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

2017 年報
ANNUAL REPORT

* For identification purpose only 僅供識別

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BOARD OF DIRECTORS

Executive Directors
Mr. WU Jian *(Chairman)*
Mr. PU Rui *(Chief Executive Officer)*
Mr. LUO Yi
Ms. ZHAO Dongmei
Ms. WANG Huiyun
Mr. XIONG Xiaoqiang

Independent Non-executive Directors
Professor WU Jun
Mr. MENG Gaoyuan
Mr. GUAN Wenwei

AUDIT COMMITTEE

Mr. MENG Gaoyuan *(Chairman)*
Professor WU Jun
Mr. GUAN Wenwei

REMUNERATION COMMITTEE

Professor WU Jun *(Chairman)*
Mr. WU Jian
Mr. MENG Gaoyuan
Mr. GUAN Wenwei

NOMINATION COMMITTEE

Mr. WU Jian *(Chairman)*
Professor WU Jun
Mr. MENG Gaoyuan
Mr. GUAN Wenwei

AUTHORISED REPRESENTATIVES

Mr. PU Rui
Mr. LUO Yi

COMPANY SECRETARY

Ms. TAM Lai Kwan Terry

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG	40/F., Lee Garden One 33 Hysan Avenue Causeway Bay 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 17M 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 Central Hong Kong
LEGAL ADVISER AS TO HONG KONG LAW	Loong & Yeung Solicitors Room 1603, 16/F China Building 29 Queen's Road Central Hong Kong
LISTING INFORMATION	The Stock Exchange of Hong Kong Limited Stock Code: 812
WEBSITE	www.swsc.hk

EXECUTIVE DIRECTORS

Mr. WU Jian (吳堅), aged 53, has been appointed as an Executive Director of the Company since 27 February 2015, the Chairman of the Board and the chairman of the Nomination Committee since 1 November 2016, and a member of the Remuneration Committee since 25 March 2017. Mr. Wu graduated from 山西財經大學 (Shanxi University of Finance and Economics*) in the PRC. He graduated from MBA Institute of Chongqing University with 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.*), a subsidiary of 西南證券股份有限公司 (Southwest Securities Co., Ltd.*) (SSE stock code: 600369) ("SWSC") 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 and was promoted to the president of SWSC in July 2016. He is currently a director of Southwest Securities International Investment Limited ("SSII"), a substantial shareholder of the Company. Mr. Wu has over 20 years of experience in investment and securities market.

Mr. PU Rui (蒲銳), aged 44, 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 mayer 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 assisting 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 SSII. He has abundant experience in investment, finance and securities market business.

Mr. LUO Yi (羅毅), aged 37, has been appointed as an Executive Director since 25 March 2017. Mr. Luo is an authorised representative of the Company. He is also the executive vice president (常務副總裁) 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 and was appointed as a joint company secretary of the Company for the period from 19 March 2015 to 30 April 2017. Mr. Luo graduated from Carleton University in Canada, with a Bachelor of Arts Degree majoring in Economics in June 2004. He obtained a Master 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. 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 joined SWSC, the controlling shareholder of the Company, in July 2013.

* *for identification purpose only*

EXECUTIVE DIRECTORS (Continued)

Ms. ZHAO Dongmei (趙冬梅), aged 54, has been appointed as an Executive Director since 25 March 2017. Ms. Zhao obtained a Bachelor Degree in Economics from 對外經濟貿易大學 (University of International Business and Economics*), and obtained an executive Master of Business Administration Degree from 武漢大學 (Wuhan University*). She is a senior accountant and a chinese certificated public accountant. She had consecutively served as the deputy director (副處長) and the director (處長) of 重慶市國資委統計評價處 (Statistical Evaluation Department of Chongqing State-owned Assets Supervision and Administration Commission*) from 2003 to 2009, the financial controller and party committee (黨委委員) of 重慶市地產集團 (Chongqing Land Group*) from 2009 to 2013, the chairman (董事長) and party secretary (黨委書記) of 中新大東方人壽保險公司 (Great Eastern Life Assurance (China) Co., Ltd.*) from 2013 to 2015, the chairman of 恒大人壽 (Evergrande Life Assurance Co., Ltd*) from 2015 to 2016, and the vice president of 恒大金融控股集團 (Evergrande Finance Holdings Group*) from 2015 to 2017. Ms. Zhao was appointed as the chief compliance officer of the Anti-Money Laundering Department (首席反洗黑錢合規官) of SWSC since February 2017. She is currently a director of SSII. Ms. Zhao has over 30 years of experience in finance.

Ms. WANG Huiyun (王惠雲), aged 49, has been appointed as an Executive Director since 25 March 2017. Ms. Wang obtained a Bachelor Degree in psychology from 河南大學 (Henan University*) in 1989 and a Master Degree in education (major in psychology) from Beijing Normal University in 1996. She had served as the executive general manager of Investment Banking Division in Beijing branch of Ping An Securities Limited (平安證券投資銀行事業部總經理) from 2002 to 2008, an assistant to the general manager of the head office of the investment banking department of SWSC from 2008 to 2012, the deputy general manager of the project quality management department (項目質量管理部副總經理) of SWSC from 2009 to 2010, and the managing director of investment banking division of SWSC from 2012 to 2017. She was appointed as the general manager of the project quality management department of the investment banking division of SWSC since 2010 and the president of the investment banking division of SWSC since July 2017. She is currently a director of SSII. She has over 15 years of experience in corporate finance and investment banking business.

Mr. XIONG Xiaoqiang (熊曉強), aged 48, has been appointed as an Executive Director since 25 March 2017. Mr. Xiong obtained a Bachelor Degree in engineering (major in computer science and application) from Harbin Institute of Technology (哈爾濱工業大學計算機及應用專業) in 1991, and a Master Degree in economics (major in national economics) from Zhongnan University of Economics (中南財經大學國民經濟學) (now known as Zhongnan University of Economics and Law) in 1999. He had held various senior operational and managerial positions in various branches and securities business department of SWSC since 1999. He had served as the deputy general manager in various branches of SWSC from 2012 to 2015 and had worked as a general manager in Hangzhou Qingchun East Road branch and several branches of SWSC since 2015. Mr. Xiong is currently the general manager of Shenzhen branch of SWSC. He is also a director of SSII. He has over 20 years of experience in finance and securities trading.

* *for identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WU Jun (吳軍), aged 64, has been appointed as the Independent Non-executive Director, the chairman of the Remuneration Committee, 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 from 16 March 2009 to 3 May 2017. 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 March 2017. 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 37 years. He is strong at the research skill in finance theory, its revolution and application.

Mr. MENG Gaoyuan (蒙高原), aged 46, has been appointed as the 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 degree from 重慶理工大學 (Chongqing University of Technology*). He has abundant experience in accounting, audit and finance.

Mr. GUAN Wenwei (關文偉), aged 49, has been appointed as an Independent Non-executive Director and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company since 19 September 2016. Mr. Guan graduated from Zhongshan University (中山大學) with a Bachelor of Laws (LL.B.) degree in 1991. He obtained a Master of Laws (LL.M.) degree from Peking University (北京大學) in 2001, a Master of Arts (M.A.) degree (Asia Pacific Policy Studies) and a Ph.D in Law from the University of British Columbia in 2004 and 2009, respectively. Mr. Guan served as court clerk, junior judge in the High People's Court of Guangdong Province, sessional lecturer in the Faculty of Law of the University of British Columbia, visiting assistant professor in the School of Law of City University of Hong Kong during the period from July 1991 to July 2009. He has been an assistant professor in the School of Law of City University of Hong Kong since July 2009. He was qualified as a lawyer in the PRC since 2000 and has become an arbitrator of South China International Economic and Trade Arbitration Commission since 2015.

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SENIOR MANAGEMENT

Mr. ZHANG Yi (張弋), aged 44, is the Vice President of the Group. He is currently in charge of administration department, information technology department, corporate communication and customer relation department as well as brokerage department of the Group. He was appointed as an Executive Director and a member of 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).

Ms. TAM Kar Bo Carrie (譚嘉寶), aged 48, 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 Executive Committee of the Company from 15 October 2012 to 27 January 2015. She is currently in charge of finance and account department, settlement department, company secretarial department, human resources department, legal & compliance department and risk control department of the Group. Ms. Tam has worked for international accountancy firm and well-known securities houses for over 20 years and is 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.

COMPANY SECRETARY

Ms. TAM Lai Kwan Terry (譚麗群) is the Company Secretary of the Company. She joined the Group in March 2017. Ms. Tam graduated from The University of Hong Kong with a Bachelor of Arts degree. She was awarded The Hong Kong Institute of Chartered Secretaries ("HKICS") Scholarship 1999-2000 and is an associate member of both HKICS and The Institute of Chartered Secretaries and Administrators of the United Kingdom. Ms. Tam has more than 15 years of experience in company secretarial area and has worked for various companies listed in Hong Kong and the United States of America before joining the Company.

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 hereby present the annual report and audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2017 (the "Review Period").

In 2017, the world economy was slowly reviving amid turbulence, with the activation of Brexit and the US presidential election coming to an end reducing global political uncertainties, resulted in the global economy turning for the better with growth rate reaching the highest level since 2011 and overall investor confidence strengthening. The economic growth of China has stabilised and has been trending up for the first time, instead of continuing on the downward trend which started in 2011. The Gross Domestic Profit (the "GDP") for the year exceeded 80 trillion yuan, a climb of 6.9%. On top of all the favourable economic indicators, the Chinese economy has been advancing fast into a new phase of development with quality as its focus. The 19th National Congress of the Communist Party of China clearly stated that "the country must make quality and efficiency her top priorities, and enhance quality, efficiency and drive for higher economic growth and total factor productivity alongside supply-side structural reform". From the impacts of recently-implemented guidance policies, supply-side reform is set to change direction from eliminating excess production capacity and inventory to de-leveraging, meaning financial regulations and the grip on local financing will tighten, with lowering risks, consolidating foundation and enhancing economic quality as directions. That means the bar has been raised on the financial industry to which the Group belongs.

Meanwhile, the Hong Kong stock market stayed strong in 2017, with the Hang Seng Index closing at 29,919 points, nearing the benchmark of 30,000 points recorded a decade ago, with a climb of 7,919 points or 36% over the year, performing better than all key global indexes. We generally believed the healthy upswing of the Hong Kong stock market in 2017 was braced by solid fundamentals, thanks mainly to the improving economy, inflow of southbound funds, robust corporate profits and better valuations. As the transaction volumes of the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect increase, the total turnover of southbound funds reached over 2,000 billion yuan in 2017, representing a year-on-year growth of more than 1.7 times, and the accumulated exchange rate net purchases amounted to over 300 billion yuan. The notable increase in southbound trading in the Hong Kong stock market is gradually affecting the ecosystem for Hong Kong stocks. In 2017, the proceeds from Initial Public Offerings ("IPOs") on the Hong Kong Exchanges and Clearing Limited ("HKEx") totalled at US$16.427 billion, the third highest among global stock exchanges. The number of new listings was at a historical high at 174, a 38.1% surge when compared with 2016. Without a doubt, Hong Kong is still one of the most popular listing avenues in the globe and an important platform for companies to tap the international capital market.

For the Group, 2017 was a crucial year, during the year, it has been working hard on consolidating its business foundation and overall business development. Progress was made on all fronts at various paces. Despite the intense competition, compliance remained the priority of the Group's entire workforce and business innovation provided the drive for the Group's businesses to scale new heights. During the Review Period, the Group's income increased by 160.9% to HK$240.097 million *(2016: HK$92.038 million)*. Corporate finance business and proprietary trading business reported rapid growth and outstanding performance, with substantial year-on-year growth in income contribution. As for the corporate finance business, the Group was appointed as the sole sponsor for the listing of two companies on the GEM of HKEx during the year. The business arm also has a pipeline of projects in progress. Regarding the proprietary trading business, thanks to its effective investment strategies, satisfactory returns were achieved. As a result, the Group turned around from loss to profit during the Review Period and recorded a net profit of HK$1.092 million *(2016: net loss of HK$166.923 million)*. Regarding the internal management, the Group insists on strictly implementing compliance and risk management measures to ensure compliant and standardised management and control of its overall risks for various businesses to develop steadily on a sound basis, so that its business may reap greater synergies with the Group's parent company, Southwest Securities Co., Ltd. ("SWSC"). On top of the notable growth in business segments and further improvement in system, the Group also enhanced and strengthened aspects including standards in operational management, customer service and fusion of corporate culture to a substantial extent.

According to the latest "World Economic Outlook" issued by the International Monetary Fund, global economic growth in 2018 is estimated at around 3.7%, and major economies including those in the Eurozone, Japan, China and the US can all expect growth. At the same time, the European Central Bank has adjusted its economic growth forecast for the Eurozone to 2.3%, a 0.5 percentage point higher than before. Such numbers show that the market is positive about global economic development in 2018.

Furthermore, we do not expect the new Chairman of the US Federal Reserve to aggressively raise interest rates in the near future, and the frequency of US interest rate hikes is not expected to be that high. In addition, investors are concerned that the US tax reform will end up bringing fiscal deficit, which will be unfavourable to the US Dollar. Renminbi will become relatively stronger against a weak greenback and investors will therefore be attracted to invest in RMB-related products. Both phenomena will benefit Hong Kong stocks. Positive news such as further integration of the Mainland and Hong Kong financial markets, continuous development of the Mutual Market Access mechanism among Shanghai, Shenzhen and Hong Kong, support from southbound capital streaming into the Hong Kong market, Mainland's intention to implement full circulation of H shares, Primary Equity Connect and more large enterprises longing to be listed in Hong Kong will boost trading in the Hong Kong stock market, as well as give new impetus to the development of the financial market in Hong Kong.

It has been three years since the Group joined the SWSC family and became the overseas business platform of SWSC. After working hard in the past few years on business integration, and exploring and innovating to enhance business development and management standard, the Group sees 2018 as an opportune time to transform and grow its business. The Group is determined to build a complete corporate finance industrial chain by strengthening its corporate finance and facility businesses, to take its corporate finance business outside the country and help domestic companies in south-western China "go out" and "bring in" overseas companies, to participate in listing or financing activities in Hong Kong or overseas. At the same time, the Group will enhance interaction with SWSC so as to better achieve standardised and integrated management of business development in both the mainland and Hong Kong. Furthermore, the management will build a larger team essential for supporting the Group's growing businesses to help lead the Group in taking business development to the next stage.

In future, the Group will continue to provide comprehensive, professional and one-stop financial products and services to customers in Greater China and Southeast Asia, realising its aspiration of becoming customers' preferred integrated financial service group in the region. Last but not least, I would like to express my gratitude to all employees for their diligence and contribution, to shareholders for their continuous trust and support, and also to the different parties in the community for their interest in and care about the Group!

WU Jian
Chairman

Hong Kong, 23 March 2018

MARKET REVIEW

Macro Environment

2017 was an eventful year. It saw the coming and going of many political and economic occurrences. The former included elections in the Netherlands, France, Korea, Iran, the United Kingdom, Germany and Japan, and also the 19th Party Congress in China; and the latter included the interest rate hike, balance sheet reduction and tax reform in the US and OPEC's agreement on cutting output. However, the outcomes of those occurrences were broadly in line with market expectation, and did not bring any "Black Swans" as in 2016. In Hong Kong, the major political and economic events that took place during the year included Mrs. Carrie Lam being elected as Chief Executive of the HKSAR, tumbling of small-cap stocks in June, the launch of Northbound Trading under the Bond Connect Scheme, HKEx allowing companies with Weighted Voting Rights Structure to be listed on the Main Board, and the China Securities Regulatory Commission rolling out a pilot project on full circulation of H-shares. Whereas, in Mainland China, it was confirmed that A-shares would be included in the MSCI and the 19th Party Congress was held in October. In the US, Donald Trump inaugurated as US President, the Federal Reserve System (Fed) raised interest rate three times within the year and expected three more in 2018, plus kicked off balance sheet reduction, and the tax reform bill was finally approved. The results of elections in different countries basically matched poll findings, but Germany was yet to complete forming her governing cabinet. OPEC extended the oil output cut agreement till the end of 2018. Geopolitical risks prevailed, stemming from particularly the tense relationship between the US and North Korea, and there was the looming threat of terrorist attacks, with at least five hitting the UK during the year, and the price of virtual currencies spiked.

Hong Kong Market

Alongside the continuously strengthening of the US economy, the Chinese economy also stabilized, and with possible "Black Swan" incidents had not caused any bad effects ultimately, the Hong Kong stock market had a super bullish year in 2017. Enthusiastic Mainland investors contributing to the influx of southbound fund via the Stock Connect schemes also boosted Hong Kong stock prices and trading in the market. The Hang Seng Index closed at 29,919 points at the end of 2017, representing an increase of 36.0% year-on-year (up 17.1% in the first half and a further 16.1% in the second half). The Hang Seng China Enterprises Index closed at 11,709 points, rising 24.6% year-on-year (up 10.3% in the first half year and a further 13.0% in the second half). In 2017, the average daily turnover of the Hong Kong equities market increased by 31.9% year-on-year to HK$88.3 billion (up 12.6% year-on-year to HK$76 billion), with category A market participants (1st to 14th) claiming a slightly smaller share than in 2016, while that of category B (15th to 65th) participants climbed and that of category C was the same as in the previous year. Southbound Trading via the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect schemes brought in to Hong Kong capital amounting to RMB196.8 billion and HK$113.2 billion respectively in 2017, the former of similar level as in 2016, while the latter was only launched in December 2016. As at the end of 2017, 2,118 companies were listed on the Main Board and Growth Enterprise Market ("GEM"), 7.3% more than last year (1,794 were listed on Main Board, 4.7% higher than in the previous year). The total value of the equities market surged by 37.3% year-on-year, to historical high at HK$34,000 billion. During the year, there were 174 new listings (including transfers from GEM to the Main Board), 38.1% more than a year ago, raising HK$579.9 billion in all, which was 18.3% more than in 2016. However, the total fund raised through IPOs in 2017 declined by 34.4% year-on-year to HK$128.2 billion.

