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

2018
ANNUAL REPORT 年報

* For identification purpose only 僅供識別

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CORPORATE INFORMATION

BOARD OF DIRECTORS	*Executive Directors* Mr. WU Jian *(Chairman)* Mr. PU Rui *(Chief Executive Officer)* Mr. LUO Yi *(resigned on 28 February 2019)* Ms. ZHAO Dongmei Ms. WANG Huiyun Mr. XIONG Xiaoqiang *Independent Non-executive Directors* Professor WU Jun Mr. MENG Gaoyuan Dr. GUAN Wenwei
AUDIT COMMITTEE	Mr. MENG Gaoyuan *(Chairman)* Professor WU Jun Dr. GUAN Wenwei
REMUNERATION COMMITTEE	Professor WU Jun *(Chairman)* Mr. WU Jian Mr. MENG Gaoyuan Dr. GUAN Wenwei
NOMINATION COMMITTEE	Mr. WU Jian *(Chairman)* Professor WU Jun Mr. MENG Gaoyuan Dr. GUAN Wenwei
AUTHORISED REPRESENTATIVES	Ms. ZHAO Dongmei Ms. TAM Lai Kwan Terry
COMPANY SECRETARY	Ms. TAM Lai Kwan Terry
REGISTERED OFFICE	Clarendon House 2 Church Street Hamilton HM11 Bermuda

CORPORATE INFORMATION

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	Ernst & Young *(from 15 June 2018 onwards)* Pan-China (H.K.) CPA Limited *(till 15 June 2018)*
LEGAL ADVISER AS TO HONG KONG LAW	Norton Rose Fulbright Hong Kong *(from 19 June 2018 onwards)* Loong & Yeung Solicitors *(till 16 June 2018)*
PRINCIPAL BANKER	Standard Chartered Bank (Hong Kong) Limited
LISTING INFORMATION	The Stock Exchange of Hong Kong Limited Stock Code: 812
WEBSITE	www.swsc.hk

EXECUTIVE DIRECTORS

Mr. WU Jian (吳堅), aged 54, 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 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 is currently a director and president of SWSC. He is currently a director of Southwest Securities International Investment Limited ("SSII"), the immediate controlling shareholder of the Company. Mr. Wu has over 20 years of experience in investment and securities market.

Mr. PU Rui (蒲銳), aged 45, has been appointed as an Executive Director and the Chief Executive Officer of the Company since 27 February 2015. He is also a director and legal representative of certain subsidiaries of the Group. He was appointed as an authorised representative of the Company for the period from 27 February 2015 to 27 February 2019. Mr. Pu obtained his Master Degree in Economics majoring in monetary banking from Southwestern University of Finance and Economics in the PRC in June 1998. Mr. Pu served in China Securities Regulatory Commission Sichuan Office consecutively as deputy commissioner of the listed company supervision department one, commissioner of the listed company supervision department two 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, assistant to chief executive and vice president 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 38, was an Executive Director of the Company from 25 March 2017 to 27 February 2019. He was also the executive vice president of the Group, a director of certain subsidiaries of the Group and an authorised representative of the Company. 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 26 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. He has become a member of the Guizhou Provincial Committee of the Chinese People's Political Consultative Conference since January 2018. 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 in July 2013.

* *for identification purpose only*

EXECUTIVE DIRECTORS (Continued)

Ms. ZHAO Dongmei (趙冬梅), aged 55, has been appointed as an Executive Director since 25 March 2017 and has been appointed as an authorised representative of the Company since 28 February 2019. Ms. Zhao obtained a Bachelor Degree in Economics from University of International Business and Economics, and obtained an Executive Master of Business Administration Degree from Wuhan University. She is a chinese certificated public accountant and senior accountant. She had consecutively served as the deputy director and the director 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 of 重慶市地產集團 (Chongqing Land Group*) from 2009 to 2013, the chairman and party secretary 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 恒大人壽保險有限公司 (Evergrande Life Insurance Company Limited*) 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 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 50, has been appointed as an Executive Director since 25 March 2017. Ms. Wang obtained a Bachelor Degree in Psychology from 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 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 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 49, 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 in 1991, and a Master Degree in Economics (major in national economics) from Zhongnan University of Economics (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 has 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.

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INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WU Jun (吳軍), aged 65, has been appointed as an 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 acted as the external supervisor of Jinshang Bank Co., Ltd since May 2018. He is also a professor in and a tutor of the Doctor of Philosophy students of finance in University of International Business and Economics ("UIBE"). Professor Wu had been appointed as an independent director of SWSC from 16 March 2009 to 3 May 2017. 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 Yunnan Finance Institution (now known as Yunnan University of Finance and Economics) 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 (now known as Yunnan University of Finance and Economics), 中國金融學院 (China Finance College*) and UIBE for 38 years. He is strong at the research skill in finance theory, its revolution and application.

