated resources of the two parties. In 2016, the Group established the Fixed Income Department and under it two divisions – the debt capital market department responsible for offshore bond issuance business and the fixed income team that operates offshore bond trading business.

The Group will, through sharing resources with its parent company, actively introduce more quality mainland enterprises to the Hong Kong capital market and provide professional corporate financing service to those enterprises as well as build the international platform for them aspiring to go global.

Wealth Management

The Group's wealth management business made HK$5.6 million in revenue for the Review Period *(for the six months ended 31 December 2015: HK$1.2 million)*.

The Group set up the Southwest Securities International Wealth Management Centre in June 2016. Built on the foundation of its existing wealth management business and with related resources all in one pool, the centre is a one-stop financial service platform that boasts many advantages. After setting up the organisation structure and systems, the centre kicked off a series of business training sessions, including several on overseas financial products held at SWSC sales department in Mainland China and several on cross-border investment products held for Hong Kong licence holders. Regarding product management, a comprehensive product classification system was established, giving the Group a unique fund products portfolio, new investment products such as preference shares of mainland banks and hedge funds and also investment channel for structural notes were introduced to enrich its offerings and boost the Group's competitiveness in the market. Further, one-stop cross-border investment solutions were launched in collaboration with third party organisations such as insurance companies and banks to meet investment needs of institutional customers and build a channel for investment in overseas fixed income products.

Given the pressure from the fluctuating RMB exchange rate, mainland investors have an increasing demand for asset allocation overseas. The Group took the opportunity to launch wealth management products such as funds, bonds and insurance, and achieved good sales. At the same time, to facilitate overseas business development of its mainland customers, the Group and its parent company, SWSC, had organised several overseas asset allocation exchange events, which had enabled it to gain a better understanding of mainland customers' needs and promoted the Group's product lines successfully. The events received positive feedback from participants.

In the future, with the continuous growth of the Group's customer base, demand for such as margin financing, various types of pledge, over-the-counter trading and short selling is expected to rise gradually and the demand for product variety will grow too. Heeding that, starting early 2016, the Group and SWSC have been collaborating and exploring and analysing the design and sales of cross-border financial products, with the aims of creating the first cross-border financial product exclusively available at the Southwest Securities International Wealth Management Centre, broadening cross-border sales channels, linking up domestic and overseas channels and enriching the existing product base, all to the end of developing its own wealth management products to offer and stopping being a sales agent. The said product has a basic structure now and is currently in assessment, approval and execution stages.

Proprietary trading

Proprietary trading business recorded loss amounting to HK$19.2 million for the Review Period *(for the six months ended 31 December 2015: loss of HK$34.7 million)*.

During the first half of 2016, the Hong Kong market adjusted extensively and lingered low as a result of a turbulent external environment and the highly volatile mainland stock market. The Company implemented position control on its proprietary portfolio and hedging of derivatives, etc. However, its proprietary investment still incurred loss for the Review Period. During the second half of 2016, the Group restructured proprietary investment team and changed investment strategy. The new investment strategy paid off, reducting loss substantially though a turnaround has not been achieved yet.

In 2017, the investments strategy of the proprietary trading team will be direction oriented. With market volatility anticipated, its focus will be on leading enterprises in different industries and its investment will be guided by the principles of minimising investment risks and strengthening risk control.

Other income and gains

During the Review Period, the Group's other income and gains amounted to HK$140.5 million *(for the six months ended 31 December 2015: HK$206.9 million)*.

The Group disposed available-for-sale financial assets in the second half of 2015, which pushed up its other income and gains last year. In 2016, the Group's other income and gains mainly included interest income of HK$42.5 million from two held-to-maturity investments, which were acquired in the second half of 2015. Besides, the dividend income from available-for-sale financial assets held by the Group amounted to HK$2.0 million.

Staff benefit expenses

During the Review Period, the Group's staff benefit expenses were HK$74.3 million *(for the six months ended 31 December 2015: HK$38.8 million)*.

The number of employees and fixed costs of the Group remained stable during the Review Period. As part of the salaries of frontline staff is linked to their performance, their related salaries dropped along with the decline in business, and in turn the Group's staff benefit expenses also shrank. The Group also flexibly adjusted staff deployment matching business growth and resources allocation requirements.