BUSINESS REVIEW

In 2017, supported by its parent company in China, SWSC, the Group enhanced its existing customer base to explore new business's opportunities by continuously providing one-stop securities, investment and financing services to investors from China and other countries. Further, the Group maintained a series of developments in enriching its business scope in corporate finance business, asset management business and loan financing business. Meanwhile, the Group is continuously restructuring its organisation, consolidating its teams, mitigating the risks and strengthening internal monitoring procedures to spurt its operation efficiency. Recruitment of top financial talents to better the Group's competitiveness never ceased.

In 2017, the Group recorded a total revenue of HK$240.1 million *(2016: HK$92.0 million)* and profit before tax of HK$4.1 million *(2016: loss before tax HK$167.2 million)*. In particular, business segments with outstanding performance including proprietary trading and corporate finance. The former benefited from the restructuring of the proprietary investment team and changing of investment strategies during the year while the latter experienced rapid development during the year through the Group's brand and the establishment and consolidation of business team, which generated a considerable income and development prospect. Brokerage and margin financing as the base business of the Group contributed a larger proportion of the income source while the increasingly strengthened asset and wealth management business made more contribution to the diversities and balanced income of the Group.

Brokerage and Margin Financing

Revenue generated from the Group's brokerage and margin financing business during the Review Period amounted to HK$79.1 million (*2016: HK$80.7 million*).

The Group's revenue from brokerage business slightly increased by 6.6% to HK$30.8 million (*2016: HK$28.9 million)* for the year. The income from brokerage business mainly included commission income from providing brokerage services for securities, futures and options dealings and providing underwriting and placing services in primary and secondary market. As Hong Kong stock market's overall positive sentiment during the year, the Group's overall performance in brokerage business was keep in line with improvement as compared with that in last year.

Regarding margin financing interest, revenue from the margin financing business decreased by 6.7% to HK$48.3 million in 2017 (*2016: HK$51.8 million*). The margin financing business is target for high-net-worth customers with large principal amount and is expected to bring a considerable amount of interest income to the Group. Other than general margin financing business, the Group will also mainly explore higher quality project financing, and at the same time with credit risk and concentration risk under control as the underlying principle in order to further increase the overall revenue of such business segment.

Wealth Management

The Group's wealth management business recorded a revenue of HK$6.7 million during the Review Period (*2016: HK$5.6 million*).

Wealth management business continued to develop steadily during the Review Period. In the second quarter of 2016, the Group set up the Southwest Securities International Wealth Management Centre which is a one-stop financial service platform building on the foundation of its existing wealth management business and other related resources. A number of training seminars were organised for the SWSC sales department in Mainland China and for the Hong Kong license holders. The centre provides various investment products for selection. Leveraging on the synergic cooperation between onshore and offshore, the Group's wealth management business maintains its competitiveness in the industry. In 2017, the center built up cooperation relationship with third party organizations, such as banks and insurance companies, which also helped to meet the investment needs of institutional and other various customers.

Corporate Finance

Revenue generated from the Group's corporate finance business amounted to HK$34.1 million during the Review Period (*2016: HK$24.9 million*).

In 2017, the Group's direction of development is business diversification. Rooted in the IPO sponsor business, the Group enlarged the scale and increased the income of project financing.

The increasing integration of Hong Kong and China financial markets is suggesting the Group to capitalise on the business opportunities of developing and executing IPO projects, arranging underwriting, placing and project financing, and offering independent financial advisory service and other advisory service during the Review Period. The Group has been determinedly providing good corporate finance services to quality high-growth corporations. During the Review Period, the Group signed several IPO sponsor contracts, bumping up the number of existing sponsor projects as well as implementing several project financing. The shared resources of the Group and its parent company, SWSC, help to match up the pace of its merger and acquisition ("M&A") business to the demand of Mainland corporations acquiring high-potential business in Hong Kong and overseas. With the support of the resources of SWSC, more quality Mainland enterprises aiming to expand globally would be introduced to the Group to make capital out of the Hong Kong's fund-raising financial platform and enjoy the Group's professional corporate finance service.

Proprietary Trading

The proprietary trading business of the Group recorded a revenue gain of HK$109.4 million during the Review Period (*2016: revenue loss of HK$19.2 million*).

The Group continues to carry on the new investment strategy which was implemented since 2016 and a considerable turnaround has been achieved in 2017. Under stringent risk control, the Group invests in subject with positive valuation and prospect to secure the capital appreciation. In addition, the fixed income team invested in selected bonds and funds also achieves stable and considerable returns.

Money Lending

During the Review Period, the Group's interest income from money lending business amounted to HK$10.7 million (*2016: HK$2,000*).

In 2017, the Group has utilized its cross-platform advantage to seize a business opportunity and advanced HK$200 million to a customer with a high interest yield per annum. The customer has repaid the advance according to the terms of the agreement in good order. The Group would continue to explore more business opportunities of money lending in the future.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to HK$64.8 million (*2016: HK$140.5 million*).

In 2017, other income and gains included reversals of provision for impairment for margin financing customers of HK$37.7 million, interest income from bond investments amounted to HK$9.6 million and gain on disposal of listed equities, which are included in available-for-sale financial assets, amounted to HK$8.9 million recorded for the year, whereas an exchange gain of HK$94.8 million due to the depreciation of the bonds payable denominated in RMB and interest income from bond investments amounted to HK$42.5 million were booked in 2016.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK$96.2 million (*2016: HK$74.3 million*).

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

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK$24.9 million (*2016: HK$12.2 million*).

Fee and commission expenses mainly included commissions paid in the course of conducting the brokerage and margin financing business, proprietary trading business and corporate finance deals. The increase in commission expenses during the Review Period was mainly a result of the increase in trading volume of proprietary trading business and the increase in project expenses of placing deals. The commission expenses incurred in brokerage and margin financing business were in line with income earned and remained stable.

Finance Costs

The Group's finance costs during the Review Period amounted to HK$117.9 million (*2016: HK$119.5 million*).

The Group issued RMB-denominated bonds in May 2015, so the finance costs during the year were mainly bond interest expenses.

Future Prospects

2018 will witness a gradual rebound of the global economy and faster recovery in the US and Eurozone. Following the 19th Party Congress and the National Financial Work Conference, China has explicitly defined its development direction, including urging the financial sector to better serve the real economy, preventing and controlling financial risks and deepening financial reforms. While the prospects for global markets are promising, the financial sector is facing tighter regulatory requirements. Under this new situation, the Group will rise to the challenges and seize the development opportunities arising therefrom. The Group will consolidate its foundation, impose tight control over risks and strictly comply with the regulatory rules, which will translate into higher standard of overall management of the Group. Besides, Hong Kong, acting as an unreplaceable "bridge" facilitating outflow of Mainland capital into overseas markets, will benefit from the favorable prospects of the global economy, and therefore the collaboration between the Group and its parent company will be brought about more business opportunities.

In 2018, the Group will raise the general level of operations in four dimensions. Firstly, enhancing the current business quality. The Group is committed to identifying high-yield business targets with controllable risks. Apart from IPO projects, the business scales of project loans, cross-boarding mergers and acquisitions, and underwriting and placement will be expanded. Secondly, focusing on business innovation. The Group will further diversify its operations in 2018 and explore the feasibility of developing asset management products such as private equity fund. Thirdly, improving management level, especially for risk control and compliance management. The Group will increase the management efficiency and quality of the financial segment as well as other ordinary operations, so that the Group can grow in a steady and sustainable way without much uncertainties. Fourthly, attaching more importance to the recruitment and cultivation of talents. The Group will attract more professionals by establishing an optimized management system, motivative promotion mechanism and offering market-based remunerations, thus forming an outstanding team to maintain the competitive edges of the Group.

In 2018, the Group is confident in maintaining its growth momentum, strengthening the brand effect and forming a virtuous cycle of development.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2017, the Group had total cash and bank balances of HK$645.2 million (*2016: HK$624.8 million*), while net current assets amounted to HK$221.2 million (*2016: HK$1,790.0 million*). The current ratio as a ratio of current assets to current liabilities was 1.1 times (*2016: 8.2 times*). The decrease in the current ratio is mainly because the outstanding principal of the bonds payable will be mature on 28 May 2018 and thus is reclassified from "Non-current liabilities" to "Current liabilities". At the end of the year, the gearing ratio was 722.2% (*2016: 705.8%*). Gearing ratio represents the ratio of total borrowings to the total equity of the Group. The Group monitored its capital structure in order to ensure the compliance of the capital requirements under the Securities and Futures (Financial Resources) Rules (Cap. 571N of the Laws of Hong Kong) for its licensed subsidiaries and to support the development of new business. All licensed corporations within the Group complied with their respective liquid capital requirements during the year and up to the date of this report.

Banking Facilities and Charges on Assets

As at 31 December 2017, the Group had no bank loans outstanding (*2016: Nil*) and had an aggregate banking facilities of HK$676.0 million (*2016: HK$677.2 million*). In the case of certain banking facilities of HK$326.0 million (*2016: HK$326.0 million*), the drawdown of which is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group pledged no investments in listed securities (*2016: Nil*) and no fixed deposits (*2016: HK$1.2 million*) for the facilities.

Material Acquisitions, Disposals and Significant Investments

During the year, the Group disposed of the convertible bonds issued by XinRen Aluminum Holdings Limited and all listed equities, both of which included in the available-for-sale financial assets and realised a loss on disposal of HK$1.4 million and a gain on disposal of HK$8.9 million respectively (*2016: no material acquisitions and disposals of investments*).

Contingencies

The Group has no material contingent liabilities as at 31 December 2017 (*2016: 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 will 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).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2017, the Group has RMB exposure arising from the issuance of bonds. Considered the major operating cash flow is in Hong Kong dollars and to mitigate the relevant currency risks, the Group had entered into a three-year cross-currency swap as mentioned in the paragraph of "Commitments" in this report.

EMPLOYEES

As at 31 December 2017, the Group had a total of 110 employees (*2016: 105 employees*). The Group regards employees as important asset. We continue to improve our human resources management system and to attract, identify and nurture talent. The Group has established clear policy on its employee's remuneration. Base salary is being reviewed on an annual basis. Discretionary performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to reward employees for their contributions and to retain and inspire talented and experienced employees. Other benefits offered by the Group include mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance.

The Group implements the sustainable development strategy and attaches great importance to team building and talent development to sustain and enhance its competitiveness. The Group provides internal and external training programs for the staff to enhance their skills and knowledge in products, regulations and compliance. Most of the in-house trainings are qualified for claiming Continuous Professional Training hours for the licensed persons.

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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 year ended 31 December 2017 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 year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50.

The Directors do not recommend the payment of a final dividend *(2016: Nil)*.

BUSINESS REVIEW

Business review of the Group for the year ended 31 December 2017 is set out in the Chairman's Statement and Management Discussion and Analysis on pages 8 to 15 of this report respectively.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2017, 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 year ended 31 December 2017, there were no material and significant disputes 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 Environmental, Social and Governance Report on pages 32 to 42 of this report.

RESERVES

Movements in reserves of the Group and of the Company during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 51 and note 35(b) to the consolidated financial statements of this report respectively.

As at 31 December 2017, the reserves of the Company available for distribution to the shareholders of the Company (the "Shareholders") amounted to HK$Nil *(2016: HK$Nil)*.

DONATIONS

During the year ended 31 December 2017, the Group made charitable and other donations amounted to HK$11,000 *(2016: HK$20,600)*.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 10 to the consolidated financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year ended 31 December 2017 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 126 of this report.

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 year ended 31 December 2017.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors:	Mr. WU Jian *(Chairman)*
	Mr. PU Rui *(Chief Executive Officer)*
	Mr. LUO Yi *(appointed on 25 March 2017)*
	Ms. ZHAO Dongmei *(appointed on 25 March 2017)*
	Ms. WANG Huiyun *(appointed on 25 March 2017)*
	Mr. XIONG Xiaoqiang *(appointed on 25 March 2017)*
	Mr. ZHANG Chunyong *(resigned on 25 March 2017)*
	Mr. XU Mingdi *(resigned on 25 March 2017)*
	Ms. LIANG Yiqing *(resigned on 25 March 2017)*
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. GUAN Wenwei

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. PU Rui, Professor WU Jun 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 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 year and up to the date of this report included Mr. ZHANG Yi, Ms. TAM Kar Bo Carrie, Mr. FEI Zheng, Ms. WONG Lai Ping Vicky, Mr. CHEUNG Wai Yin, Mr. NIP Yiu Chuen, Ms. LAU Yim Ling Elaine, Mr. LO Wing Shing Steven, Mr. LEE Kwong Shing Eugene, Mr. HOW Sze Ming and Mr. Brian Douglas Burkholder.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's memorandum of association and bye-laws, subject to the statutes, every Directors 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

Mr. WU Jian and Mr. PU Rui, the Executive Directors of the Company, have entered into a service contract with the Company for a term of three years commencing from 27 February 2015. Mr. LUO Yi, Ms. ZHAO Dongmei, Ms. WANG Huiyun and Mr. XIONG Xiaoqiang, the Executive Directors of the Company, have entered into a service contract with the Company for a term of three years commencing from 25 March 2017.

Professor WU Jun and Mr. MENG Gaoyuan, the Independent Non-executive Directors of the Company, have signed a contract of appointment with the Company for a term of three years commencing from 27 January 2015. Mr. GUAN Wenwei, the Independent Non-executive Director of the Company, has signed a contract of appointment with the Company for a term of three years commencing from 19 September 2016.

The service contracts and contracts of appointment may be terminated pursuant to their respective terms mentioned therein.

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, SENIOR MANAGEMENT AND COMPANY SECRETARY" on pages 4 to 7 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 year or at any time during the year ended 31 December 2017.

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 year ended 31 December 2017.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2017, 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 Issuers of the Listing Rules on the Stock Exchange.

EQUITY-LINKED AGREEMENTS

Apart from those disclosed in the "Share Option Schemes" below or in note 26 to the consolidated financial statements, no equity-linked agreements were entered into during the year or subsisted at end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the "Share Option Schemes" below and in note 26 to the consolidated financial statements, at no time during the year ended 31 December 2017 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, 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.

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's 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 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.

8. During the year ended 31 December 2017, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2004 Share Option Scheme.

SHARE OPTION SCHEMES (Continued)

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:

1. 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.

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, 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's 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 year ended 31 December 2017, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

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

As at 31 December 2017, 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 and to the best knowledge of the Company 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%

Note:

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.

Save as disclosed above, as at 31 December 2017, 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.

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

Save as otherwise set out in this report, there is no change in the information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the last-published interim report of the Company.

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 year ended 31 December 2017, the percentage of the Group's turnover (excluding net results from proprietary trading) attributable to the Group's largest client and the five largest clients in aggregate were 23.0% and 46.1% 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 currency 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 year ended 31 December 2017 can be found in the Chairman's Statement and the Management Discussion and Analysis on pages 8 to 15 of this report.

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.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by Pan-China (H.K.) CPA Limited, who retire and, being eligible, offer itself for re-appointment in the forthcoming AGM.

By order of the Board

WU Jian
Chairman

Hong Kong, 23 March 2018

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 year ended 31 December 2017 (the "Year"), the Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of 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 Year. 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 Year. 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 2017, the Board comprises six Executive Directors and three Independent Non-executive Directors, namely:-

Executive Directors:	Mr. WU Jian *(Chairman)*
	Mr. PU Rui *(Chief Executive Officer)*
	Mr. LUO Yi
	Ms. ZHAO Dongmei
	Ms. WANG Huiyun
	Mr. XIONG Xiaoqiang
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Mr. GUAN Wenwei

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

During the Year, Mr. ZHANG Chunyong, Mr. XU Mingdi and Ms. LIANG Yiqing resigned as Executive Directors of the Company; and Mr. LUO Yi, Ms. ZHAO Dongmei, Ms. WANG Huiyun and Mr. XIONG Xiaoqiang were appointed in replacement thereof, all with effect from 25 March 2017.

Directors were appointed for a specific term where all Directors were appointed for a period of 3 years. 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. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment.

During the Year, 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 Year.

BOARD OF DIRECTORS (Continued)

The Board Composition (Continued)

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 Year, 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 annual written confirmation from each Independent Non-executive Director of his independence to the Group pursuant to the Rule 3.13 of the Listing Rules and considers that all the Independent Non-executive Directors were acting independently throughout the Year.

Directors' Continuing Professional Development

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

Pursuant to A.6.5 of the CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. According to the records maintained by the Company, during the Year, a seminar on the updates of the Listing Rules was arranged to all the then Directors.