Mr. MENG Gaoyuan (蒙高原), aged 47, has been appointed as an Independent Non-executive Director, the chairman of Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company since 27 January 2015. Mr. Meng has been qualified as certificated public 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 and deputy general manager since September 1998. Mr. Meng graduated from 江西財經學院 (now known as 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 Chongqing University of Technology. He has abundant experience in accounting, audit and finance.

Dr. GUAN Wenwei (關文偉), aged 50, 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. Dr. Guan graduated from Sun Yat-Sen University with a Bachelor of Laws (LL.B.) Degree in 1991. He obtained a Master of Laws (LL.M.) Degree from Peking University 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. Dr. Guan served as court clerk, junior judge in the Guangdong Provincial People's High Court, PRC, 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 and was promoted to associate professor since July 2018. 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 45, is the Vice President of the Group and a director of certain subsidiaries 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 College of Mechatronics and Control Engineering of Shenzhen University in the PRC majoring in mechanic manufacturing & automation in July 1996. Mr. Zhang was the vice general manager of the department of strategic development of SWSC and a general manager of 西南證券深圳蛇口後海路證券營業部 (the securities sales department of SWSC's branch in Shenzhen Shekou Hou Hai Road).

Ms. TAM Kar Bo Carrie (譚嘉寶), aged 49, is the Vice President and Financial Controller of the Group. She is also a director of certain subsidiaries 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 from The Hong Kong Polytechnic University. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. LO Wing Shing Steven (盧永成), aged 44, is the Vice President of the Group and a director of certain subsidiaries of the Group. Mr. Lo joined the Group in February 2016. He is currently in charge of corporate finance department and global capital markets department of the Group. Mr. Lo has over 15 years of experience in investment banking field and participated a number of IPO sponsor, corporate finance and financial consulting projects. Mr. Lo graduated with a Bachelor of Science Degree in Mechanical Engineering from the University of British Columbia and obtained a Master of Business Administration from Hong Kong University of Science and Technology. He is also a Chartered Financial Analyst charterholder.

COMPANY SECRETARY

Ms. TAM Lai Kwan Terry (譚麗群) is the Company Secretary and an authorised representative 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 2018 (the "Review Period").

In 2018, affected by international trade tension and a host of political issues, global economy experienced a period of fluctuations, the trade war between China and the U.S. escalated further, dragging the overall performance of the capital market. Hang Seng Index was getting lower each day. Hang Seng Index had dropped for 6 consecutive months since May, recording the longest plunge in 36 years. Under the influence of interest rate normalization and concern on global economic growth slowdown, Hang Seng Index dropped 4,073 points, or 13.61% for the whole year, being the worst performance in 7 years.

In 2018, China's domestic economy was stable, according to the statistics published by the State Statistics Bureau, China's Gross Domestic Product (GDP) exceeded RMB90 trillion for the first time in the past year, representing an increase of 6.6% as compared with that of last year, achieving the government's expected growth target. China's total amount of exports and imports recorded a historical high in the past year and its trade structure continued to optimize. The total amount of imports and exports goods was RMB30.505 trillion the whole year, increasing 9.7% from last year; total trade volume surpassed RMB30 trillion, recording a historical high.

On the other hand, China has been facing severe and complicated external environment. Economy also faces downward pressure. Except for Sino-U.S. trade war, other external pressure like prevailing global trade protectionism also has an impact on China's import and export trade, which equals to one-third of China's GDP. According to the statistics published by the State Statistics Bureau, exports amounted to RMB16.4177 trillion, representing an increase of 7.1%; imports amounted to RMB14.0874 trillion, representing an increase of 12.9%. The surplus after exports deducting imports amounted to RMB2.3303 trillion, decreasing 18.3% from last year. Although GDP increased 6.6% from last year, it is the lowest GDP growth rate since 1990. All of these factors indicate that the adverse effects of the trade war begin to emerge after China and the U.S. started to impose tariffs against each other since July last year.

2018 was a year for the Group to improve development quality and consolidate business foundation. However, faced with numerous adverse economy factors and affected by Sino-U.S. trade war, Brexit and global economy growth slowdown, Hong Kong stocks and mainland A shares markets performed poorly, securities industry suffered a heavy blow, securities companies' results generally declined, the Group's results were not as well as expected either, recoding a net loss of HK$201.748 million *(for the year ended 31 December 2017: net profit was HK$1.092 million)* during the Review Period. Although the results declined in 2018, through adjusting business teams and integrating business lines actively, income of several businesses still recorded steady growth: (i) the income from margin financing and project financing of brokerage business increased by HK$20.932 million, or 26.4% from last year; (ii) the income from corporate finance business increased by HK$3.278 million, or 9.6% from last year; and (iii) the income from asset management business increased by HK$2.482 million, or 1,327.2% from last year.