Commission expenses

The Group's commission expenses during the Review Period were HK$12.2 million *(for the six months ended 31 December 2015: HK$7.8 million)*.

Commission expenses mainly include the commissions incurred in the brokerage business and wealth management business. The drop in commission expenses during the Review Period was from the decline in commissions paid to brokers because of the drop in revenue of the brokerage business. On the other hand, the proportion of commission expense relative to commission income was higher than the second half of 2015 because, to maintain steady growth of the brokerage business facing more and more intense competition, the Group strove to increase the commission rate to provide incentive to frontline staff.

Finance costs

The Group's finance costs for the Review Period totalled HK$119.5 million *(for the six months ended 31 December 2015: HK$62.8 million)*.

The Group issued RMB-denominated bonds in late May 2015, so the finance costs for the Review Period were mainly bond interest expenses.

FUTURE PROSPECTS

"Seeking progress while maintaining stability" is the main theme of the Chinese economy in 2017. The government will take its supply-side reform to greater depth and the Chinese economy is expected to gradually revive. However, the international political and financial environment will be more complicated and will thus affect both the mainland and Hong Kong financial markets. Taking into account that uncertainties are looming over the Sino-US trade relationship after Donald Trump took over the US presidency, the persistent pressure on the RMB exchange rate caused by the US dollars and the tightening monetary policy of the US Federal Reserve has brought impact on the emerging markets. downward pressure and fluctuation are anticipated for the Hong Kong stock market in 2017. However, with challenges often come opportunities. Fluctuation of the RMB exchange rate will stimulate customer demand for overseas asset allocation and Chinese securities companies will compete for first opportunities in cross-border business. Hong Kong is going to be the main channel for mainland capital to gain value from overseas, thus financial products available in Hong Kong are expected to become more and more attractive to mainland investors. More and more mainland institutional investors will invest in the stock, fund and bond markets in Hong Kong via the Mutual Market Access mode, and more and more quality private enterprises from China will seek to go public in Hong Kong to raise fund as well as speed up alignment with the international capital market.

Heeding domestic and overseas market conditions, the Group will devise a clear positioning, put its cross-platform advantage to good use and grow its businesses, in size and strength. The Group will focus on developing investment banking business and asset management business. Regarding the former, while making sure it serves only quality IPO projects, the Group plans to expand project loan business to achieve capital appreciation and use capital to propel more large scale projects. It will actively capture business opportunities presented by mainland companies looking for M&A targets in Hong Kong by applying its own resources and drawing on those of its parent company's M&A project team. The Group will identify potential demand of mainland enterprises to list in Hong Kong and promote the development of IPO projects jointly with the teams of the parent company. Efforts will be made in forming underwriting and placing teams, its own or together with other investment banks, and looking among listed companies for refinancing projects. As for asset management business, the Group launched its first hedge fund product in July 2016. It will continue to strengthen management of the fund and establish a competent investment research team to help it build a foundation for supporting business expansion in the future and development of more products. Furthermore, the Group is assisting the organisation of a large-scale private equity fund and its asset management division will be the fund manager, and the management fee to be generated will increase the Group's income. The division will also seek to expand substantially the scale of the assets it manages, so as to attract internationally renowned organisations to become its customers and also provide it with a solid foundation for developing and promoting business in the future. In addition, the investment strategies implemented by the Group's proprietary trading team have started to bear fruit, as such, the Group expects the business to keep improving.

The Group will continue to optimise the connection among different departments to enhance administrative efficiency. It will also exert in establishing a talent pool and nurturing these talents, and perfecting its incentive system to attract talents for building competent and highly effective core business teams. Strengthening risk control will be another major focus of the Group and will be achieved via drawing up standardised risk assessment criteria that can strike a balance between strengthening risk management and enhancing business efficiency. In the year to come, the Group will continue to enhance resource sharing with its parent company SWSC and referrals between domestic and overseas businesses, make full use of the advantages of its cross-border platform, and pursue comprehensive development of overseas business in China.

Building on its past success and with an active yet pragmatic approach, the Group will promote the quick but steady growth of its businesses so that all of them may achieve breakeven as soon as possible. Striving to realise the goal of becoming a quality overseas capital platform of SWSC, the Group will enhance its connection and interaction with the parent company, hoping that it may serve quality SEMs in Greater China as their choice financing platform and preferred partner, and serve mainland investors as their best overseas asset management consultant. Such efforts will help promote the internationalisation of the Group and SWSC.