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 convening all regular meetings. Each Director can access to the advices and services of the Company Secretary and is invited to include any matters in the agenda of the regular meetings. Agendas 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 the 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 minutes of each meeting are circulated to all Directors for comment within reasonable time after the meeting has been held.

During the Year, the Board held 4 meetings and the attendance of each Director is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and Chief Executive Officer of the Company are currently held by Mr. WU Jian ("Mr. WU") and Mr. PU Rui ("Mr. PU") respectively. The roles of Chairman and Chief Executive Officer are segregated and there are no relationships between Mr. WU 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.

Audit Committee

The Audit Committee currently comprises all 3 Independent Non-executive Directors, namely Mr. MENG Gaoyuan, who acts as the chairman, Professor WU Jun and Mr. GUAN Wenwei.

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

During the Year, the Audit Committee has reviewed the audit/review planning memoranda, the results for the financial year ended 31 December 2016 and the interim period for the six months ended 30 June 2017, financial reporting and compliance procedures, compliance and internal control reports, risk management and internal control system and the remuneration of external auditor.

The Company's annual results for the Year have been reviewed by the Audit Committee.

The Audit Committee held 4 meetings during the Year and the attendance of each member is listed under the heading "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. GUAN Wenwei, and an Executive Director, namely Mr. WU Jian.

The responsibilities and authorities of the Remuneration Committee are 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 as and when necessary. Terms of reference of the Remuneration Committee is currently available on the HKExnews website and the Company's website.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

During the Year, the Remuneration Committee has reviewed and discussed the Company's remuneration policy and structure of the Directors and senior management, reviewed and approved the remuneration packages of the Directors and senior management and made recommendations to the Board. Furthermore, the Remuneration Committee has considered and approved the remuneration packages and the terms of service contracts of the executive Directors appointed during the Year. No director was involved in deciding his/her own remuneration.

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

Nomination Committee

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

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 Year, 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 has also reviewed and assessed whether the relevant candidates were suitable to become Directors based on their educational background, professional qualifications, experience, skills and knowledge, etc. and made recommendations to the Board on their appointments.

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

Corporate Governance Function

No corporate governance committee has been established and the Board is responsible for, amongst other things, the development and review of the policies and practices on corporate governance of the Group and monitoring the compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the corporate governance compliance with the CG Code and disclosure in the annual report.

The corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

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, skills, knowledge and length of services, etc.. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the same as appropriate. The Board Diversity Policy is currently available on the Company's website.

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, the annual general meeting held on 9 June 2017 (the "2017 AGM") during the Year:

		Attendance/Number of meetings held during the Year				
Name of members of the Board/ the Board Committees	*Note*	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**2017 AGM**
Executive Directors:						
Mr. WU Jian *(Chairman)*	*(a)*	4/4	N/A	1/1	1/1	1/1
Mr. PU Rui *(Chief Executive Officer)*		3/4	N/A	N/A	N/A	1/1
Mr. LUO Yi	*(a)*	2/2	N/A	N/A	N/A	1/1
Ms. ZHAO Dongmei	*(a)*	2/2	N/A	N/A	N/A	1/1
Ms. WANG Huiyun	*(a)*	0/2	N/A	N/A	N/A	0/1
Mr. XIONG Xiaoqiang	*(a)*	2/2	N/A	N/A	N/A	1/1
Mr. ZHANG Chunyong	*(a)*	1/2	N/A	N/A	N/A	N/A
Mr. XU Mingdi	*(a)*	0/2	N/A	N/A	N/A	N/A
Ms. LIANG Yiqing	*(a)*	1/2	N/A	N/A	N/A	N/A
Independent Non-executive Directors:						
Professor WU Jun		4/4	4/4	1/1	1/1	1/1
Mr. MENG Gaoyuan		4/4	4/4	1/1	1/1	1/1
Mr. GUAN Wenwei		4/4	4/4	1/1	1/1	1/1

Note:

(a) Mr. ZHANG Chunyong and Mr. XU Mingdi resigned as Executive Directors of the Company; Ms. LIANG Yiqing resigned as an Executive Director of the Company and a member of the Remuneration Committee; Mr. WU Jian was appointed as a member of the Remuneration Committee; and Mr. LUO Yi, Ms. ZHAO Dongmei, Ms. WANG Huiyun and Mr. XIONG Xiaoqiang were appointed as Executive Directors of the Company, all with effect from 25 March 2017.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED 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 are 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 re-appointment of Pan-China (H.K.) CPA Limited ("Pan-China HK") as the external auditor of the Group was approved by the shareholders of the Company (the "Shareholders") at the 2017 AGM. The fee paid/payable to Pan-China HK amounted to HK$1,250,000 and HK$5,000 for audit service and other services rendered to the Group for the year ended 31 December 2017 respectively.

INTERNAL CONTROL

The Legal & Compliance Department ("L&C") of the Company is responsible for an adequate internal control system to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the consolidated financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than elimination of risks associated with business activities.

The Group's risk management mechanism is also embodied by the three lines of defence for risk management. All executing units serve as the main responsible parties for their respective business risks and are taken as the front line and also the first line of defence for risk management. L&C and the Group's Risk Control Department ("GCM") together constitute the second line of defence for risk management. Different from the business supporting units, L&C and GCM perform their management functions independently of the business units. Charged with the major duty of independent oversight of risks, L&C is responsible for managing compliance risks, whereas GCM is tasked with overall management of financial risks. The Internal Audit Department instead serves as the third line of defence.

For the year ended 31 December 2017, the Audit Committee, as delegated by the Board, has reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management. It has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programs and budgets.

In addition, the Internal Auditor of the Group conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of the Internal Auditor on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

The Board also annually reviews the effectiveness of the system of internal control of the Group and the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of this annual report is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets. The resources, qualifications and experience of staff of the Group's accounting and financial functions, and their training programs and budget are adequate.

INTERNAL AUDIT

The Group has an independent internal audit team, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit team reports regularly to senior management and the Audit Committee on audit matters. By adopting a risk-based approach to evaluate risk level on control environment, the internal audit team makes their audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. On a half-yearly basis, the head of the internal audit team will present a report and express an opinion to the Audit Committee on the internal control environment of the Group. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad-hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

RISK MANAGEMENT

During the year, the senior management acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's risk control. The risk control is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business.

The senior management is primarily responsible for the design, implementation and maintenance of the risk control to safeguard the Shareholders' investment and assets of the Group.

The senior management monitors the business activities closely and reviews regular risk control reports. Proper controls are in place for the recording of complete, accurate and timely management information.

The procedures of the Group's risk management and internal control systems are as follows:

For risk management

- Identification: Identify risks, business objectives and risks that could affect the achievement of objectives. Major risks affecting the operation of the Company include market risk, credit risk, liquidity risk and operational risk.

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to changes in market prices, interest rates and exchange rates, which mainly exists in the proprietary business and asset management business and other investment-related business of the Group. The Company implemented the risk control indicators such as the scale of risk exposure, concentration and limit of loss to prevent excess risk taken on investment.

Credit risk refers to the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group. Company's credit exposure mainly relates financial assets under margin financing, fixed income financial assets, securities lending arrangement and securities and futures brokerage business. The Company has used risk management system to evaluate and monitor the credit risks for clients on real time basis so as to prevent excessive risk concentration that would affect the credit exposure of clients, and identify, report and deal with risk of default as early as possible.

Liquidity risk refers to the risk resulting from the failure to make payment, settlement, reimbursement, redemption and to meet obligations in connection with financial liabilities due to shortage of funds in the ordinary course of business of the Company. In order to manage liquidity risk effectively, the Company has strengthened monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation.

Operational risk refers to the risk of incurring losses resulting from the inadequacy or defect of internal process, personnel or systems, or from such external events as natural disaster and fraud. In order to manage operational risk effectively, the Company has set up a well-established internal control system and regularly carried out effective assessment of internal control and compliance management throughout the Company.

- Evaluation: Risk management is a continuous process carried out at all levels of the Group. After Identifying related risks, the Company will analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly in a timely manner.

- Management: Mitigation measures and plans are then developed based on the risks evaluated and the predetermined risk appetite to manage the risks to an acceptable level. Consider the risk responses, ensure effective communication to the Board and ongoing monitor the residual risks.

RISK MANAGEMENT (Continued)

For internal control:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out on day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

The aforesaid departments responsible for the internal controls and risk management systems shall report to the Board, and the Board acknowledges that it is responsible for the Group's overall risk management and internal control systems and reviewing their effectiveness. Nonetheless, such internal controls and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

DISSEMINATION OF INSIDE INFORMATION

The Group has complied with the relevant requirements for disseminating inside information as defined under the Securities and Futures Ordinance so as to ensure inside information is promptly identified and escalated. Directors and senior management of the Group received relevant trainings to ensure inside information remain confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMPANY SECRETARY

Ms. TAM Lai Kwan Terry has been appointed as the Company Secretary of the Company since 1 May 2017. She has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the Year.

COMMUNICATION WITH SHAREHOLDERS

The Group has been devoted to maintain effective communications with the Shareholders and the general public with an aim to improving the transparency of the Group and to provide them with channels to appraise the position of the Group. During the Year, 2017 AGM was held and the notice of 2017 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 a majority of the members of the Board and the external auditor were present at the 2017 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.

COMMUNICATION WITH SHAREHOLDERS (Continued)

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. The Shareholders' Communication Policy is currently posted on the Company's website.

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 Bye-law 58 of the Company's Bye-laws, 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.

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 three (3) business days after a notice of the Shareholders' meeting has 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 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, 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 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

INVESTOR RELATIONS

During the Year, 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.

STAKEHOLDER ENGAGEMENT

With the goal to strengthen the sustainability approach and performance of the Group, the Group put in tremendous efforts to listen to both its internal and external stakeholders. The Group actively collects feedback from its stakeholders to maintain a high standard of sustainability within the Group. The Group connects with its stakeholders through their preferred communication channels as listed in the table below.

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	— Compliance with laws and regulations — Support economic development	— Supervision on complying with local laws and regulations — Submitting reports and taxes paid
Shareholders	— Return on investments — Corporate governance — Business compliance	— Regular reports and announcements — Regular general meetings — Official website
Employees	— Employees' compensation and benefits — Career development — Health and safety working environment	— Performance reviews — Regular meetings and trainings — Emails, hotline, caring activities with management
Customers	— High quality services — Protection of customers' benefits	— Customer service hotline and email — Face-to-face meetings and on-site visits
Suppliers	— Fair and open procurement — Win-win cooperation	— Open tendering — Suppliers' satisfactory assessment — Face-to-face meetings and on-site visits — Industry seminars
General public	— Involvement in communities — Business compliance — Environmental protection awareness	— Responses to media enquiries — Public welfare activities — Hotline and email

Materiality Assessment

The Group undertakes annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. In the financial year of 2017 ("FY2017"), the Group engaged its stakeholders to conduct a materiality assessment survey. With respect to this ESG Report, the Group identified preventing bribery, extortion, fraud and money laundering, product risk control and management, and protection of customer information and privacy as issues of high importance to both the Group and its stakeholders. This review helped the Group in prioritising its sustainability issues, highlighting the material and relevant aspects, and aligning them with stakeholders' expectations.

SOCIAL SUSTAINABILITY

Operating Practices

Supply Chain Management

As a socially responsible enterprise, it is critical and vital to maintain and manage a reliable supply chain that is in-line with the Group's policy on sustainability. The Group is committed to establish and maintain a close relationship with its business partners. The Group's main suppliers are the insurance companies, custodian banks, oversea exchange participates, fund houses in Hong Kong and overseas.

In selecting suppliers, comprehensive assessment is performed over different criteria including but not limited to the supplier's reputation, track record, expertise, capacity creditability, business stability and product quality. Approved suppliers are typically certified by local regulators and authorities. The Group insists on choosing suppliers that are also socially sustainable in its business operations, financially stable and legally responsible according to local laws. The Group conducts assessment of its suppliers regularly. The Group constantly reviews the public enforcement information of the local regulatory authorities, and checks whether the suppliers have been reprimanded or punished by local regulatory authorities.

The Group maintains close liaison with its suppliers to ensure that they comply with local laws and regulations. Meetings with the suppliers are held periodically for sharing market information and product updates. Given the firm and stable relationship between the Group and its suppliers, the Group are quickly informed of the suppliers' situation through internet, phone calls, and other communication means. The Group monitors the quality of its suppliers and supply chain practices on a strict and continuous basis.

Product Responsibility

As a professional financial services provider, the Group complies with the requirements as set out by various regulators such as Hong Kong Exchanges and Clearing Limited, Securities and Futures Commission ("SFC"), Hong Kong Independent Commission Against Corruption, Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association. The Group also strictly adheres to the applicable laws and regulations in Hong Kong relating to product responsibility and proper conduct in the financial market. The relevant laws and regulations are listed below:

- Securities and Futures Ordinance;
- Personal Data (Privacy) Ordinance;
- Company Ordinance;
- Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance;
- Prevention of Bribery Ordinance;
- Insurance Ordinance;
- Drug Trafficking (Recovery of Proceeds) Ordinance;
- Organised and Serious Crimes Ordinance;
- United Nations (Anti-Terrorism Measures) Ordinance; and
- Mandatory Provident Fund Schemes Ordinance.

SOCIAL SUSTAINABILITY (Continued)

Operating Practices (Continued)

Product Responsibility (Continued)

Products and Services Quality

The Group established internal procedures and manuals such as Compliance Manual, Operational Manual for Insurance Business, Sales Manual and Measures on Risk Management Reporting to ensure that the products and services the Group provides comply with the requirement of the aforesaid rules and regulations. The Group is committed to provide clear and balanced information to its clients. Product features, terms and conditions, and any associated risks are clearly communicated by the Group's licensed employees through emails and telephones (with recording function) to its clients, so they can make an informed decision. Clients that are interested in the Group's services are required to sign the client agreement, acknowledging the terms and conditions along with the associated risks. The Group applies the Anti-Money Laundering database in performing "Know Your Customer" procedures and risk assessment procedures of its clients. This helps the Group in understanding its clients' financial background, trading experience and risk tolerance level before providing them with suitable products and services. The services provided by the Customer Services Department constantly meet the requirement of its customers, and were in line with the requirements of ISO9001 for quality management.

Online transaction system is used to support the Group in providing its products and services via the internet. The Group's online transaction system has real time monitoring function. The Group can check the financing status of each client at all times, allowing the Group to provide timely suggestion to its clients. The Group uses a dual-wire network for its online system, helping its clients to prevent loss due to wire-network failures or delays in transactions. The Group also has a backup server in standby for preventing data loss. A comprehensive emergency plan has been set up, and relevant departments conducts emergency drills regularly. This ensures proper measures are taken efficiently when there is an emergency. In addition, the Group uses a maker-and-checker mechanism to avoid any misappropriation or unauthorised use of the clients' money.

Advertising

Marketing employees should obtain written approval from the relevant department head and from the Legal and Compliance ("L&C") Department before the publication of any advertisement or sales literature. The Group is committed to provide advertisements that do not contain information, words or phrases that may give investors an impression of which profit is guaranteed. In the Group's dealings with its clients, information provided should be complete, true, accurate, clear, and comply with the relevant laws and regulations such as Securities and Futures Ordinance and Insurance Ordinance.

Complaint Handling Procedures

The Group strives to provide prompt responses to client complaints. The Group collects complaints from its clients through various channels such as customer service hotline, emails, or letters. The Customer Services Department is responsible for acknowledging the complaint, identifying the issues, and referring the cases for investigation. Subsequently, a formal reply will be issued to the client. An inspection report will be filed to record the complaint, and to prevent recurrence of similar issues. In case of any significant issues, the Group will notify relevant parties in accordance with the rules and regulations of SFC and other relevant regulatory units. The Group's Customer Services Department is accredited with ISO10002 for its transparent customer complaints handling procedure.

SOCIAL SUSTAINABILITY (Continued)

Operating Practices (Continued)

Product Responsibility (Continued)

Clients' Data Protection

At all times, the Group is committed to protecting clients' privacy, and in abiding by the Personal Data (Privacy) Ordinance and other relevant codes of practice (issued by the Privacy Commissioner for Personal Data) in collection, use and holding of client's information. The Group has a Compliance Manual that sets out the specific procedure for handling and protecting clients' data. The Group owes a contractual obligation of confidentiality to the clients in terms of their information; therefore, the Group treats clients' transaction records and personal information as private and confidential, subject to disclosure requirements under the relevant laws, rules and regulations, in which the Group is required to comply with. Information collected will only be used for the purpose for which it has been collected. Clients will be told in advance on how the collected data will be used. The Group prohibits the provision of consumer information to a third party without authorisation from its client. Clients always have the rights to review and revise their data, and to opt out from any direct marketing events. If there are any requests for client information or client's business, the L&C Department will be consulted to ensure the appropriateness of disclosure under the regulatory laws and policies. A strong commitment to protect clients' privacy have enabled the Group to stay competitive in the market.

Intellectual Property Rights

The Group is dedicated to protecting and enforcing the Group's own intellectual property rights as well as the intellectual property rights of other enterprises. The Group obtained proper license for software and information the Group used in its business operation. Any duplication or downloading of information, software and images from the internet must be approved by relevant department(s).

Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery irrespective of the area or country where the Group conducts its business. The Group formulated and strictly enforced its anti-corruption policies as stipulated in the Prevention of Bribery Guideline. The Group will not tolerate corruption in any kinds of form. Employees are expected to discharge their duties with integrity, and to abstain from engaging in any activities that involve bribery, extortion, fraud and money laundering. Employees should also make declaration to the L&C Department for any direct or indirect interest in businesses that competes with the Group or with which the Group has business dealings with. Any breach of rules by the employee will have its employment contract terminated, and the employee will be prosecuted under the Prevention of Bribery Ordinance.

Whistle-blowers can report verbally or in writing to immediate supervisor or the L&C Department with full details and supporting evidence of the suspected misconduct or malpractice. The Group advocates a confidentiality mechanism to protect the whistle-blowers from any unfair dismissal or victimisation. Where criminality is suspected after consulting the L&C Department, a report is to be made to the relevant regulators or law enforcement authorities. Within the Reporting Period, no concluded legal cases regarding corrupt practices were brought against the Group or its employees.

EMPLOYMENT AND LABOUR PRACTICES

Employment

The Group treasures employees' talent and values it as a key to driving the success and maintaining the sustainable development of the Group. The Group strives to provide its employees with a safe and suitable platform for developing their career, professionalism and advancement.

The Group's human resources policies strictly adhere to the applicable employment laws and regulations in Hong Kong, including but not limited to the following:

- Employment Ordinance;
- Employees' Compensation Ordinance;
- Minimum Wage Ordinance;
- Mandatory Provident Fund Schemes Ordinance;
- Personal Data (Privacy) Ordinance;
- Disability Discrimination Ordinance;
- Family Status Discrimination Ordinance;
- Race Discrimination Ordinance; and
- Sex Discrimination Ordinance.

This ensures that the Group provides fair welfare and benefits to its employees. The Group's Human Resources Department reviews and updates relevant company policies regularly in accordance with the latest laws and regulations.

Compensation and Dismissal

Talent acquisition is vital to the future development of the Group's business. The Group adopted a set of transparent and clear procedures to conduct its recruitment activities, aiming to live up to "Openness, Fairness, Transparency, Standardisation" in every detail. To attract high calibre talent, the Group offers competitive remuneration and benefits based on the individuals' past performance, professional qualification and experiences. The Group also use market benchmarks as reference in designing the remuneration packages. In order to motivate and reward existing employees, the Group conducts regular compensation review according to the overall market environment, inflation, profitability of the Group and employees' performance. Any employment, promotion or dismissal will be based on legitimate grounds. The Group prohibits any kind of illicit or illegitimate dismissals.

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Employment (Continued)

Working Hours and Employees' Benefits

The working hours and holidays for employees determined by the Group are in line with local employment laws and the employment contracts with employees. In order to promote a family-friendly working environment, the Group not only provides the statutory holidays and paid annual leave stipulated by the employment laws of Hong Kong SAR Government, but also provides other leave entitlements such as additional paid annual leave, birthday leave, marriage leave, maternity leave, paternity leave and examination leave. The Group also provides a series of benefits including medical insurance, life insurance, over-time compensation and over-time meal subsidies to its employees. In FY2017, the Group organised an annual dinner and a spring tea for its employees to thank them for their contributions.

Equal Opportunity and Anti-discrimination

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. For instance, training and promotion opportunities, dismissal and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related elements in all business units of the Group. The Group enforces zero tolerance to any workplace discrimination, harassment or victimisation in accordance to relevant government legislation, ordinances and regulations. If there is any violation of anti-discrimination incidents, employees can report to the Human Resources Department. Human Resources Department is responsible for strict compliance with local and corporate regulations on assessing, dealing with, recording and taking disciplinary actions on such events.

Employee Relations and Communications

In terms of internal coaching and communication, effective two-way communication between general employees and managerial employees is highly encouraged. Employees are encouraged to maintain regular communication with the management and their colleagues through the office automation system, emails, training, website and meetings. The Group strives to provide and maintain a barrier-free employer-employee relationship.

Health and Safety

To provide and maintain good working conditions, and a safe and healthy working environment for its employees, the Group's health and safety policies are in line with various laws and regulations stipulated by the Hong Kong SAR Government, including the Occupational Safety and Health Ordinance and Employees' Compensation Ordinance.

The Group pays high attention to employees' physical and mental health as the Group believes work efficiency is closely related to employee's physical and mental health. The Group has incorporated a range of occupational health and safety measures for its employees. The medical insurance the Group purchased for its employees includes health check-up. At the Group's new office, the Group invited specialist for formaldehyde removal after renovation, and used double-sided tape instead of traditional white glue, which may contain volatile organic compounds (VOC), for its carpets. The Group also prohibited smoking and drinking at its office. It is the Group's goal to have a clean, tidy, smoke-free, accident free, healthy and safe working environment.

Furthermore, the Group invited The Lok Sin Tong Benevolent Society, Kowloon to give a series of occupational health talk, namely "Smoking Cessation Program in Workplace" and "'No Alcohol For Cheers' Reduce Alcohol Consumption Health Promotion Programme for Frontline Employees", to raise employee's health awareness.

EMPLOYMENT AND LABOUR PRACTICES (Continued)

Development and Training

The Group offers different training and development opportunities to its employees. The purpose is to strengthen employees' work-related skills and to improve their operational efficiency and productivity. Newly joined employees are provided with comprehensive trainings, which covers topics such as company background, corporate culture, employee benefits and rules and regulations. The Group organises health trainings and activities for its employees throughout the year.

The Group has training rooms equipped with professional training facilities for organising training programs. Most of the Group's training programs are qualified for claiming Continuous Professional Training ("CPT") hours for the licensed employees. To retain their professional licenses as required by the SFC, licensed employees must undertake a minimum of 5 CPT hours per calendar year for each regulated activity they engage in. The Group provides CPT courses related to regulated activities, such as anti-money laundering, code of conduct and updated regulations to the employees. The Group ensures licensed employees fulfil SFC's requirement by recording all training courses attended by licensed employees, keeping the record for at least three years, so the Group can provide relevant records upon request by the SFC or the Hong Kong Monetary Authority.

To further enhance the professional skills of its employees and meet the needs of the Group's development, the Group encourages its employees to enrol for the professional qualification examinations and external trainings. Employees sitting for public or professional examinations are entitled to have examination leave or subsidies based upon management's approval. Licensed employees are encouraged to attend CPT courses provided by other institutions as well, while Directors of the Group are encouraged to attend seminars and courses on relevant topics.

Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong and other related labour laws and regulations in Hong Kong, to prohibit any child and forced labour employment. To combat against illegal employment on child labour, underage workers and forced labour, the Group's Human Resources Department requires candidates to provide valid identity documents to ensure that they are lawfully employable during the recruitment process. The Group's Human Resources Department is also responsible to monitor and ensure compliance of latest and relevant laws and regulations that prohibits child labour and forced labour.

In FY2017, the Group was not in violation of any relevant laws and regulations, in relation to the prevention of child and forced labour that have a significant impact on the Group.

COMMUNITY

Community Investment

With the spirit of caring for vulnerable groups, protecting the environment, and giving back to the community, the Group places great emphasis on cultivating social responsibility awareness within each of its employee.

The Group uses its resource to support the community in various ways. With the establishment of Group's volunteer team from different departments, the Group encourages its employees and their families to participate in various voluntary events and support people in need. The Group offers paid "volunteer holidays" to its employees for participating in charitable community activities during their spare time. For example, the Group sponsored its employee and their family members to participate in social activities such as the "Walk for Millions", sponsored by The Community Chest, as a way for employees to maintain their physical and mental health while building social bonds. The Group also participated in the "Dress Casual Day" hosted by The Community Chest to perform its corporate social responsibility.

COMMUNITY (Continued)

Community Investment (Continued)

The Group organises and participates in various charity and environmental protection events on a regular basis. In FY2017, the Group participated in a flag selling event hosted by The Conservancy Association, organised a trip for beach cleaning in Lamma Island after learning about the shore line situation in Hong Kong, and donated employees' unused clothing to The Salvation Army. The Group also has employees participated in blood donation in response to the call by Hong Kong Red Cross, and visited elderly homes with gifts and wishes during Christmas.

In recognition of the Group's continuous contribution to the community, the Group obtained various awards and certifications in FY2017:

- "Caring Company" Logo by The Hong Kong Council of Social Service for the tenth consecutive year. The scheme is building strategic partnership between the businesses and non-profit organisations to promote corporate social responsibility. Each year, the Group sets up targets or new elements to demonstrate good corporate citizenship, such as employee activities or volunteer activities are held on a regular basis to enhance employee awareness of corporate social responsibility and encourage them to care for the community.

- Certificates of Appreciation for "Corporate Volunteer Matching Scheme" by The Community Chest. Through The Community Chest, the Group can participate in the voluntary services for The Community Chest member social welfare agencies. The Group will continue to take part in the charity events and sponsor activities held by The Community Chest.

- Bronze Award for Volunteer Service (Organization) by the Social Welfare Department (the "SWD"). The Group participated in the volunteer activities organised by the SWD for sixth consecutive years. The award advocates enterprises and its employees to actively participate in volunteer activities and to contribute towards building a caring community in Hong Kong. Once the enterprise has devoted a specific number of hours on volunteer activities, the SWD will verify and issue a certificate of appreciation to the enterprise.

- "Heart to Heart Company" by the Hong Kong Federation of Youth Groups since 2009.

- "Hong Kong Green Organisation" by Environmental Campaign Committee since 2015. The Group has also been awarded with the "Wastewi$e Certificate" and the "Energywi$e Certificate" since 2011.

- "Green Office Awards Labelling Scheme" by World Green Organisation. The accreditation commends the Group's efforts in promoting green office.

These awards are massive recognition to the Group's participation in voluntary works and in environmental protection.

ENVIRONMENTAL SUSTAINABILITY

The Group is committed to ensuring the long-term sustainability in the environment and community where the Group operates. The Group stringently controlled its emissions and consumption of resources, and complied with all relevant environmental laws and regulations in its daily operations. The Group implemented effective energy conservation measures at its office to reduce emissions and resource consumption.

This section primarily discloses the Group's policies, practices, and quantitative data on emissions, use of resources, the environment and natural resources in FY2017.

ENVIRONMENTAL SUSTAINABILITY (Continued)

Emissions

As a financial service provider, the Group's business operation does not have significant impact on the environment in terms of wastewater, waste pollutants, air pollutants and hazardous waste. The Group endeavours to operate in an environmental sustainable manner, so to contribute towards curbing global climate change. The Group complied with all relevant local environmental laws set out in Hong Kong. In FY2017, the Group found no disregard to influential laws relevant to waste gas or greenhouse gases ("GHG") emissions, water or land discharging and hazardous or non-hazardous wastes.

Wastewater and Solid Waste

The Group is committed to environmental protection in its daily operations in the office. The Group's daily operation does not generate any hazardous waste; only small amount of municipal wastewater and solid waste are generated from the Group's daily operation in the office. The Group encourages its employee to reduce solid waste produced by recycling office papers and toner cartridges, reusing office stationeries, and advocating use of electronic statement to its customers. The Group also placed signage around its office to remind employees about reducing paper use. To reduce wastewater generated, the Group adopted specific measures to reduce water consumption, as further described in Use of Resources. Municipal wastewater is directly discharged into the pipe network managed by the property management, while municipal solid waste is collected centrally, also handled by the property management.

GHG Emissions

The Group's main source of GHG emission came from the use of purchased electricity in its office. To reduce the amount of GHG emission, the Group implemented several practical measures on saving electricity in its office, as further described in Use of Resources.

Table 1. Total Emissions by the Group in FY2017

Emissions	Key Performance Indicator (KPI)	Unit	Amount	Intensity* (Per employee)
GHG emissions	Scope 1 (Direct Emission)	Tonnes CO_2e	11	–
	Scope 2 (Energy Indirect Emission)	Tonnes CO_2e	146	–
	Scope 3 (Paper Indirect Emission)	Tonnes CO_2e	14	–
	Total (Scope 1 & 2 & 3)	Tonnes CO_2e	171	1.1
Non-hazardous waste	Solid Waste	Tonnes	0.5	0.003

* *Intensity = amount ÷ annual average workforce of the Group*

ENVIRONMENTAL SUSTAINABILITY (Continued)

Use of Resources

The Group strives to save energy and resources through implementation of internal policies. To ensure the Group's green policies are followed by its employees during daily office operations, the Group issues notices covering topics such as paper saving, energy saving and office stationery recycling. The guideline is circulated around for employees to follow. In FY2017, resources consumed by the Group were electricity, gasoline, water and paper. The Group did not consume any packaging materials.

Electricity Consumption

The Group consumes electricity at its office during daily operation. In FY2017, the Group relocated its office. The Group's new office has multiple glass compartments and was designed to reduce electricity consumption by utilising natural lights. The new office also has a smart lighting system installed for turning lights on and off, and adjusting brightness according to the weather. Electricity-saving lights (such as LED and T5 lights) along with centralized cooling, other than trading rooms, are used at the Group's new office. As the Group reduces electricity consumption, GHG emissions consequently decrease. To ensure effective use of electricity, the Group adopted the following practices at its office:

- Replace old printers with more environmentally friendly printers;
- Clean office equipment regularly to maintain high energy efficiency;
- Place "Save electricity, turn off idle lights" signage in prominent places to encourage electricity saving;
- Add timer to water dispensers for energy saving;
- Use air-conditioned server rack in server room to reduce the use of 24 hours air-conditioning;
- Install translucent curtains to let light through and to maintain effective air conditioning; and
- Use electronic equipment with energy saving label.

Gasoline Consumption

The Group consumes gasoline in its company vehicles. The Group is committed to reduce gasoline use by encouraging employees to take public transports instead of driving to work, and reducing the amount of travel through use of video conference.

Water Consumption

The Group consumes water at its offices during daily office operation. Charges for the Group's water consumption are included in the building management fee. Therefore, the Group has no record of its water consumption during the Reporting Period. However, the Group is committed in promoting better utilisation of water resources, and has adopted the following water conservation practices:

- Fix dripping taps immediately to avoid further leakage of the water supply system;
- Fit flow controller onto water tap to reduce water consumption; and
- Present "Saving Water Resource" signage in prominent places to encourage water conservation.

THE ENVIRONMENT AND NATURAL RESOURCES

The main natural resource the Group consumes in its office is paper. The Group has put in tremendous efforts to adopt the following practices in ensuring the efficient use of nature resource:

- Use FSC or PEFC paper to reduce the harm to the environment;
- Set double sided printing/copying as default setting for printers;
- Preview documents to adjust page layout or margins before printing;
- Record paper use for printing or copying by each employee through the use of access card;
- Print out exact amount of copies to avoid wastage;
- Use office automation system and e-mails for internal documentation;
- Use the back of old documents for printing or as draft paper; and
- Collect used paper for recycling.

In FY2017, the Group reduced its paper use by 25% as compared to the financial year of 2016.

Table 2 Total Use of Resources by the Group in FY2017

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount	Intensity* (Per Employee)
Energy	Electricity	KWh	184,825	1,232.1
	Gasoline	L	4,135	27.6
Paper	Paper	Tonnes	2.9	0.02

* *Intensity = amount ÷ annual average workforce of the Group*

Furthermore, the Group raises employees' awareness of environmental protection by implementing various environmental policies and holding environmental protection activities such as beach cleaning. In FY2017, the Group took part in World Wildlife Fund's "Earth Hour", which encouraged its employees to turn off the non-essential lights at a designated time for saving energy and reducing carbon emissions. When cooperating with suppliers, the Group actively promotes the concept of "emission reduction" as the Group strives to reduce the environmental impact during its procurement activities. The Group opt to purchase materials with green labels from its suppliers.

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)

OPINION

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 50 to 125, which comprise the consolidated statement of financial position as at 31 December 2017, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of derivative financial liability — Cross-currency swap	
As disclosed in note 20 to the consolidated financial statements as at 31 December 2017, the Group had a cross-currency swap entered into with a bank to swap the Renminbi Bonds principal and the relevant interest payments into Hong Kong dollars. The swap had been classified as a derivative and measured at fair value at the end of each reporting period. As at 31 December 2017, the fair value of the cross-currency swap classified as a derivative financial liability amounted to HK$75,000,000, with a fair value gain of HK$135,367,000 being recognised in profit or loss for the year ended 31 December 2017. The management of the Company had engaged an independent valuer to estimate the fair value of the cross-currency swap, which was determined using the discounted cash flow method. The valuation requires significant management judgement. Accordingly, we have identified the fair value measurement of cross-currency swap as a key audit matter.	Our procedures in relation to management's estimate of the fair value of the cross-currency swap included: We read the terms of the cross-currency swap and valuation report prepared by the independent valuer engaged by the Group. We discussed with the independent valuer the appropriateness of assumptions and inputs being used in determining the fair value of the cross-currency swap and performed substantive testing on certain inputs. Also, we evaluated the independent valuer's competence, capabilities and objectivity in relation to this engagement.
Recoverability of certain margin loan receivables	
During the year ended 31 December 2017, as a result of the impairment assessment, a reversal on impairment loss in respect of certain individual margin clients was made amounting to HK$37,660,000. The carrying amounts of these margin loan receivables after provision for impairment amounted to HK$64,281,000, net of provision amount of HK$42,915,000. As explained in note 17(b)(ii) to the consolidated financial statements, these individually impaired margin clients related to customers that were long outstanding. Having considered the collectability of accounts receivable from these margin clients taking into account the value of collaterals, the management of the Company concluded that the reversal on impairment was appropriate. We have identified the recoverability of certain margin loans as a key audit matter because of the significant management judgement required in performing the impairment assessment and significance of the amount involved.	Our procedures in relation to management's impairment assessment of certain margin loan receivables included: (i) discussed with management in relation to the recoverability of these accounts receivable; (ii) discussed with management the impairment policy and how much impairment loss or reversal on impairment loss should be recognised; and (iii) assessed the reasonableness of the impairment assessment made by management, including the evaluation of the sufficiency of impairment amount taking into account subsequent settlements and the value of the collaterals of these receivables.