It has been four years since Southwest Securities Co., Ltd. ("SWSC"), the controlling shareholder of the Company, acquired the Group, and SWSC will increase the investment in the Group during this year to comply with Chinese government's strategy of encouraging enterprises to "go out". The Group announced a rights issue in this February, obtaining the undertaking of rights issue from SWSC and also securing the consent to fully underwrite the remaining shares from the underwriter. This rights issue raised net proceeds of approximately HK$160 million, helping the Group to improve its capital structure as well as mitigating finance cost obligation. The Group will grasp opportunities to strengthen the construction of professional core team, especially focusing on developing corporate finance, asset management and institutional sales business to further realise the diversified development of business while shifting the focus of brokerage and margin financing business to serving individual customers, corporate customers and institutional customers with high net value. While striving to expand business, the Group will also control cost strictly and will review and implement the measures of allocating more resources to business that can bring stable income for the Company.

It is very likely that global economic growth will slow down in 2019, while there are still plenty of good news, for example, China and the U.S. are expected to reach a trade agreement, U.S. may halt the interest rate hikes this year and will announce details on ending balance sheet reduction, and China will take multiple measures to stabilize the economy such as cutting tax, increasing infrastructure investment and encouraging banks to replenish fund via numerous channels to support enterprises' development. Hong Kong stocks and A share markets rebounded with trading volume increasing significantly during the first two months of this year, indicating that the worst time was gone.

For the coming year, the Group will find its precise position in the pattern of two-way capital openings, promote capital replenishment via injecting capital and issuing bonds, strengthening cooperation communication and business connection with the parent company, discovering cross-border opportunities for investment and financing business, and controlling risk strictly while improving profitability. In future, the Group will continue to provide the 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 and creating long-term value for its shareholders.

Wu Jian
Chairman

Hong Kong, 22 March 2019

MARKET REVIEW

Macro Environment

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

The deadline for Brexit is approaching. Although the British Parliament does not want to see a "hard Brexit" or to stay in the EU, it has substantial differences with EU on the content of the Brexit agreement. The EU is also reluctant to make concessions, not giving more time for Teresa May to settle the Brexit issue. Angela Merkel, the leader of Germany is going to retire, while the prestigious French President Emmanuel Macron was dealing with the "yellow vest" movement in the country. Together with the weak economy in the euro zone and high debt in individual countries, it is crucial whether Merkel or other leaders of the euro zone are able to unite other countries to maintain EU's stability.

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

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

Hong Kong Market

The Hang Seng Index rose above 33,000 points in January 2018, setting a record high of 33,154 points. However, it fell below 24,600 points at the end of October as it was hit by the Sino-U.S. trade war, the rise in yields of U.S. government bonds and the slowdown in global economic growth. It closed at 25,846 points at the end of December, down 13.6% from the end of 2017. The Hang Seng China Enterprises Index closed at 10,125 points at the end of last December, down 13.5% year-on-year. The average daily turnover of the Hong Kong equities market was HK$107.4 billion, in 2018 up 21.7% year-on-year. However, the average daily turnover in the second half of the year decreased by 11.1% year-on-year to HK$88.8 billion. The total average daily turnover (buys + sells) of Southbound Trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect schemes was HK$12.7 billion in 2018, up 29.3% year-on-year. Southbound Trading in the total turnover of the Hong Kong market rose from approximately 5.6% in 2017 to approximately 5.9% in 2018.

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

BUSINESS REVIEW

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

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

Brokerage and Margin Financing

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

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

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

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

Wealth Management

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

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

Corporate Finance

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

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

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

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

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

Asset Management

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

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

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

Proprietary Trading

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

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

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

Money Lending

During the Review Period, the Group has no interest income from money lending business *(2017: HK$10.7 million)*.

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

Other Income and Gains

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

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

Staff Costs

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

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

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK$24.7 million *(2017: HK$24.9 million)*.

Fee and commission expenses mainly included commissions paid in the course of conducting the brokerage and margin financing business, proprietary trading business and corporate finance deals. The slight decrease in commission expenses during the Review Period was mainly a result of the decrease in trading volume of proprietary trading business.

Finance Costs

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

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

Future Prospects

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

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

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

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

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

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

Banking Facilities and Charges on Assets

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

Material Acquisitions, Disposals and Significant Investments

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

Contingencies

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

Commitments

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

EMPLOYEES

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

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

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2018 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 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 60.

The Directors do not recommend the payment of a final dividend *(2017: Nil)*.

BUSINESS REVIEW

Business review of the Group for the year ended 31 December 2018 is set out in the Chairman's Statement and Management Discussion and Analysis on pages 8 to 16 of this report respectively.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2018, 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 2018, 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 33 to 52 of this report.

RESERVES

Movements in reserves of the Group and of the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 61 and note 33(b) to the consolidated financial statements of this report respectively.

As at 31 December 2018, the reserves of the Company available for distribution to the shareholders of the Company (the "Shareholders") amounted to HK$Nil *(2017: HK$Nil)*.

DONATIONS

During the year ended 31 December 2018, the Group made charitable and other donations amounted to HK$17,500 *(2017: HK$11,000)*.

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 2018 are set out in note 23 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 138 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 2018.