FINANCIAL REVIEW

Liquidity, financial resources and gearing ratio

As at 31 December 2016, the Group had total cash and bank balances including pledge deposits of HK$624.8 million *(at 31 December 2015: HK$476.3 million)*, while net current assets amounted to HK$1,790.0 million *(at 31 December 2015: HK$1,728.4 million)*. The current ratio as a ratio of current assets to current liabilities was 8.2 times *(at 31 December 2015: 8.0 times)*. The increase in net current assets was mainly attributable to the reclassification of debt portion of the Convertible Bonds from "Held-to-maturity investments" to "Available-for-sale financial assets" and from "Non-current assets" to "Current assets", while the increase in cash and bank balances was mainly caused by the increase in net cash from operating activities.

At the end of the Review Period, the gearing ratio was 705.8% *(at 31 December 2015: 430.3%)*. 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 (Chapter 571N of the Laws of Hong Kong) for its licensed subsidiaries and to support the development of new business. All licensed corporations within the Group complied with their respective liquid capital requirements during the Review Period and up to the date of this announcement.

Banking facilities and charges on assets

As at 31 December 2016, the Group had no bank loans outstanding *(at 31 December 2015: Nil)* and had an aggregate banking facilities of HK$677 million *(at 31 December 2015: HK$148.4 million)*. The drawdown of certain banking facilities of HK$326 million *(at 31 December 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 no investments in listed securities *(at 31 December 2015: HK$6.3 million)* and fixed deposits of HK$1.2 million *(at 31 December 2015: HK$2.0 million)* for the facilities.

Material acquisitions, disposals and significant investments

During the Review Period, there were no material acquisitions and disposals of investments *(for the six months ended 31 December 2015: the Group disposed certain listed equity investments and realised a long-term investment gain of HK$95.2 million)*.

Contingencies

The Group has no material contingent liabilities as at 31 December 2016 *(at 31 December 2015: Nil)*.

Commitments

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 (i.e. pay RMB100 million and receive HK$113 million).

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 (i.e. pay HK$1.9 billion and receive RMB1.5 billion). The cross-currency swap is settled on gross basis.

Exposure to fluctuations in exchange rates and related hedges

As at 31 December 2016, the Group has RMB exposure arising from the issuance of bonds. Considering 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.

EMPLOYEES

As at 31 December 2016, the Group had a total of 105 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. The salary review policies of the Group are determined with reference to the market trends, future plans and the performance of individuals in various aspects and are reviewed periodically.

The Group provides training programs for the staff to enhance their skills and knowledge in products, regulations and compliance. Most of the in-house training are qualified for claiming Continuous Professional Training hours for the licensed persons.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 *(for the six months ended 31 December 2015: Nil)*.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Friday, 9 June 2017 at 10:00 a.m.. Notice of the AGM will be published on the Company's website at www.swsc.hk and the HKExnews at www.hkexnews.hk and despatched to Shareholders on or before 28 April 2017.

MODEL CODE OF THE LISTING RULES

The Company had adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company had made specific enquiry with each Director and was confirmed that all Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE

During the year ended 31 December 2016, 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 of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2016.

SCOPE OF WORK OF PAN-CHINA (H.K.) CPA LIMITED

The figures in respect of the preliminary announcement of the Group's results of the year ended 31 December 2016 have been agreed by the Group's auditors, Pan-China (H.K.) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Pan-China (H.K.) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Pan-China (H.K.) CPA Limited on the preliminary announcement.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.swsc.hk and the HKExnews website at www.hkexnews.hk. The 2016 annual report will be despatched to Shareholders on or before 28 April 2017 and will be available at the aforesaid websites at the same time.

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

Hong Kong, 24 March 2017

As at the date of this announcement, the executive Directors are Mr. Wu Jian (Chairman), Mr. Pu Rui* (Chief Executive Officer), Mr. Zhang Chunyong*, Mr. Xu Mingdi* and Ms. Liang Yiqing*; and the independent non-executive Directors are Professor Wu Jun*, Mr. Meng Gaoyuan* and Mr. Guan Wenwei.*

* *For identification purpose only*