KEY AUDIT MATTERS (Continued)

Key audit matters (Continued)	How our audit addressed the key audit matters (Continued)
Classification of fund investment	
As at 31 December 2017, the Group had a fund investment ("SPC Fund") with carrying amount of HK$100,000,000 subscribed in November 2017, which represented 33.33% of the non-voting redeemable shares issued by the SPC Fund held by the Company. The Group classified the investment as financial assets at fair value through profit or loss, of which the details are set out in note 15(iv) to the consolidated financial statements. The Directors of the Company considered that investment in the SPC Fund was financial assets at fair value through profit or loss. Having considered the fact patterns surrounding the SPC Fund, management concluded that it did not have control nor significant influence over the SPC Fund. Judgement is required on adoption of appropriate accounting policy and relevant accounting standards for this fund investment. The management had exercised their judgement in considering the relevant facts and circumstances, which the details are set out in note 2(4) to the consolidated financial statements. We have identified that the classification of the SPC Fund is a key audit matter because of the significant management judgement required in performing the classification of fund investment.	Our procedures in relation to classification of fund investment included: (i) discussed with management and reviewed their memorandum in relation to the classification of fund investment; (ii) inspection of relevant documents, including memorandum and articles of association, placement memorandum, management agreement, etc. to verify the validation of the information on which the classification was based; and (iii) assessed the reasonableness of the classification made by management, including the evaluation of power over the SPC Fund, exposure, or rights, to variable returns from its involvement with the SPC Fund, the ability to use its power over the SPC Fund to affect the amount of the Group's returns.

KEY AUDIT MATTERS (Continued)

Key audit matters (Continued)	How our audit addressed the key audit matters (Continued)
Uncertainty related to ability to pay bonds payable due in May 2018 that may cast doubt on going concern	
Based on short-term liquid resources as appeared in the consolidated financial statements as at 31 December 2017, management of the Group expects, as explained in note 1 to the consolidated financial statements, that it would have sufficient liquidity to repay the bonds payable, due in May 2018, with carrying amount of the bonds of HK$1,797,552,000. The carrying amount of the issued bonds as at 31 December 2017 is larger than the amount of the liquid assets excluding loans and advances, accounts receivable, deposits, prepayments and other receivables amounted to approximately HK$1,435,445,000 as at 31 December 2017. The appropriateness of the going concern basis of accounting is under consideration. The Group has prepared cash flows forecast for the next twelve months after the year end date which, in the opinion of the directors of the Company, demonstrated that the Group will be able to meet its debts as and when they fall due. We have identified that the going concern issue is a key audit matter.	Our procedures in relation to management's representation on going concern issue included: (i) discussed with management the measures taken by management to address the going concern issue; (ii) discussed with management the basis and assumptions adopted in the preparation of the cash flow forecast for the next 12-month period after the reporting period; (iii) assessed the reasonableness of the underlying data, (such as assumptions, parameters, etc.), the appropriateness of calculation basis, and the adequacy of the relevant supporting evidences; and (iv) discussed with management of the ultimate holding company, Southwest Securities Co., Ltd. ("SWSC") and reviewed the financial position of SWSC.

OTHER INFORMATION

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the Directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Company.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Lee Ping Kai.

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, Central, Hong Kong

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Fee and commission income		**71,703**	59,428
Interest income		**59,025**	51,782
Net investment gains (losses)		**109,369**	(19,172)
Total revenue	3	**240,097**	92,038
Other income and gains	5	**64,762**	140,495
Total revenue and other income and gains		**304,859**	232,533
Fee and commission expenses		**(24,857)**	(12,173)
Fair value change on derivative financial assets	13, 16	**(5,851)**	(4,155)
Fair value change on derivative financial liabilities	20	**135,367**	(59,715)
Finance costs	6a	**(117,878)**	(119,491)
Staff costs	6b	**(96,212)**	(74,298)
Depreciation		**(9,112)**	(5,147)
Other operating expenses		**(182,224)**	(124,740)
Total expenses		**(300,767)**	(399,719)
Profit (Loss) before tax	6	**4,092**	(167,186)
Income tax (expense) credit	8	**(3,000)**	263
Profit (Loss) for the year attributable to equity shareholders of the Company		**1,092**	(166,923)
Other comprehensive income (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign subsidiaries		**680**	(542)
Change in fair value of available-for-sale financial assets	13	**–**	(5,117)
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	13	**12,069**	–
Other comprehensive income (loss) for the year, net of tax		**12,749**	(5,659)
Total comprehensive income (loss) for the year attributable to equity shareholders of the Company		**13,841**	(172,582)
Earnings (Loss) per share			
— Basic (HK cents)	9	**0.045**	(6.838)
— Diluted (HK cents)	9	**0.045**	(6.838)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	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
			Attributable to equity shareholders of the Company						
At 1 January 2016		244,121	(6,952)	214,319	40,836	306	(84,979)	163,530	407,651
Loss for the year		–	–	–	–	–	(166,923)	(166,923)	(166,923)
Exchange difference on translation of financial statements of foreign subsidiaries		–	–	–	–	(542)	–	(542)	(542)
Change in fair value on available-for-sale financial assets	13	–	(5,117)	–	–	–	–	(5,117)	(5,117)
Other comprehensive loss for the year, net of tax		–	(5,117)	–	–	(542)	–	(5,659)	(5,659)
Total comprehensive loss for the year		–	(5,117)	–	–	(542)	(166,923)	(172,582)	(172,582)
At 31 December 2016		244,121	(12,069)	214,319	40,836	(236)	(251,902)	(9,052)	235,069

	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***
			Attributable to equity shareholders of the Company						
At 1 January 2017		**244,121**	**(12,069)**	**214,319**	**40,836**	**(236)**	**(251,902)**	**(9,052)**	**235,069**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**1,092**	**1,092**	**1,092**
Exchange difference on translation of financial statements of foreign subsidiaries		**–**	**–**	**–**	**–**	**680**	**–**	**680**	**680**
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	13	**–**	**12,069**	**–**	**–**	**–**	**–**	**12,069**	**12,069**
Other comprehensive income for the year, net of tax		**–**	**12,069**	**–**	**–**	**680**	**–**	**12,749**	**12,749**
Total comprehensive income for the year		**–**	**12,069**	**–**	**–**	**680**	**1,092**	**13,841**	**13,841**
At 31 December 2017		**244,121**	**–**	**214,319**	**40,836**	**444**	**(250,810)**	**4,789**	**248,910**

* 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 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Fixed assets	10	**20,429**	15,017
Intangible assets	11	**–**	–
Available-for-sale financial assets	13a	**1,247**	84,535
Other non-current assets	14	**6,033**	4,670
		27,709	104,222
Current assets			
Held-to-maturity investments	12	**–**	111,170
Available-for-sale financial assets	13b	**–**	233,477
Loans and advances		**30**	41
Financial assets at fair value through profit or loss	15	**790,261**	396,717
Derivative financial assets	16	**–**	5,851
Accounts receivable	17	**612,082**	391,477
Deposits, prepayments and other receivables	18	**124,521**	276,628
Pledged deposits	19	**–**	1,247
Cash and bank balances	19	**645,184**	623,543
		2,172,078	2,040,151
Current liabilities			
Bonds payable	23	**1,797,552**	–
Derivative financial liabilities	20	**75,019**	187,230
Accounts payable	21	**25,526**	20,777
Other payables and accrued charges	22	**49,780**	42,140
Tax payable		**3,000**	–
		1,950,877	250,147
Net current assets		**221,201**	1,790,004
Total assets less current liabilities		**248,910**	1,894,226
Non-current liabilities			
Bonds payable	23	**–**	1,659,157
NET ASSETS		**248,910**	235,069
Capital and reserves			
Share capital	25	**244,121**	244,121
Reserves		**4,789**	(9,052)
TOTAL EQUITY		**248,910**	235,069

The consolidated financial statements on pages 50 to 125 were approved and authorised for issue by the Board of Directors on 23 March 2018 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	**2017** ***HK$'000***	2016 *HK$'000*
OPERATING ACTIVITIES			
Profit (Loss) before tax		**4,092**	(167,186)
Adjustments for:			
Depreciation		**9,112**	5,147
Fair value change on derivative financial liabilities		**(135,367)**	59,715
Fair value change on derivative component of convertible bonds		**–**	9,405
Fair value change on derivative financial assets		**5,851**	(5,250)
Gain on disposal of available-for-sale financial assets			
— non-current assets		**(8,943)**	–
Impairment loss on accounts receivable		**5,150**	81,275
Loss on disposal of fixed assets		**117**	–
Loss on disposal of available-for-sale financial assets — current assets		**1,377**	–
Reversal of allowance for doubtful debts		**(37,660)**	(35)
Exchange loss (gain)		**126,860**	(94,082)
Interest income		**(13,937)**	(42,516)
Interest expenses		**117,878**	119,491
Dividend income		**(2,122)**	(2,019)
Changes in working capital:			
(Increase) Decrease in other non-current assets		**(1,363)**	454
Decrease in loans and advances		**11**	29
(Increase) Decrease in financial assets at fair value through			
profit or loss		**(393,544)**	50,371
(Increase) Decrease in accounts receivable		**(188,095)**	422,779
Decrease (Increase) in deposits, prepayments and other receivables		**133,114**	(114,389)
(Decrease) Increase in derivative financial liabilities held for trading		**(311)**	330
Increase (Decrease) in accounts payable		**4,749**	(83,166)
Increase in other payables and accrued charges		**7,819**	5,920
Cash (used in) generated from operations		**(365,212)**	246,273
Hong Kong Profits Tax paid		**–**	(5,063)
Interest received		**12,895**	2,496
Interest paid		**(175)**	(7)
Net cash (used in) generated from operating activities		**(352,492)**	243,699

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
INVESTING ACTIVITIES			
Dividend received		**2,122**	2,019
Interest received from available-for-sale financial assets/ held-to-maturity investments		**19,184**	23,493
Proceeds from disposal of held-to-maturity investments		**116,060**	–
Acquisitions of available-for-sale financial assets	*13*	**–**	(19,197)
Interest received from cross-currency swap, net		**23,467**	25,056
Proceeds from disposal of available-for-sale financial assets		**337,545**	–
Payment for purchase of fixed assets		**(14,641)**	(13,160)
Net cash generated from investing activities		**483,737**	18,211
FINANCING ACTIVITIES			
Proceeds from short-term bank loan (repayment)	*19b*	**–**	–
Bank loan interest paid	*19b*	**(49)**	–
Interest paid on bonds issued	*19b*	**(111,482)**	(112,861)
Net cash used in financing activities		**(111,531)**	(112,861)
Net increase in cash and cash equivalents		**19,714**	149,049
Cash and cash equivalents at the beginning of the year		**624,790**	476,283
Effect on exchange rate changes		**680**	(542)
Cash and cash equivalents at the end of the year	*19*	**645,184**	624,790

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

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.

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 and financial assets at fair value through profit or loss, including derivative financial assets/liabilities, which are measured at fair value as explained in the accounting policies set out below.

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

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

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 31 December 2016.

Bonds repayments in May 2018

The Renminbi denominated bonds with a principal amount of RMB1,500,000,000 issued by the Group in May 2015 will be repaid in May 2018 as agreed. In addition, the final conversion amount under the cross-currency swap agreement entered into by the Group in June 2015 will be delivered in May 2018, i.e. the Group will receive RMB1,500,000,000 by paying HK$1,872,659,000.

As shown in the Group's consolidated statement of financial position as at 31 December 2017, financial assets at fair value through profit or loss and cash and bank balance amounted to HK$1,435,445,000 in aggregate, which were insufficient to deliver the final conversion as agreed under the cross-currency swap agreement, nor could the bonds be repaid on the maturity date. These matters and conditions reflect concerns which may have significant impact about the Group's financial position.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Bonds repayments in May 2018 (Continued)

In view of that, the Group had launched a refinancing plan at the end of current reporting period which is in smooth progress to date. The recordation and registration procedures for issuance of overseas bonds with the National Development and Reform Commission of the People's Republic of China ("PRC") were completed in February 2018. The Group had also prepared its cash flow projection for the next year from the end of the reporting period. In the opinion of the Directors, in light of the above, the Group will have sufficient working capital and recourse to financing to sustain its operations and remain as a going concern in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

New and amended standards adopted by the Group

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2017. The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS	*Annual Improvements to HKFRSs, 2014–2016 Cycle*

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by the HKICPA that are mandatorily effective for an accounting period that begins on or after 1 January 2017. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impacts of these amendments are described below.

(a) Amendments to HKAS 7: *Disclosure Initiative*

The amendments to HKAS 7 require an entity to make disclosures that aim to enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities. Reconciliations of various types of the Group's financing liabilities are disclosed in Note (19)(b). Other than such additional disclosures, the application of the amendments has not had any material effect on the consolidated financial statements.

(b) Amendments to HKAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments to HKAS 12 clarify when unrealised losses on a debt instrument measured at fair value would give rise to a deductible temporary difference and how to evaluate whether sufficient future taxable profits are available to utilise a deductible temporary difference. The application of the amendments has not had any material effect on the consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

(c) Annual improvements to HKFRSs 2014–2016 Cycle

Annual improvements to HKFRSs 2014–2016 cycle include an amendment to HKFRS 12 that clarifies that, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 Non-current Assets held for Sale and Discontinued operations, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 Disclosure of Interests in Other Entities. The application of the amendments has not had any material effect on the consolidated financial statements.

Basis of consolidation of the consolidated financial statements

The consolidated financial statements comprise financial statements of the Company and all of its subsidiaries for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting 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 consolid

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 investments in subsidiaries are stated at cost less impairment losses. The carrying amounts of the investments 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of fixed assets 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 year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of fixed assets 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 fixed assets 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 fixed assets 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

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 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

(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.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Classification and measurement (Continued)

(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 and 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.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 amounted to HK$489,030,000 *(2016: HK$193,915,000).*

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.

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 income are recognised when the services are rendered and on the basis of the stage of completion of each individual project.

Insurance broking fees income are recognised when the services are rendered.

Net results from proprietary trading comprise all gains and losses from changes in fair value of (net of accrued coupon) and dividend income attributable to the financial instruments held for trading.

Asset management services fees are recognised when the services are rendered.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 Company'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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 fixed assets, 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

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 year 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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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.

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.

HKFRS 9	*Financial Instruments*[1]
HKFRS 15 and amendments to HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Lease*[2]
HKFRS 17	*Insurance Contracts*[5]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRS Standards 2014–2016 Cycle*[4]
HK(IFRIC) Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC) Interpretation 23	*Uncertainty over Income Tax Treatments*[2]

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *Effective date not yet determined*
[4] *For those amendments that will become effective for annual periods beginning on or after 1 January 2018*
[5] *Effective for annual periods beginning on or after 1 January 2021*

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

With regards to the classification and measurement of financial assets, financial assets that are within the scope of HKFRS 9 are subsequently measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. All other financial assets are measured at fair value at the end of each of the subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt instrument financial assets and equity investments are measured at their fair value at the end of subsequent accounting periods with changes in fair value recognised in profit or loss, except that the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is neither held for trading nor being contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and the cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

With regards to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. This differs from the accounting treatment under HKAS 39, whereby the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is recognised in profit or loss.

With regards to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to the incurred credit loss model required under HKAS 39. In general, the adoption of the expected credit loss model will require the Group to assess at each reporting date whether there is a significant increase in credit risk of its financial assets since initial recognition and to recognise loss allowance equal to the lifetime or 12-month expected credit losses depending on whether or not there is a significant increase in credit risk.

With regards to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. HKFRS 9 will provide greater flexibility as to the types of transactions eligible for hedge accounting, specifically by broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced. HKFRS 9 will allow the Group when it applies the Standard for the first time to choose as its accounting policy to continue to apply the hedge accounting requirements of HKAS 39 Financial Instruments: Recognition and Measurement instead of the requirements in the Standard. If the Group chooses to do so, it should apply that policy to all of its hedging relationships.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 9 Financial Instruments (Continued)

HKFRS 9 contains specific transitional provisions for (a) classification and measurement of financial assets; (b) impairment of financial assets; and (c) hedge accounting, which will be adopted by the Group when it applies HKFRS 9 in the year ending 31 December 2018.

The amendments to HKFRS 9 Prepayment Features with Negative Compensation mainly clarify and provide additional guidance as to when a debt instrument financial asset with a prepayment option would satisfy the "solely payment of principal and interest" test.