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 *(resigned on 28 February 2019)*
	Ms. ZHAO Dongmei
	Ms. WANG Huiyun
	Mr. XIONG Xiaoqiang
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Dr. GUAN Wenwei

In accordance with Bye-law 87 of the Company's Bye-laws, Ms. WANG Huiyun, Mr. XIONG Xiaoqiang and Dr. GUAN Wenwei 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, Mr. LO Wing Shing Steven, Mr. HOW Sze Ming, Mr. LIANG Hao, Ms. CHENG Song, Mr. Darren Riley 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 and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by reason of any act done in or about the execution of their duty 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

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 26 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as those disclosed under "RELATED PARTY TRANSACTIONS" above, no transactions, arrangements or contracts of significance to which the Company or its holding companies or controlling shareholders or any of its respective subsidiaries was a party and in which a Director of the Company or an entity connected with a Director of the Company is or was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

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 2018.

EQUITY-LINKED AGREEMENTS

Apart from those disclosed in the "Share Option Scheme" below or in note 24 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 Scheme" below and in note 24 to the consolidated financial statements, at no time during the year ended 31 December 2018 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, its controlling shareholder or their respective subsidiaries or 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 SCHEME

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. The total number of shares available for issue is 119,147,600 shares, representing 10% of total number of shares in issue as at the date of adoption of the 2013 Share Option Scheme on 12 November 2013.

9. During the year ended 31 December 2018, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2018, 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.

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

As at 31 December 2018, 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 ordinary shares of the Company (the "Shares")

Name of shareholders	*Note*	Capacity and nature of interest	Number of Shares held	Approximate % of the issued Shares
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 2018, 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.

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 2018, 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 19.7% and 53.8% respectively. None of the Directors of the Company; or any of their close 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 28 to the consolidated financial statements.

The principal risks and uncertainties facing the Group for the year ended 31 December 2018 can be found in the Chairman's Statement and the Management Discussion and Analysis on pages 8 to 16 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

During the year, Ernst & Young ("EY"), Certified Public Accountants was appointed as the auditor of the Company to fill the casual vacancy so arisen following the retirement of Pan-China (H.K.) CPA Limited at the annual general meeting of the Company held on 15 June 2018. Save as disclosed above, there were no other changes in auditors of the Company during the past three years.

The consolidated financial statements for the year ended 31 December 2018 were audited by EY who would retire at the conclusion of the forthcoming annual general meeting and being eligible, offer itself for re-appointment.

A resolution will be proposed in the forthcoming annual general meeting to re-appoint EY as the auditor of the Company.

By order of the Board

WU Jian
Chairman

Hong Kong, 22 March 2019

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 2018 (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 2018, 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
	Dr. 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.

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 and directors' responsibilities and relevant reading materials were arranged to all the Directors and the Directors' participation is summarised as follows:

Directors	Attending Seminar	Reading Materials
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	✓	✓
Dr. GUAN Wenwei	–	✓

BOARD OF DIRECTORS (Continued)

Board meetings

The Board meets regularly for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. Notice of not less than 14 days are given to all Directors in 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 Dr. 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 four times 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 (i) the audit planning memoranda; (ii) the results for the financial year ended 31 December 2017 and the interim period for the six months ended 30 June 2018; (iii) financial reporting and compliance procedures; (iv) the compliance and internal audit reports; (v) the effectiveness of risk management and internal control system and internal audit function; and (vi) the change of external auditor and making recommendations to the Board on its remuneration.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

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 Dr. 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 and make recommendations to the Board on the remuneration of Non-executive Directors. 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.

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 made recommendations to the Board. 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 Dr. 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 and assessed the independence of Independent Non-executive Directors.

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.

BOARD COMMITTEES (Continued)

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 recognises 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.

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.

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 15 June 2018 (the "2018 AGM") during the Year:

	Attendance/Number of meetings held during the Year				
Name of members of the Board/ the Board Committees	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**2018 AGM**
Executive Directors:					
Mr. WU Jian *(Chairman)*	4/4	N/A	1/1	1/1	1/1
Mr. PU Rui *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
Mr. LUO Yi	4/4	N/A	N/A	N/A	1/1
Ms. ZHAO Dongmei	4/4	N/A	N/A	N/A	1/1
Ms. WANG Huiyun	4/4	N/A	N/A	N/A	1/1
Mr. XIONG Xiaoqiang	4/4	N/A	N/A	N/A	1/1
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
Dr. GUAN Wenwei	4/4	4/4	1/1	1/1	1/1

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

During the Year, Pan-China (H.K.) CPA Limited ("Pan-China HK") retired as external auditor at the 2018 AGM and Ernst & Young was resolved to be appointed as external auditor of the Company at the 2018 AGM to hold the office until the conclusion of the next annual general meeting of the Company.

For the year ended 31 December 2018, the fee paid/payable to Pan-China HK amounted to HK$0 and HK$6,000 for audit service and other services rendered to the Group respectively and the fee paid/payable to Ernst & Young amounted to HK$1,860,000 and HK$1,661,000 for audit service and other services rendered to the Group 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

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and reviewed their effectiveness periodically through the Audit Committee.

The internal control system is reviewed on an ongoing basis by the Audit Committee, as delegated by the Board, in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is of the view that the system of internal control adopted for the year ended 31 December 2018 is sound and is effective to safeguard the interests of the shareholders, customers and the Group's assets.