The Group expects to continue measuring at amortised cost all financial assets currently held at amortised cost as at 31 December 2017. With respect to the investments in equity instruments currently classified as available-for-sale financial assets, management assessed and believed that they would fall within the classification as fair value through profit or loss with the irrevocable option to designate the investments as at fair value through OCI at the date of initial application. With respect to financial assets currently classified as financial assets at fair value through profit or loss (see note 15), the management does not expect the application of HKFRS 9 will have any significant impact.

HKFRS 9 only affects the accounting for financial liabilities that are designated at fair value through profit or loss. The Group has assessed there are no changes of fair values of the financial liabilities attributable to changes in the credit risks of those liabilities and hence the application of HKFRS 9 in the future will not have a significant impact on the Group's consolidated financial statements.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group did not have any such hedging instruments as at 31 December 2017.

HKFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. Management expected that the application of HKFRS 9 may result in earlier recognition of impairment losses.

Further, the new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, the Group will recognise revenue when a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

HKFRS 15 contains a number of transitional provisions as well as practical expedients to help preparers so through the transition. Please refer to HKFRS 15 for details.

The Group has preliminarily assessed that the application of HKFRS 15 in the future will not have a significant impact on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 Leases and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HKFRS 16 Leases (Continued)

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group is in the process of making an assessment of the potential impact on its consolidated financial statements. As disclosed in note 33, at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases which are payable after one year is HK$17,057,000. Some of the amounts are required to be recognised as lease liabilities, with corresponding right-of-use assets upon the application of HKFRS 16.

HKFRS 17 Insurance Contracts and amendments to HKFRS 4 Insurance Contracts

HKFRS 17 and amendments to HKFRS 4 are not applicable to the Group as the Company or its subsidiaries are not engaged in insurance business.

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions (Continued)

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the Directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The Directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that an entity should transfer a property to, or from, investment property when, and only when, there is a change in use. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments emphasize that a change in management's intentions for the use of a property, in isolation, does not provide evidence of a change in use. Further, the amendments clarify that the list of circumstances set out in paragraph 57 of HKAS 40 are examples only.

The amendments require an entity to apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (i.e. the date of initial application). At the date of initial application, an entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The Directors of the Company do not anticipate any impact as the Group did not have any transfers in the past.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRSs (Continued)

HK(IFRIC) Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Interpretation concludes that the date of the transaction for the abovementioned purpose is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group'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.

2. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty

(1) Impairment allowances on loans and accounts receivable

The provision policy for impairment allowances of the Group is based on the evaluation by management of the collectability of the loans and 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. If the financial conditions of these customers have become better or the value of the collaterals is increased, there is a reversal of impairment. During the year ended 31 December 2017, the amounts of the reversal of impairment loss and the impairment loss are HK$37,660,000 and HK$5,150,000 respectively (*2016: HK$Nil and HK$81,275,000 respectively*) recognised in profit or loss. The reversal of impairment loss was due to the increase in share price of the collaterals of which certain margin clients pledged to the Group described in note 17(b)(ii) and the change of the accounting estimate of the value of the collaterals from the lowest transaction price of the collaterals in previous year to the average closing price of the collaterals in the preceding 52-week period for the year. The lowest transaction price was adopted for previous year since there was a drastic drop in share price; whereas the share price was relatively steady in this year, so that the average closing price of the collaterals was adopted appropriately in this year. This involves the level of judgment applied by the management in determining the amount of the impairment. At the end of the reporting period, the carrying amount of accounts receivable after provision for impairment amounted to HK$612,082,000 *(2016: HK$391,477,000)*, net of provision amount of HK$48,145,000 *(2016: HK$81,394,000).*

(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) Fair value estimation on derivative financial assets and liabilities

Other than the future contracts classified as held for trading, of which the fair value was based on the quoted price in active market, the Group's derivative financial instruments have been fair valued at the end of reporting period based on the discounted cash flow which is the estimated amount that the issuer would receive or pay under the cross-currency swap agreement, taking into account observable interest rates and exchange rates.

In estimating the future cash flows of the cross-currency swap, the Directors considered that RMB to HKD exchange rate with reference to on-shore Renminbi (CNY) as market observable inputs under the discounted cash flow method is appropriate in light of the Group's circumstances.

At the end of the reporting period, the fair value of the derivative financial assets and liabilities are HK$Nil and HK$75,019,000 respectively *(2016: HK$5,851,000 and HK$187,230,000 respectively).*

2. ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(4) Classification of fund investment

The Group has investment in the SPC Fund (defined in note 15(iv)) which is classified as financial assets at fair value through profit or loss with the carrying amount as at 31 December 2017 amounting to HK$100,000,000. The Group owns 33.33% investment in the SPC Fund. Management of the Group concluded that the Group did not have control nor significant influence over the SPC Fund's overall activities on the grounds that the investment decisions on target listed securities were subject to the agreed criteria set out in Supplement to the Private Placement Memorandum ("SPPM") by mutual consent of all the shareholders of the SPC Fund.

On 30 November 2017, the Group was appointed as Investment Manager of SPC Fund. The Group considers the terms and conditions of the arrangement to assess whether it is an agent or a principal based on the facts which includes, but not limited to, the scope of decision-making authority it has, rights held by other parties, its remuneration structure and exposure to variability of returns through other interests. Having considered the fact patterns surrounding the SPC Fund in which the Group acts as an investment manager. Management concluded that the Group acts as the agent of the SPC Fund, since the Group is only entitled to fixed returns and does not participate in the increase in value of the SPC Fund. The role of the Investment Manager is to enhance growth in wealth of the SPC Fund and for the best interest of the shareholders of the SPC Fund.

The directors of the Company considered that investments in the SPC Fund should be classified as financial assets at fair value through profit or loss since it was intended to be held for trading.

The details of the SPC Fund are set out in note 15(iv).

(5) Fair value estimation on Southwest SPC Fund ("SPC Fund")

The value of the SPC Fund fluctuates over the financial performance of the securities in the portfolio. Nevertheless, pursuant to the SPPM, the Group would not participate in increase in the value of the portfolio and would be repaid the subscription price in full on redemption. The Group will recover all the subscription price on redemption, which has been guaranteed by the director of the founder (holding Class A shares) of the SPC Fund. The directors of the Company considered that the fair value of the SPC Fund is measured at Level 2.

The details of the SPC Fund are set out in note 15(iv).

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 and money lending; and

— trading in securities, equity index, commodity and currency futures contracts on its own account.

	Note	**2017** **HK$'000**	2016 HK$'000
Fee and commission income:			
Brokerage commission income:			
— securities dealing		**12,523**	10,885
— underwriting and placing commission income		**11,804**	15,648
— futures and options dealing		**6,445**	2,382
Advisory fee, insurance broking fee and asset management fee income:			
— corporate finance advisory		**22,535**	24,909
— corporate finance arrangement and commitment		**11,525**	–
— insurance broking		**6,684**	5,604
— asset management	*(i)*	**187**	–
		71,703	59,428
Interest income:			
— margin financing		**48,329**	51,780
— loans and advances		**10,696**	2
		59,025	51,782
Net investment gains (losses):			
— net results from proprietary trading	*(ii)*	**109,369**	(19,172)
		240,097	92,038

3. REVENUE (Continued)

Notes:

(i) During the year, Southwest Securities (HK) Asset Management Limited ("SWSAM"), an indirect wholly-owned subsidiary of the Company, received management fee income from the SPC Fund amounted to HK$187,000 (*2016: HK$Nil*). The details of the SPC Fund are set out in note 15(iv).

(ii) Net results from proprietary trading

	2017 HK$'000	2016 HK$'000
Net gain (loss) on trading equities	**118,467**	(17,691)
Net gain (loss) on debts securities	**4,710**	(4,100)
Net gain (loss) on fund investments	**7,069**	(5,773)
Net (loss) gain on derivatives	**(35,524)**	2,009
Dividend income from listed equities	**7,729**	6,112
Interest income from debt securities	**6,239**	271
Dividend income from unlisted fund investment	**679**	–
	109,369	(19,172)

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, 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.

4. SEGMENT INFORMATION (Continued)

Reportable operating segments

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

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

	2017							
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Proprietary trading *HK$'000*	Asset management *HK$'000*	Money lending *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Segment revenue	79,101	6,684	34,060	109,369	187	10,696	–	240,097
Fee and commission expenses	(10,928)	(2,594)	(1,497)	(8,931)	(80)	(827)	–	(24,857)
Segment results	14,213	(3,427)	5,240	50,084	107	1,239	2,829	70,285
Unallocated expenses, represented central administration costs								(25,844)
Depreciation								(9,112)
Unallocated finance costs								(40,180)
Gain on disposal of available-for-sale financial assets — non-current assets								8,943
Income tax expense								(3,000)
Profit for the year								1,092

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	2016						
	Brokerage and margin financing *HK$'000*	Wealth management *HK$'000*	Corporate finance *HK$'000*	Proprietary trading *HK$'000*	Money lending *HK$'000* *(reclassified)*	Other operations *HK$'000* *(reclassified)*	Consolidated *HK$'000*
Segment revenue	80,695	5,604	24,909	(19,172)	2	–	92,038
Fee and commission expenses	(5,490)	(2,215)	(1,255)	(3,213)	–	–	(12,173)
Segment results	(73,416)	(3,613)	(11,966)	(54,371)	(750)	43,357	(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)

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2017 and 31 December 2016, 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.

4. SEGMENT INFORMATION (Continued)

Major customers

During the years ended 31 December 2017 and 31 December 2016, the following respective external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net results from proprietary trading.

	2017	2016
	HK$'000	*HK$'000*
Customer A from brokerage and margin financing and corporate finance segments	**30,096**	N/A*
Customer B from brokerage and margin financing segment	**N/A***	26,719

* Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2016 and Customer B did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2017.

5. OTHER INCOME AND GAINS

		2017	2016
	Note	***HK$'000***	*HK$'000*
Other income			
Dividend income from available-for-sale financial assets		**2,122**	2,019
Handling income		**1,517**	960
Other interest income		**13,937**	42,516
Sundry income		**583**	192
		18,159	45,687
Other gains			
Exchange gains, net	*(i)*	**–**	94,773
Gain on disposal of available-for-sale financial assets — non-current asset *(Note 13)*		**8,943**	–
Reversal of allowance for doubtful debts		**37,660**	35
		46,603	94,808
		64,762	140,495

Note:

(i) Include an amount of HK$Nil for the year ended 31 December 2017 *(2016: HK$101,006,000)* representing an exchange gain arising on retranslation to Hong Kong dollars at the spot rate at the end of the year in respect of bonds payable denominated in RMB. Detailed information is set out in note 23. An exchange loss arose for the year ended 31 December 2017 (see note 6).

6. PROFIT (LOSS) BEFORE TAX

	Note	2017 HK$'000	2016 HK$'000
Profit (Loss) before tax is arrived at after charging:			
(a) Finance costs			
Bank loan interest expenses		**49**	2
Bond interest expenses		**111,303**	113,443
Imputed interest expenses on bonds payable		**6,351**	6,041
Other interest expenses		**175**	5
		117,878	119,491
(b) Staff costs			
Salaries, commission and allowances		**94,427**	72,728
Contributions to retirement benefit schemes *(Note 27)*		**1,785**	1,570
		96,212	74,298
(c) Other items			
Auditor's remuneration			
— Audit-related assurance services		**1,550**	1,495
— Other services		**5**	154
Exchange losses, net	*(i)*	**126,679**	–
Impairment loss on accounts receivable		**5,150**	81,275
Loss on disposal of available-for-sale financial assets			
— current asset *(Note 13)*		**1,377**	–
Loss on disposal of fixed assets *(Note 10)*		**117**	–
Operating lease payments on premises		**18,010**	11,365

Note:

(i) Include an amount of HK$132,044,000 (*2016: HK$Nil*) representing an exchange loss arising on retranslation to Hong Kong dollars at the spot rate at the end of the year in respect of bonds payable denominated in RMB. Detailed information is set out in note 23.

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:

2017

Name of Director	Fees *HK$'000*	Salaries *HK$'000*	Discretionary bonuses *HK$'000*	Employer's contributions to retirement benefit schemes *HK$'000*	Total *HK$'000*
Executive Directors:					
Wu Jian	–	–	–	–	–
Pu Rui	–	–	–	–	–
Luo Yi *(Note i)*	–	1,135	2,506	14	3,655
Zhao Dongmei *(Note i)*	–	–	–	–	–
Wang Huiyun *(Note i)*	–	–	–	–	–
Xiong Xiaoqiang *(Note i)*	–	–	–	–	–
Zhang Chunyong *(Note ii)*	–	–	–	–	–
Xu Mingdi *(Note ii)*	–	–	–	–	–
Liang Yiqing *(Note ii)*	–	–	–	–	–
Independent Non-executive Directors:					
Wu Jun	204	–	–	–	204
Meng Gaoyuan	204	–	–	–	204
Guan Wenwei *(Note iv)*	204	–	–	–	204
	612	1,135	2,506	14	4,267

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

2016

Name of Director	Fees *HK$'000*	Salaries *HK$'000*	Discretionary bonuses *HK$'000*	Employer's contributions to retirement benefit schemes *HK$'000*	Total *HK$'000*
Executive Directors:					
Yu Weijia *(Note iii)*	–	–	–	–	–
Pu Rui	–	–	–	–	–
Wu Jian	–	–	–	–	–
Zhang Chunyong *(Note ii)*	–	–	–	–	–
Xu Mingdi *(Note ii)*	–	–	–	–	–
Liang Yiqing *(Note ii)*	–	–	–	–	–
Independent Non-executive Directors:					
Wu Jun	204	–	–	–	204
Meng Gaoyuan	204	–	–	–	204
Guan Wenwei *(Note iv)*	58	–	–	–	58
Lam Kwok Cheong *(Note v)*	180	–	–	–	180
	646	–	–	–	646

Notes:

(i) Mr. Luo Yi, Ms. Zhao Dongmei, Ms. Wang Huiyun and Mr. Xiong Xiaoqiang were appointed as directors on 25 March 2017.

(ii) Mr. Zhang Chunyong, Mr. Xu Mingdi, Ms. Liang Yiqing resigned as directors on 25 March 2017.

(iii) Mr. Yu Weijia resigned as Executive Director on 29 August 2016.

(iv) Mr. Guan Wenwei was appointed as Independent Non-executive Director on 19 September 2016.

(v) Mr. Lam Kwok Cheong resigned as Independent Non-executive Director on 19 September 2016. The fee included the amount of HK$34,000 paid by the Company as the compensation for the early termination of the appointment.

(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 that were entered into or subsisted during the year ended 31 December 2017 *(2016: HK$Nil)*.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(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 companies or its subsidiaries was a party and in which Directors or a connected entity of the Directors had a material interest, whether directly or indirectly, subsisted as at 31 December 2017 *(2016: HK$Nil)* or at any time during the year ended 31 December 2017 *(2016: HK$Nil)*.

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, one *(2016: Nil)* was Director whose emoluments are disclosed above. The aggregate of the emoluments in respect of the four *(2016: five)* individuals, excluding Directors' emoluments, are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**7,518**	7,700
Discretionary bonus	**9,416**	7,435
Contributions to retirement benefit schemes	**72**	89
	17,006	15,224

	Number of individuals	
	2017	2016
The emoluments, excluding Directors' emoluments, fell within the following bands:		
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	1
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**2**	–
	4	5

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid employees' emoluments (Continued)

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as (a) an inducement to join or upon joining the Group and (b) no compensation for loss of office other than the amount disclosed in note (a)(ii) above for the years ended 31 December 2017 and 31 December 2016. There were no arrangements under which Directors waived or agreed to waive any remuneration for the years ended 31 December 2017 and 31 December 2016.

8. INCOME TAX (EXPENSE) CREDIT

Hong Kong Profits Tax has been provided in the consolidated financial statements at the rate of 16.5% *(2016: no provision for income tax)* 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 year are wholly absorbed by unrelieved tax losses brought forward from previous years or they incurred no assessable profits. For the year ended 31 December 2016, the income tax credit represents over-provision of Hong Kong Profits Tax in prior 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 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 year 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.

8. INCOME TAX (EXPENSE) CREDIT (Continued)

	2017 **HK$'000**	2016 HK$'000
Current tax		
Hong Kong Profits Tax		
— Current tax charge	**(3,000)**	–
— Over-provision in prior years	**–**	263
	(3,000)	263

	2017 **HK$'000**	2016 HK$'000
Reconciliation between tax expense and accounting profit (loss) at applicable tax rates:		
Profit (Loss) before tax	**4,092**	(167,186)
Income tax at applicable tax rate of 16.5% *(2016: 16.5%)*	**675**	(27,586)
Tax effect on non-deductible expenses	**39,619**	20,922
Tax effect on non-taxable items	**(32,112)**	(23,105)
Unrecognised temporary difference	**592**	(928)
Utilisation of previously unrecognised tax losses	**(14,945)**	(21)
Tax effect on unrecognised tax losses	**9,152**	30,731
Effect of different tax rate of PRC subsidiaries	**(27)**	(13)
Over-provision of tax for the year	**46**	–
Over-provision of tax in prior years	**–**	(263)
Total tax expense (credit)	**3,000**	(263)

9. EARNINGS (LOSS) PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Profit (Loss) for the year attributable to equity shareholders of the Company	**1,092**	(166,923)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares in issue for the purpose of basic earnings (loss) per share *(Note)*	**2,441,220**	2,441,220
Basic earnings (loss) per share *(HK cents)*	**0.045**	(6.838)
Diluted earnings (loss) per share *(HK cents)*	**0.045**	(6.838)

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2017 and 31 December 2016. Accordingly, the diluted earnings (loss) per share for the respective periods are the same as basic earnings (loss) per share.