INTERNAL AUDIT

Pursuant to the Audit Charter that approved by the Audit Committee and the mission statement stipulates in the Audit Standard Manual, the Group's Internal Audit Department ("IA") provides independent and reasonable assurance that the Group's governance, risk management and internal control processes as designed and implemented by management are adequate and effective. IA reports on the adequacy of system of internal controls to the Audit Committee and management. IA adopts a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, to conduct independent reviews on areas which is prioritized according to an assessment of current and emerging risks, including financial, operational, compliance and technology risks. Ad hoc reviews will also be conducted on areas of concern identified by the Audit Committee and management when necessary. Results of audit work and the assessment of the overall risk management of areas concerned are reported to the Audit Committee and management at least twice a year. IA closely follows up the rectifications and ensures that processes are in place for recommendation raised in internal audit reports.

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.

RISK MANAGEMENT (Continued)

For risk management (Continued)

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.

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, 2018 AGM was held and the notice of 2018 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 all the members of the Board and the external auditor were present at the 2018 AGM to answer the questions from the Shareholders. Each substantially separate issue was dealt with in a separate resolution so that the Shareholders were able to comprehend the matter easily.

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

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

SHAREHOLDERS' RIGHTS (Continued)

Proposals at Shareholders' meetings can be put forward by the members of the Company holding at the date of the submission of the proposals not less than one-tenth (10%) of such of the paid-up capital of the company as at the date of the submission carries the right of voting at general meetings of the Company. The submission of the proposals must be made within 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.

INTRODUCTION, ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

This Environmental, Social and Governance Report ("ESG Report") summarizes the initiatives, plans and performances of Southwest Securities International Securities Limited (the "Company", together with its subsidiaries, "the Group" or "we") and demonstrate its sustainability commitments.

The Group adheres to the environmental, social and governance ("ESG") management principles of sustainable development and is committed to effectively and responsibly handling the Group's environmental, social and governance issues as part of our core business strategy because we believe this is the key to our continued success in the future.

The ESG Governance Structure

The Group's management is dedicated in ESG issues, leading company employees and related department managers to be responsible for ESG matters in the Reporting Period. Related parties are responsible for ESG data collection and consolidation of the ESG Report. The employees would report to the Directors assisting in the assessment and identification the risk management of the Group on ESG aspects and whether its internal control system is appropriate and effective. They also review the ESG performance of the Group, including environmental, health and safety, labour standards, product responsibility and other ESG aspects. The Directors sets the tone at the top level for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

REPORTING FRAMEWORK

The ESG Report is prepared in accordance with all applicable provisions set out in the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") under Appendix 27 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited.

For the Group's corporate governance practices, please refer to p.23 to p.32 for the section "Corporate Governance Report" of this Annual Report.

REPORTING PERIOD

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the year ended 31 December 2018 (the "Reporting Period").

SCOPE OF REPORTING

Unless specified otherwise, the ESG Report covers the Group's business activities in Hong Kong office, which represent the Group's major sources of revenue. The ESG key performance indicators ("KPI") data is gathered and included subsidiaries under the Group's direct management control. The Group has reported the following core businesses:

- Brokerage and margin financing;
- Wealth management;
- Corporate finance;
- Asset management; and
- Proprietary trading.

The Group will continue to evaluate the significant ESG aspects of different operations to decide the inclusion of such aspects into the ESG Report. The Group will extend the scope of disclosures when and where applicable.

STAKEHOLDER ENGAGEMENT

We value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have maintained close communication with our key stakeholders, including but not limited to shareholders and investors, customers and business partners, employees, suppliers, subcontractors, government, regulators as well as media and the public.

We take stakeholders' expectations into consideration in formulating our businesses and ESG strategies by utilising diversified engagement methods and communication channels, shown as below.

Stakeholders	Expectation and Concerns	Communication Channels
Government and Regulatory Authorities	Compliance with laws and regulations Support in economic development	Supervision on complying with local laws and regulations Submission of reports and taxes paid
Shareholders and Investors	Return on investments Corporate governance Business compliance	Financial reports Announcements and circular 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 Customer service manager
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 ESG Report

We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the nation and community on a continuous basis.

MATERIALITY ASSESSMENT

The management and employees of the Group's respective major operations have participated in the preparation of the ESG Report to assist the Group in reviewing our operations and identifying relevant ESG issues and assess the importance of related matters to our businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

The following table is a summary of the Group's material ESG issues included in this ESG Report:

The ESG Reporting Guide	Material ESG aspects of the Group	
A. Environment		
A1. Emissions	Exhaust Gas and Greenhouse Gas ("GHG") Emissions	P.37
	Waste Management	P.38
A2. Use of Resources	Energy Consumption	P.40
	Water Consumption	P.41
A3. The Environment and Natural Resources	Environmental and Natural Resources	P.42
B. Social		
B1. Employment	Compensation and Benefits	P.43
	Recruitment, Promotion and Dismissal	P.43
	Equal Opportunities and Anti-discrimination	P.43
	Employee Relationship and Communications	P.43
B2. Health and Safety	Health and Safety	P.44
B3. Development and Training	Development and Training	P.44
B4. Labour	Prevention of Child and Forced Labour	P.45
B5. Supply Chain Management	Supply Chain Management	P.45
B6. Product Responsibility	Products and Services Quality	P.46
	Advertising, Labelling and Sales	P.47
	Customer Service	P.47
	Protection of Customer Information	P.47
	Intellectual Property ("IP") Rights	P.48
B7. Anti-corruption	Anti-corruption	P.48
B8. Community Investment	Corporate Social Responsibility	P.49

During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We welcome stakeholders to provide their opinions and suggestions. You can provide valuable advice in respect of the ESG Report or our performances in sustainable development by email enquiry@swsc.hk.

A. ENVIRONMENTAL

A1. Emissions

General Disclosure and Key Performance Indicators ("KPIs")

The Group adheres to the strategy of sustainable development in its operations, fulfils the Group's social responsibility by focusing on decent environmental management and striving to protect the environment.

The Group regularly keeps track of the latest national and local environmental laws and regulations, and commits in measures that strengthen environmental protection based on related laws and regulations. The Group complies with applicable laws and regulations, including but not limited to the "Waste Disposal Ordinance", "Air Pollution Control Ordinance" and "Product Eco-responsibility Ordinance".

In the environmental aspect, this ESG Report mainly includes environmental impacts and related measures from daily business operation of the Group's Hong Kong office, and the implemented environmental management policies and procedures monitoring the small amount of GHG and non-hazardous waste in the operation.

The responsible personnel of the Group's environmental affairs will supervise the implementation of the above measures and related environmental policies. Under the strict supervision and guidance of different departments, we strive to implement the Group's environmental protection policy, ensuring all business processes comply with legal requirements. Related environmental protection responsible persons will continue to review the Group's policies and procedures, report to the management as appropriate, and propose recommended measures if necessary.

During the Reporting Period, the Group has obtained the following awards and certification in the environmental aspect:

- World Green Organization — "Green Office Awards Labelling Scheme (GOALS)" certification
- Environmental Campaign Committee — Hong Kong Awards for Environmental Excellence
- Environmental Campaign Committee — Wastewi$e Certificate — Excellence Level
- Environmental Campaign Committee — Energywi$e Certificate — Basic Level
- Environmental Campaign Committee — Hong Kong Green Organization

During the Reporting Period, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Exhaust Gas and GHG Emissions

Exhaust Gas Emission

Due to our business nature, the Group considers the relevant air emissions including but not limited to NO_x, SO_x, and other pollutants generated is not significant.

GHG Emissions

The principal GHG emissions of the Group are generated from gasoline consumption of vehicles for direct GHG emission (Scope 1), purchased electricity for indirect GHG emission (Scope 2) and paper consumption for indirect GHG emission (Scope 3). The Group actively implements environmental protection measures to reduce GHG emissions by:

- Actively adopting paper saving measures, and relevant measures will be explained in the "Waste Disposal" section of Part A1;
- Actively adopting environmental protection and energy conservation measures, and relevant measures will be explained in the "Energy Use" section of Part A2;
- Switching off the engines when vehicles are not in use;
- Using unleaded fuel and low-sulphur fuel according to the law;
- Eliminating vehicles that are not up to standard;
- Conducting regular maintenance of vehicles to ensure that engine performance does not impede the effective use of fuel;
- Optimizing operational procedures to increase utilization and reduce vehicle idle time;
- Scheduling car maintenance after high mileage. Repair immediately if faulty parts are identified;
- Encouraging employees to take public transport instead of driving to work; and
- Reducing the number of business trips through electronic communication such as video or audio conferencing.

Other than the above measures, the Group will publish environmental protection message to employees to raise their awareness. Also, offices have posted notices and posters of green information to promote the best practices of environmental management.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Exhaust Gas and GHG Emissions (Continued)

The summary of GHG emissions performances:

Indicator[1]	Total emissions (calculated in tonnes CO_2e)	Intensity — Total GHG emissions per employee (tonnes CO_2e/employee)[2]
Direct GHG emissions (Scope 1)	14.83	0.10
Indirect GHG emissions (Scope 2)	149.45	0.98
Indirect GHG emissions (Scope 3)[3]	5.52	0.04
Total GHG emissions (Scope 1, Scope 2 and Scope 3)	169.80	1.12

Notes:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, the latest released emission factors of China's regional power grid basis, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by the HKEX, "HK Electric Investments Sustainability Report 2017".

2. As at 31 December 2018, the Group had 153 full-time employment contracted and self-employed employees in total. The data is also used for calculating other intensity data.

3. Recycled papers are not included in the calculation of GHG emission.

Employees' awareness in reduction of GHG has been raised with the above GHG reduction measures.

Domestic Sewage

We do not consume significant volume of water through our daily operation, and therefore our business activities did not generate material portion of discharge into water. The majority of the water supply and discharge facilities are provided and managed by property management company.

Waste Management

The Group follows the principles of waste management and strives to handle and dispose all wastes related to our operations properly. All of our waste management practices are in line with local environmental laws and regulations. Paper and other solid wastes are the major non-hazardous wastes generated by the Group's business activities. After collection and separation, these wastes are collected and handled centrally by general waste collection service provider, while recyclables, like papers, will be recycled.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Waste Management (Continued)

We will monitor the consumption of paper, toner cartridge and ink cartridge regularly and implement various reduction measures. Solid wastes will be collected in a centralized way by the property management. The Group encourages employees to recycle office paper and ink cartridge, reuse office stationaries to reduce solid wastes. When the notice of changing cartridge appeared on the copier, we require employees to shake the toner cartridge to extend its lifespan. The Group also posts labels in different areas at office to remind employees to use less papers. The offices under the Group also provide related facilities to encourage employee to separate waste at source and recycle waste materials, striving to achieve the targets of reduce, reuse and recycle in the operation. The Group maintains high standards in waste reduction and educates employees the importance of sustainable development while providing related support, in order to encourage the practices and strengthen their knowledge of sustainability.

We reduce paper consumption by the following initiatives:

- Using FSC or PEFC paper to reduce the harm to the environment;
- Encouraging employees using copiers instead of multi-function printers for photocopying in order to reduce the number of toner cartridges order;
- Circulating our existing printing amount to all employee so as to aware them to think before they print;
- Setting the default setting of the printer to double-sided printing or copy;
- Previewing the file before printing, adjusting the page layout or margins;
- Using the access card to record the paper usage of each employee in printing or copying;
- Printing the required pages accurately to prevent wastage;
- Using office automated systems and emails for internal documentation;
- Using the back of the old document for printing or as a scratch paper; and
- Collecting used paper for recycling.

The summary of major non-hazardous wastes discharge performances:

Category of waste	Total discharge (calculated in tonnes)	Intensity — Total non-hazardous wastes discharge (tonnes per employee)
Paper	1.15	0.0075
Other solid waste	0.48	0.0031

Due to our business nature, the Group did not generate hazardous wastes in the operation.

A. ENVIRONMENTAL (Continued)

A1. Emissions (Continued)

General Disclosure and Key Performance Indicators ("KPIs") (Continued)

Waste Management (Continued)

With the above waste reduction measures, employees' waste reduction awareness has been raised. Other than that, during the Reporting Period, the Group recycled 1,440 kg of paper, which is a 10% decrease in paper ordering comparing with the year ended 31 December 2017. The Group has established a target of reducing 5% paper ordering for the year ended 31 December 2019.

A2. Use of Resources

General Disclosure and KPIs

The Group upholds and promotes the principle of effective use of resources. We have been timely monitoring on potential environmental impacts in our business operations. Through the 4Rs principles, namely, "reduce, reuse, recycle and replace", we promote green office and operation environment, and minimize the environmental impacts of the Group and its subsidiaries. As mentioned in Section A1, the Group has developed policies and procedures associated with environmental management. The Group has managed the use of resources like water, electricity and gasoline through the statistics of monthly energy use, prioritized management on major energy consumption facilities, and standardized the operation process of those facilities in order to use energy effectively.

Energy Consumption

In daily operation process, the main energy consumption of the Group are electricity incurred from operation and gasoline consumed by transportation. Our offices are equipped with various glazed partitions for maximizing the use of natural light to reduce energy consumption. Our new offices (except trading room) have also installed energy efficiency lamps (such as LED and T5 fluorescent tubes) and centralized air conditioning system.

The Group has formulated rules and regulations to achieve the goal of energy conservation and efficiency. The measures are listed below:

- Cleaning office equipment regularly to maintain high energy efficiency;
- Performing regular check on the lighting system;
- Placing "Save electricity, turning off idle lights" signage in prominent places to encourage electricity saving;
- Adding timer to water dispensers for energy saving;
- Using air-conditioned server rack in server room to reduce the use of 24 hours air-conditioning;
- Installing translucent curtains to let light through and to maintain effective air conditioning;
- Using electronic equipment with energy saving label;
- Turning off all unnecessary lights, air conditioners, computers and other office equipment in office areas, conference rooms and corridors when they are not in use to avoid waste of electricity;
- Unless necessary, employees are not allowed to stay in office to avoid waste of electricity; and
- Enhancing the maintenance and overhaul of equipment, maintaining the best condition of all electronic equipment for effective use of electricity.

A. ENVIRONMENTAL (Continued)

A2. Use of Resources (Continued)

General Disclosure and KPIs (Continued)

Energy Consumption (Continued)

In addition, the Group increases the awareness of energy conservation and environmental protection into the work and life of employee by posting power-saving slogans.

Through these energy-saving measures, employees' awareness of energy conservation has increased.