10. FIXED ASSETS

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount – 2016						
At 1 January 2016	3,798	468	161	2,194	640	7,261
Additions	34	21	24	13,081	–	13,160
Disposals	–	–	–	(257)	–	(257)
Depreciation	(3,180)	(122)	(44)	(1,664)	(137)	(5,147)
At 31 December 2016	652	367	141	13,354	503	15,017
Reconciliation of carrying amount – 2017						
At 1 January 2017	**652**	**367**	**141**	**13,354**	**503**	**15,017**
Additions	**10,529**	**1,344**	**776**	**1,992**	**–**	**14,641**
Disposals	**(5)**	**(88)**	**(24)**	**–**	**–**	**(117)**
Depreciation	**(3,253)**	**(266)**	**(138)**	**(5,318)**	**(137)**	**(9,112)**
At 31 December 2017	**7,923**	**1,357**	**755**	**10,028**	**366**	**20,429**
At 31 December 2016						
Cost	7,113	1,750	1,765	24,735	686	36,049
Accumulated depreciation and impairment losses	(6,461)	(1,383)	(1,624)	(11,381)	(183)	(21,032)
	652	367	141	13,354	503	15,017
At 31 December 2017						
Cost	**10,529**	**1,708**	**1,016**	**19,260**	**686**	**33,199**
Accumulated depreciation and impairment losses	**(2,606)**	**(351)**	**(261)**	**(9,232)**	**(320)**	**(12,770)**
	7,923	**1,357**	**755**	**10,028**	**366**	**20,429**

11. INTANGIBLE ASSETS

	Trading licenses *HK$'000*	Goodwill *HK$'000* *(Note)*	Total *HK$'000*
Reconciliation of carrying amount			
— 2016			
At 1 January 2016 and 31 December 2016	–	–	–
Reconciliation of carrying amount			
— 2017			
At 1 January 2017 and 31 December 2017	**–**	**–**	**–**
At 31 December 2016			
Cost	600	100	700
Accumulated amortisation	(600)	–	(600)
Accumulated impairment	–	(100)	(100)
	–	–	–
At 31 December 2017			
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.

In August 2010, the Group acquired 100% equity interests in Southwest Securities (HK) Properties Agency Limited at an aggregate consideration of HK$100,000. The goodwill amounted to HK$100,000 was recognised in the year ended 30 June 2011. The goodwill was fully impaired in previous years.

12. HELD-TO-MATURITY INVESTMENTS

	Note	**2017** **HK$'000**	2016 *HK$'000*
Convertible bonds			
— Debt component		**–**	233,477
— Derivative component		**–**	–
		–	233,477
Less: Reclassification to available-for-sale financial assets *(Note 13(b))*		**–**	(233,477)
		–	–
Guaranteed notes	*(i)*	**–**	111,170
		–	111,170

Note:

(i) It represented the investment in guaranteed notes issued by HNA Tourism Finance Limited ("HNA"), a company incorporated in the PRC, 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 is 9.25% per annum. The guarantor of the Guaranteed Notes is HNA Tourism Group Co., Ltd., a company incorporated in the PRC. The Guaranteed Notes have been matured and redeemed in August 2017.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Non-current portion

	Note	**2017** **HK$'000**	2016 HK$'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)*	**–**	83,288
		1,247	84,535

	Note	**2017** **HK$'000**	2016 HK$'000
At the beginning of the year		**84,535**	70,455
Additions		**–**	19,197
Disposals	*(iii)*	**(83,288)**	–
Change in fair value transferred to other comprehensive income (loss)		**–**	(5,117)
At the end of the year		**1,247**	84,535

Notes:

(i) The unlisted equity securities represent the Group's investments in three *(2016: 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 on the Stock Exchange at the end of each reporting period.

(iii) During the year ended 31 December 2017, the Group disposed of all listed equity securities on-market at a total consideration of HK$104,300,000. A deficit of HK$12,069,000 was reclassified from investment revaluation reserve upon disposal to profit or loss as reclassification adjustment, and a gain on disposal of available-for-sale financial assets amounting to HK$8,943,000 was recognised in the profit or loss.

During the year ended 31 December 2016, the Group did not dispose of listed securities.

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

(b) Current portion

	Note	2017 HK$'000	2016 HK$'000
Debt component of the Convertible Bonds reclassified from held-to-maturity investments at fair value *(Note 12)*	*(i)*	–	233,477

Note:

(i) It represented the debt component of the convertible bonds issued by XinRen Aluminum Holdings Limited ("XinRen"), a company incorporated in Singapore (the "Convertible Bonds"). The Convertible Bonds in the principal amount of US$30,000,000 (equivalent to approximately HK$234,000,000), carries interest of 8% per annum and has a maturity date of 27 August 2020. 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).

During the year ended 31 December 2016, the loss on change in fair value (including exchange difference) of conversion options embedded in the Convertible Bonds of HK$9,405,000 was recognised in the profit or loss.

On 30 December 2016, the Group entered into a sale and purchase agreement to dispose of the entire Convertible Bonds, subject to conditions.

The disposal was completed in February 2017. The consideration of approximately HK$241,779,000 was received in February 2017 and the loss of approximately HK$1,377,000 was recognised in the profit or loss for the year ended 31 December 2017.

14. OTHER NON-CURRENT ASSETS

	2017 HK$'000	2016 HK$'000
Reserve fund deposits with the Futures Exchange	**1,709**	1,594
Statutory deposits with the Stock Exchange	**1,712**	2,100
Statutory deposits with the Securities and Futures Commission ("SFC")	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**2,412**	776
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
	6,033	4,670

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**2017** **HK$'000**	2016 *HK$'000*
Held for trading			
Equity securities			
— Listed in Hong Kong	*(i)*	**239,021**	340,875
— Listed outside Hong Kong	*(i)*	**31,150**	2,186
		270,171	343,061
Debt securities			
— Listed in Hong Kong	*(ii)*	**344,415**	–
— Listed outside Hong Kong	*(ii)*	**30,064**	26,568
		374,479	26,568
Unlisted fund investments	*(iii) and (iv)*	**145,611**	27,088
		790,261	396,717

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 debts securities are 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. The unlisted fund investments included investment in Southwest SPC Fund, of which the details are set out in note (iv).

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

(v) The Group has not pledged any equity securities at 31 December 2017 *(2016: HK$Nil)* to a bank as collateral for the banking facilities granted.

16. DERIVATIVE FINANCIAL ASSETS

	2017 HK$'000	2016 HK$'000
Derivatives — Foreign currency forward contract	–	5,851

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 converted RMB100,000,000 to HK$112,994,000 (i.e. pay RMB100,000,000 and receive HK$112,994,000).

The loss on change in fair value of the foreign currency forward contract of HK$5,851,000 was recognised in the profit or loss for the year ended 31 December 2017 *(2016: gain of HK$5,250,000)*. The foreign currency forward contract expired in August 2017. At 31 December 2016, forward price available used to estimate the fair value of the foreign currency forward contract.

17. ACCOUNTS RECEIVABLE

	Note	2017 HK$'000	2016 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(b)(i)	13,581	5,127
— securities margin clients	(b)(ii)	517,905	280,766
— securities subscription clients	(b)(iii)	254	–
— securities and options clearing houses and brokers	(b)(iii)	66,630	98,868
— futures clients	(b)(iv)	11	20
— futures clearing house and brokers	(b)(iv)	3,786	3,604
Accounts receivable arising from the provision of corporate finance advisory services	(b)(v)	7,143	2,669
Accounts receivable arising from the provision of insurance broking services	(b)(vi)	572	423
Accounts receivable arising from the provision of asset management services	(b)(vii)	2,200	–
		612,082	391,477

17. ACCOUNTS RECEIVABLE (Continued)

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 date.

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 insurance broking services are repayable within 30 days.

Accounts receivable arising from the provision of asset management services are repayable on demand.

(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 the 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 *(2016: 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 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$1,790,473,000 *(2016: HK$923,628,000)*, which is larger than the accounts receivable from securities margin clients.

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

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:

	Note	**2017** ***HK$'000***	2016 *HK$'000*
Gross amount of accounts receivable:			
At the end of the year		**565,970**	361,341
Accumulated impairment losses:			
At the beginning of the year		**80,575**	–
Impairment loss recognised	*(1) and (2)*	**5,150**	80,575
Reversal of impairment loss recognised	*(1)*	**(37,660)**	–
At the end of the year		**48,065**	80,575
Net carrying amount of accounts receivable	*(3)*	**517,905**	280,766

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

(ii) (Continued)

Notes:

(1) At 31 December 2017, the gross amount of certain margin loans amounted to HK$107,196,000 *(2016: HK$117,779,000)* were due from certain individual margin clients. During the year ended 31 December 2017, an aggregate reversal on impairment loss for these specific margin clients was recognised amounting to HK$37,660,000 *(2016: aggregate impairment loss of HK$80,575,000)*. The reversal on impairment amount was determined, in accordance with the loan impairment policy of the Group; taking into account the volatility of share price of the collaterals, the Group used the average closing price of the collaterals in the preceding 52-week period to determine the amount of the impairment loss during the year. The average closing price for this year replaces the lowest transaction price of last year of the collaterals in the preceding 52-week period because the variation of the share price was relatively steady in this year, whereas there was a drastic drop in share price last year. The reversal on impairment loss was made due to the share price of the collaterals increased during the year. These individually impaired margin clients relate to customers that were in default on payments and only a portion of the accounts receivable is expected to be recovered.

(2) Except for the above specific margin clients at 31 December 2017, the gross amount of margin loans amounting to HK$5,150,000 *(2016: HK$4,950,000)* were due from other margin clients. During the year ended 31 December 2017, an aggregate impairment loss for these margin clients was recognised amounting to HK$5,150,000 *(2016: HK$Nil)*. The impairment amount was determined, in accordance with the loan impairment policy of the Group.

(3) The remaining balances of margin loans that were not impaired relate to a large number of diversified customers for whom there was no recent history of default or are secured by securities collateral pledged by the customers to the Group that are sufficient to cover the loans amount at the end of the reporting period.

(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 option broking. At the end of the reporting period, clients' monies deposits not otherwise dealt with in the consolidated financial statements amounted to HK$10,860,000 *(2016: HK$6,381,000)*.

(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$3,268,000 *(2016: HK$4,430,000)*, 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:

	Note	**2017 *HK$'000***	2016 *HK$'000*
Gross amount of accounts receivable:			
At the end of the year		**3,797**	3,743
Accumulated impairment losses:			
At the beginning of the year		**119**	154
Reversal of allowance for doubtful debts		**–**	(35)
Amount written off		**(119)**	–
At the end of the year		**–**	119
Net carrying amount of accounts receivable	*(c)*	**3,797**	3,624

17. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Ageing analysis (Continued)

(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:

	Note	2017 HK$'000	2016 HK$'000
Current		**3,126**	180
Overdue:			
Within 30 days		**123**	1,020
31–90 days		**2,838**	1,168
91–180 days		**–**	120
Over 180 days		**1,136**	881
	(c)	**4,097**	3,189
		7,223	3,369

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:

	Note	2017 HK$'000	2016 HK$'000
Gross amount of accounts receivable:			
At the end of the year		**7,223**	3,369
Accumulated impairment losses:			
At the beginning of the year		**700**	–
Impairment loss recognised		**–**	700
Amount written off		**(620)**	–
At the end of the year	*(c)*	**80**	700
Net carrying amount of accounts receivable		**7,143**	2,669

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 insurance broking services were as follows:

	Note	**2017** **HK$'000**	2016 *HK$'000*
Current		**251**	143
Overdue:			
Within 30 days		**78**	70
31 — 90 days		**3**	38
91 — 180 days		**50**	4
Over 180 days		**190**	168
	(c)	**321**	280
		572	423

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of insurance broking services had been made *(2016: Nil)*.

(vii) At the end of the reporting period, the amount of accounts receivable amounted to HK$2,200,000 *(2016: HK$Nil)* arising from the provision of asset management services was not overdue.

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of asset management services had been made *(2016: Nil)*.

(c) Accounts receivable that are not impaired

At the end of the reporting period, accounts receivable from the futures clients, futures clearing house and brokers, customers of corporate finance advisory and insurance broking services with carrying amount of HK$8,135,000 *(2016: HK$6,393,000)* 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.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Deposits, prepayments and other receivables	**21,810**	29,073
Deposit with bank in respect of cross-currency swap*	**102,711**	247,555
	124,521	276,628

* 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 AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017	2016
	HK$'000	*HK$'000*
Pledged deposits	**–**	1,247
Cash and bank balances	**645,184**	623,543
Cash and cash equivalents in the consolidated statement of cash flows	**645,184**	624,790

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$489,030,000 *(2016: HK$193,915,000)*.

19. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION
(Continued)

(b) Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities from financing activities, including both cash and non-cash changes are set out in the following table. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Bank loans *HK$'000*	Interest payable including in other payable and accrued charges *HK$'000*	Bonds payable *HK$'000*	Total *HK$'000*
At 1 January 2017	–	10,019	1,659,157	1,669,176
Changes from financing cash flows:				
Proceeds from short-term in bank loans *(Note (i))*	140,000	–	–	140,000
Repayment of short-term in bank loans *(Note (i))*	(140,000)	–	–	(140,000)
Bank loan interest paid	(49)	–	–	(49)
Bonds interest paid	–	(111,482)	–	(111,482)
Total changes from financing cash flows	(49)	(111,482)	–	(111,531)
Exchange adjustments	–	975	132,044	133,019
Other changes:				
Interest expenses	49	111,303	6,351	117,703
At 31 December 2017	–	10,815	1,797,552	1,808,367

Note:

(i) Short-term bank loans of HK$140,000,000 were drawndown for the Group's margin financing business, in which HK$100,000,000 were secured by new issued shares of a listed company subscribed by margin clients and HK$40,000,000 were unsecured, with original maturity within one month and bear interests with reference to the costs of funds of the banks.

20. DERIVATIVE FINANCIAL LIABILITIES

	Note	2017 HK$'000	2016 HK$'000
Cross-currency swap *(Note 33)*	*(i)*	**75,000**	186,900
Futures contracts held for trading	*(ii)*	**19**	330
		75,019	187,230

Notes:

(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 in May 2018, 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 gain on change in fair value of the cross-currency swap of HK$135,367,000 *(2016: loss of HK$59,715,000)* was recognised in the profit or loss.

(ii) The futures contracts are classified as held for trading. At 31 December 2017, the fair value of the futures contracts were amounted to HK$19,000 *(2016: HK$330,000)*. Fair value was determined with reference to quoted active market price on the Hong Kong Futures Exchange. During the reporting period, the loss on change in fair value of futures contracts amounting to HK$35,524,000 *(2016: gain of HK$2,009,000)* was recognised in the profit or loss.

21. ACCOUNTS PAYABLE

	Note	2017 HK$'000	2016 HK$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(i)*	**10,965**	10,740
— securities margin clients	*(i)*	**4,957**	1,830
— securities clearing house	*(i)*	**606**	4,406
— futures clients	*(ii)*	**3,779**	3,598
Accounts payable to brokers	*(i)*	**4,987**	–
Accounts payable arising from the provision of insurance broking services	*(iii)*	**232**	203
		25,526	20,777

21. ACCOUNTS PAYABLE (Continued)

Notes:

Settlement terms

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

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

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

At the end of the reporting period, accounts payable are stated net of clients' segregated assets of HK$503,158,000 *(2016: HK$204,726,000)*.

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.

22. OTHER PAYABLES AND ACCRUED CHARGES

	2017	2016
	HK$'000	*HK$'000*
Accrued charges	**38,245**	31,486
Interest payables	**10,815**	10,019
Other payables	**720**	635
	49,780	42,140

23. BONDS PAYABLE

	HK$'000
Carrying amount at 1 January 2016	1,754,122
Imputed interest expenses for the year	6,041
Exchange realignment *(Note 5)*	(101,006)
Carrying amount at 31 December 2016 and 1 January 2017	**1,659,157**
Imputed interest expenses for the year	**6,351**
Exchange realignment *(Note 6(c))*	**132,044**
Carrying amount at 31 December 2017	**1,797,552**

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 Limited and will be mature on 28 May 2018 with the outstanding principal and interest payable at the maturity date. At 31 December 2017, the fair value of the Bonds was RMB1,510,200,000 (equivalent to HK$1,812,391,000) *(2016: RMB1,501,665,000 (equivalent to HK$1,669,401,000))*.

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.

The maturity date of the Bonds is within twelve months after the end of the reporting period, accordingly the Bonds are reclassified from "Non-current liabilities" to "Current liabilities" at the end of the reporting period.

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

	2017 ***HK$'000***	2016 *HK$'000*
Within 1 year or on demand	**1,797,552**	–
After 1 year but within 2 years	**–**	1,659,157
	1,797,552	1,659,157

24. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**–**	–	**(532)**	(1,094)
Tax losses	**1,155**	1,094	**–**	–
Deferred tax assets (liabilities)	**1,155**	1,094	**(532)**	(1,094)
Offset deferred tax assets and liabilities	**(1,155)**	(1,094)	**532**	1,094
Net deferred tax assets (liabilities)	**–**	–	**–**	–

Unrecognised deferred tax assets arising from

	2017	2016
	HK$'000	*HK$'000*
Deductible temporary differences	**66**	215
Tax losses	**564,737**	638,718
	564,803	638,933

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.

25. SHARE CAPITAL

	2017		2016	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At the beginning and end of the year	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
At the beginning and end of the year	**2,441,220**	**244,121**	2,441,220	244,121

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 year, no share option was granted under the 2013 Share Option Scheme *(2016: Nil).*

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

	Number of options *('000)*
Exercise price	HK$0.888
At 1 January 2016	200
Lapsed	(200)
At 31 December 2016, 1 January 2017 and 31 December 2017	–

At the end of the reporting period, the weighted average remaining contractual life of the Company's share options was nil *(2016: Nil)*.

Details of the share option schemes are set out in the Directors' Report on pages 19 to 20.

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, which have been dealt with in profit or loss for the year amounted to:

	2017 ***HK$'000***	2016 *HK$'000*
Employer's contributions charged to profit or loss *(Note 6(b))*	**1,785**	1,570

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 year, details of which are set out below:

Related party relationship	**Nature of transaction**	**2017** ***HK$'000***	2016 *HK$'000*
Key management personnel, other than Directors	Salaries, commission and allowances	**20,169**	12,047
	Contributions to retirement benefit schemes	**202**	124
		20,371	12,171
Ultimate holding company	Referral fee expenses	**711**	–
A related company *(Note)*	Underwriting and placing commission income	**1,562**	6,454
	Bond interest income	**502**	–
	Corporate finance advisory income	**–**	8,350
		2,064	14,804

28. RELATED PARTY TRANSACTIONS (Continued)

Note:

SWSC and this related company are significantly influenced or jointly controlled by Chongqing Yufu Assets Management Group Co., Ltd., which is wholly-owned by the Municipal Government of Chongqing City, in the PRC (the "Government Related Entity").

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:

	Financial assets at amortised cost		Available-for-sale financial assets		Financial assets at fair value through profit or loss		
2017	**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*	**Total** *HK$'000*
Financial assets							
Available-for-sale financial assets	–	–	1,247	–	–	–	1,247
Other non-current assets	–	6,033	–	–	–	–	6,033
Loans and advances	–	30	–	–	–	–	30
Financial assets at fair value through profit or loss	–	–	–	–	–	790,261	790,261
Accounts receivable	–	612,082	–	–	–	–	612,082
Deposits and other receivables	–	118,949	–	–	–	–	118,949
Cash and cash equivalents	–	645,184	–	–	–	–	645,184
	–	1,382,278	1,247	–	–	790,261	2,173,786

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2017	Financial liabilities at fair value through profit or loss *HK$'000*	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Financial liabilities			
Bonds payable	–	1,797,552	1,797,552
Derivative financial liabilities	75,019	–	75,019
Accounts payable	–	25,526	25,526
Other payables and accrued charges	–	49,780	49,780
	75,019	1,872,858	1,947,877

	Financial assets at amortised cost		Available-for-sale financial assets		Financial assets at fair value through profit or loss		
2016	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*	Total *HK$'000*
Financial assets							
Held-to-maturity financial assets							
– Guaranteed notes	111,170	–	–	–	–	–	111,170
Available-for-sale financial assets	–	–	1,247	316,765	–	–	318,012
Other non-current assets	–	4,670	–	–	–	–	4,670
Loans and advances	–	41	–	–	–	–	41
Financial assets at fair value through profit or loss	–	–	–	–	–	396,717	396,717
Derivative financial assets	–	–	–	–	5,851	–	5,851
Accounts receivable	–	391,477	–	–	–	–	391,477
Deposits and other receivables	–	268,702	–	–	–	–	268,702
Cash and cash equivalents	–	624,790	–	–	–	–	624,790
	111,170	1,289,680	1,247	316,765	5,851	396,717	2,121,430

29. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2016	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	187,230	–	187,230
Accounts payable	–	20,777	20,777
Other payables and accrued charges	–	42,140	42,140
Bonds payable	–	1,659,157	1,659,157
	187,230	1,722,074	1,909,304

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 33 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 provides margin financing to clients. 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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 24% *(2016: 8%)* and 46% *(2016: 36%)* of the total accounts receivables was due from the Group's largest customer and the five largest customers respectively within the brokerage and margin financing business segment and corporate finance 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.

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 31 December 2016.

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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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:

	2017					2016				
	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										
Bonds payable	–	1,848,529	–	1,848,529	1,797,552	–	107,557	1,721,328	1,828,885	1,659,157
Accounts payable	25,526	–	–	25,526	25,526	20,777	–	–	20,777	20,777
Other payables and accrued charges	38,965	10,815	–	49,780	49,780	32,121	10,019	–	42,140	42,140
Derivative financial liabilities										
Cross-currency swap					75,000					186,900
– Receipts	–	(1,848,529)	–	(1,848,529)		–	(107,557)	(1,721,328)	(1,828,885)	
– Payments	–	1,909,332	–	1,909,332		–	88,015	1,916,667	2,004,682	
Futures contracts	19	–	–	19	19	330	–	–	330	330
	64,510	1,920,147	–	1,984,657	1,947,877	53,228	98,034	1,916,667	2,067,929	1,909,304

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 financial assets and financial assets at fair value through profit or loss as at 31 December 2017, 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 bid 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 year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	2017		2016	
	At 31/12/2017	**High/Low from 1/1/2017 to 31/12/2017**	At 31/12/2016	High/Low from 1/1/2016 to 31/12/2016
Hong Kong — Hang Seng Index	**29,919**	**30,003/22,134**	22,001	24,100/18,320
PRC — SZSE Component Index	**1,899**	**2,046/1,773**	10,177	11,725/9,083
PRC — SSE Composite Index	**3,307**	**3,447/3,052**	3,104	3,734/2,656

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 ended 31 December 2016.

At the end of the reporting period, if the equity, bond and preference share price had been 5% *(2016: 5%)* higher/lower with all other variables held constant, the Group's profit before tax would be increased/decreased by HK$32,233,000 *(2016: the Group's loss before tax were decreased/increased by HK$18,481,000)* as a result of changes in fair value of listed financial assets at fair value through profit or loss investments. Investment revaluation reserve would be increased/decreased by HK$Nil *(2016: HK$4,164,000)* 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.

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 2017 and 31 December 2016 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.

2017

	Total *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	**239,021**	**239,021**	**–**	**–**
— Equity securities listed outside Hong Kong	**31,150**	**31,150**	**–**	**–**
— Debt securities listed in Hong Kong	**344,415**	**344,415**	**–**	**–**
— Debt securities listed outside Hong Kong	**30,064**	**30,064**	**–**	**–**
— Unlisted fund investments	**145,611**	**–**	**145,611**	**–**
Liabilities measured at fair value				
Derivative financial liabilities				
— Cross-currency swap	**75,000**	**–**	**75,000**	**–**
— Futures contracts	**19**	**19**	**–**	**–**

31. FAIR VALUE MEASUREMENTS (Continued)

2016

	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	83,288	83,288	–	–
— Debt component of the Convertible Bonds	233,477	–	233,477	–
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	340,875	340,875	–	–
— Equity securities listed outside Hong Kong	2,186	2,186	–	–
— Debt securities listed outside Hong Kong	26,568	26,568	–	–
— Unlisted fund investments	27,088	–	27,088	–
Derivative financial assets				
— Foreign currency forward contract	5,851	–	5,851	–
Liabilities measured at fair value				
Derivative financial liabilities				
— Cross-currency swap	186,900	–	186,900	–
— Futures contracts	330	330	–	–

31. FAIR VALUE MEASUREMENTS (Continued)

Movements in Level 3 fair value measurements of financial assets

	Note	2017 HK$'000	2016 HK$'000
Financial assets at fair value through profit or loss			
At the beginning of the year		–	41,387
Transfers to Level 1	(i)	–	(31,992)
Net loss recognised in profit or loss *(Note 13)*		–	(9,405)
Exchange realignment		–	10
At the end of the year		–	–
Change in unrealised gain for the year included in profit or loss for assets held at the end of the year		–	–

Note:

(i) Certain listed equity securities had been suspended for trading since October 2015. In the absence of active market, these investments' fair values of HK$31,992,000 as at 31 December 2015 were estimated on the basis of the quoted bid 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 year ended 31 December 2016, these listed equity securities were resumed from suspension and transferred into Level 1 in March 2016.

At 31 December 2017, there is no financial asset measured as Level 3.

31. FAIR VALUE MEASUREMENTS (Continued)

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

The fair values of certain available-for-sale financial assets, certain equity securities listed outside Hong Kong, unlisted fund investments, derivative financial assets, derivative financial liabilities and cross-currency 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 available-for-sale financial assets

At 31 December 2016, debt component of the Convertible Bonds was re-classified from held-to-maturity investments to available-for-sale financial assets and was remeasured at fair value. The fair value was determined with reference to the consideration as stipulated in the sale and purchase agreement dated 30 December 2016.

(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.

(d) Derivative financial liabilities

Derivative financial liabilities, representing cross-currency swap, are determined using the discounted cash flow method, of which key inputs are forward exchange rate and discounted rate, based on the independent valuer to estimate the fair value.

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 years ended 31 December 2017 and 31 December 2016.

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, asset management 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$1,797,552,000 *(2016: HK$1,659,157,000)* for financing the operations of the Group which resulted in a gearing ratio of 722.2% *(2016: 705.8%)*.

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.

	2017 HK$'000	2016 HK$'000
Minimum lease payments paid under operating leases		
— Land and buildings	**32,873**	53,382
— Other assets	**253**	–
	33,126	53,382

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:

	2017 HK$'000	2016 HK$'000
Within one year	**16,069**	20,509
In the second to fifth year, inclusive	**17,057**	32,873
	33,126	53,382

Capital commitments

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the consolidated financial statements	**997**	–

33. COMMITMENTS (Continued)

Commitments under cross-currency swap agreement

In June 2015, the Company 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 in Hong Kong Dollars. 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 in May 2018, 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 accordingly and included in derivative financial liabilities set out in note 20 to the consolidated financial statements.

34. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK$90,000,000 *(2016: HK$90,000,000)* and unlimited guarantee for a facility amounted to HK$560,000,000 *(2016: HK$560,000,000)* for banking facilities granted to subsidiaries from banks, which none of the amount was utilised *(2016: HK$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 it is probable that a claim will be made against the Company under any of the guarantee.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company and the movements in its reserves are set out below:

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Interests in subsidiaries	(a)	**874,567**	602,866
Available-for-sale financial assets		**–**	82,861
		874,567	685,727
Current assets			
Held-to-maturity investments		**–**	111,170
Available-for-sale financial assets		**–**	233,477
Financial assets at fair value through profit or loss		**592,373**	231,771
Derivative financial assets		**–**	5,851
Deposits, prepayments and other receivables		**363,621**	398,463
Cash and bank balances		**301,736**	423,328
		1,257,730	1,404,060
Current liabilities			
Bonds payable		**1,796,634**	–
Derivative financial liabilities		**75,019**	186,900
Other payables and accrued charges		**11,736**	11,057
		1,883,389	197,957
Net current (liabilities) assets		**(625,659)**	1,206,103
Total assets less current liabilities		**248,908**	1,891,830
Non-current liabilities			
Bonds payable		**–**	1,656,761
NET ASSETS		**248,908**	235,069
Capital and reserves			
Share capital		**244,121**	244,121
Reserves	(b)	**4,787**	(9,052)
TOTAL EQUITY		**248,908**	235,069

Approved and authorised for issue by the Board of Directors on 23 March 2018 and are signed on its behalf by:

WU Jian *Director*	**PU Rui** *Director*

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

Notes:

(a) Interests in subsidiaries

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

(b) Movements of the reserves

	Investment revaluation reserve *HK$'000*	**Share premium** *HK$'000* *(Note ii)*	**Contributed surplus** *HK$'000* *(Note i)*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2016	(7,187)	214,079	65,059	(108,421)	163,530
Loss for the year	–	–	–	(167,500)	(167,500)
Other comprehensive loss for the year, net of tax					
Change in fair value on available-for-sale financial assets	(5,082)	–	–	–	(5,082)
Other comprehensive loss for the year	(5,082)	–	–	–	(5,082)
Total comprehensive loss for the year	(5,082)	–	–	(167,500)	(172,582)
At 31 December 2016	(12,269)	214,079	65,059	(275,921)	(9,052)
At 1 January 2017	**(12,269)**	**214,079**	**65,059**	**(275,921)**	**(9,052)**
Profit for the year	**–**	**–**	**–**	**1,570**	**1,570**
Other comprehensive income for the year, net of tax					
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets	**12,269**	**–**	**–**	**–**	**12,269**
Other comprehensive income for the year	**12,269**	**–**	**–**	**–**	**12,269**
Total comprehensive income for the year	**12,269**	**–**	**–**	**1,570**	**13,839**
At 31 December 2017	**–**	**214,079**	**65,059**	**(274,351)**	**4,787**

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

Notes: (Continued)

(b) Movements of the reserves (Continued)

(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 *(2016: HK$214,079,000)* can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda (as amended).

(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 *(2016: 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 ("SWSFM")	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 ("SWSAM")	Hong Kong/ Hong Kong	HK$44,000,000 ordinary shares and HK$6,000,000 non–voting deferred shares *(2016: HK$34,000,000 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

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) Capital Limited ("SWSCAP")	Hong Kong/ Hong Kong	HK$60,000,000 ordinary shares *(2016: HK$45,000,000 ordinary shares)*	100%	–	100%	Provision of corporate finance advisory services
Southwest Securities (HK) Finance Limited ("SWSFIN")	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
Southwest Securities (HK) Futures Limited ("SWSFUT")	Hong Kong/ Hong Kong	HK$30,000,000 ordinary shares and HK$10,000,000 non-voting deferred shares *(2016: 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 ("SWSB")	Hong Kong/ Hong Kong	HK$775,000,000 ordinary shares and HK$25,000,000 non-voting deferred shares	100%	–	100%	Securities broking, margin financing and distribution of unit trusts and mutual funds
Southwest Securities (HK) Wealth Management Limited ("SWSWM")	Hong Kong/ Hong Kong	HK$29,000,000 ordinary shares	100%	–	100%	Distribution of investment-linked products, mandatory provident fund products, provision of personal financial consulting and planning services and provision of insurance roking services
Southwest Securities (HK) Investments Limited ("SWSINV")	Hong Kong/ Hong Kong	HK$1 ordinary share	100%	–	100%	Investment holding
Southwest Securities (HK) Investment Management Limited ("SWSIM")	Hong Kong/ Hong Kong	HK$1,000,000 ordinary shares	100%	–	100%	Investment holding
Southwest Securities (HK) Promotion Limited ("SWSP")	Hong Kong/ Hong Kong	HK$300,000 ordinary shares	100%	–	100%	Provision of advertising services

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) Properties Agency Limited ("SWSPA")	Hong Kong/ Hong Kong	HK$10,000 ordinary shares	100%	–	100%	Property agency
TOP Commodity Capital Management Limited ("TOPCCM")	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	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
Southwest Value Fund ("SWVF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value and 30,000 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Investment holding
Southwest Value Master Fund ("SWVMF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value, and 29,700 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Portfolio investment

In accordance with Articles of Association of each of SWSAM, SWSFIN, SWSFUT and SWSB, 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$100,000,000,000 in any financial year.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS:

	Financial year/period				
	1/1/2017 – 31/12/2017	1/1/2016 – 31/12/2016	1/7/2015 – 31/12/2015	1/7/2014 – 30/6/2015	1/7/2013 – 30/6/2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**240,097**	92,038	16,024	56,245	69,912
Profit (Loss) before tax	**4,092**	(167,186)	18,305	12,941	(17,646)
Income tax (expense) credit	**(3,000)**	263	(4,680)	(1,650)	(93)
Profit (Loss) for the year/period	**1,092**	(166,923)	13,625	11,291	(17,739)
Attributable to:					
Equity shareholders of the Company	**1,092**	(166,923)	13,625	11,291	(17,739)

ASSETS AND LIABILITIES:

	Assets and liabilities at				
	31/12/2017	31/12/2016	31/12/2015	30/6/2015	30/6/2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**27,709**	104,222	433,326	140,010	113,097
Current assets	**2,172,078**	2,040,151	1,975,709	2,328,413	286,689
Total assets	**2,199,787**	2,144,373	2,409,035	2,468,423	399,786
Current liabilities	**(1,950,877)**	(250,147)	(247,262)	(85,284)	(236,770)
Non-current liabilities	**–**	(1,659,157)	(1,754,122)	(1,854,306)	—
Total liabilities	**(1,950,877)**	(1,909,304)	(2,001,384)	(1,939,590)	(236,770)
Net total assets	**248,910**	235,069	407,651	528,833	163,016
Current ratio	**1.11**	8.16	7.99	27.30	1.21
Gearing ratio	**722%**	706%	430%	351%	115%

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