During the Reporting Period, the energy consumption of the Group and its intensity were as follows:

Type of energy	Energy consumption	Intensity — Total energy consumption per employee
Gasoline	5,476.14 litres	35.79 litres/employee
Electricity	189,183.00 kWh	1,236.49 kWh/employee

Water Consumption

The Group's water usage is mainly domestic sewage in office areas. The Group's water consumption expenses are included in the property management fee. Therefore, the Group did not have water consumption record during the Reporting Period.

The Group is dedicated in promoting better utilisation of water resources and conserving water by adopting the following practices:

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

With the above water conservation measures, employees' awareness of water conservation has improved.

Due to the Group's business nature and the major operations are mainly in the city, the procurement of suitable water sources is not relevant to the Group.

Use of Packaging Material

Due to our business nature, the Group does not consume significant amounts of package materials for product packaging.

A. ENVIRONMENTAL (Continued)

A3. The Environment and Natural Resources

General Disclosure and KPIs

The Environment and Natural Resources

The Group focuses on its business impacts brought to the environmental and natural resources, and pursues the best practice for environmental protection. In addition to complying with related environmental laws and regulations and international standards for natural environment preservation, the Group has integrated the concept of environmental protection and natural resource conservation into its internal management and daily operations in order to achieve the aim of environmental sustainability.

The Group enhances employees' environmental awareness through the implementation of various environmental protection policies and activities such as tree planting. During the Reporting Period, the Group had participated in WWF's "Earth Hour" to encourage employees to turn off unnecessary lights at specified times to save energy and reduce emissions. We also participated in the activity "Smoke-free With Hearts Working Day", which aims to promote caring and help smokers to stop smoking, while working with employees to create a "healthy workplace".

The Group is committed to reducing the environmental impact of procurement activities. Therefore, the Group actively promotes the concept of "emission reduction" and purchases environmentally-labelled materials from suppliers when working with suppliers.

B. SOCIAL

B1. Employment

General Disclosure

Employees are the greatest and most valuable asset of the Group and our core competitive advantage, hence it is important and essential to attract, cultivate and retain employees. Adherence to a people-oriented approach, we respect and protect the rights and interests of employee, standardize employment management, protect employees' occupational health and safety, fully respect and motivate employees' enthusiasm, initiative and creativity in order to build a harmonious working relationship. Besides, the Group is committed to providing employees a fit and proper platform for their career development, professionalism and promotion opportunities.

The Group actively complies with labour laws and regulations, including but not limited to the "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" of Hong Kong. In order to build an active and positive working atmosphere and provide a long-term career development guidance, the Group has formulated a series of human resources policies. The Group's Human Resources Department also regularly reviews and updates relevant policies in accordance with the latest laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group.

B. SOCIAL (Continued)

B1. Employment (Continued)

General Disclosure (Continued)

Compensation and Benefits

Based on the principle of fairness, competitiveness, incentives, reasonableness, and legality, the Group has established a fair, reasonable and competitive remuneration system for employees. To attract high calibre talent, the Group offers competitive remuneration and benefits based on the individuals' past working performance, professional qualification and experiences. The Group also uses market benchmarks as reference in designing the remuneration packages. In order to motivate and reward existing employees, the Group conducts regular salary review according to the overall market environment, inflation, profitability of the Group and employees' working performance.

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 different types of paid leaves. The Group also provides a series of benefits including medical and dental insurance, life insurance to employees. During the Reporting Period, the Group organised an annual dinner and a spring dinner for its employees to thank them for their contributions.

Recruitment, Promotion and Dismissal

Talent acquisition is vital to the future development of the Group's business. The Group adopts a set of transparent and clear procedures to conduct the recruitment activities, aiming to live up to "Openness, Fairness, Transparency, Standardisation" in every details. During the recruitment process, we standardize the procedures and principles , and adhere to the requirements of ability and experience to attract and recruit right talents.

The Group establishes the procedures on staff promotion, transfer and demotion, and regulates departure process to protect the interests of both employees and the Group. Any employment, promotion or dismissal will be based on legitimate grounds. The Group prohibits any kind of illicit or illegitimate dismissals.

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.

B. SOCIAL (Continued)

B2. Health and Safety

General Disclosure

Health and Safety

The Group highly recognizes the importance of health and safety of our employees. We commit to provide employees with a healthy, safe and comfortable working environment and strive to eliminate potential health and safety hazards at the workplace. We strictly enforce relevant laws and regulations such as "Occupational Safety and Health Ordinance" and "Employees' Compensation Ordinance" of Hong Kong.

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 purchased by the Group 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.

During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury, and no claims or compensation was paid to our employees due to such events. No material non-compliance of laws and regulations relevant to health and safety of employees were found.

B3. Development and Training

General Disclosure

Development and Training

The Group focuses on the establishment of internal management training, enhancing the mutual development of employees and the Group via diverse trainings to fulfil the needs of different job duties, enrich the technical knowledge and skills of employees, and provide high quality service, boosting the Group's development and eventually fulfilling the common development goal for both employees and the Group.

The Group offers different training and development opportunities to its employees. The purpose is to strengthen employees' work-related skills and to improve their efficiency and productivity.

The Group has training rooms equipped with professional training facilities for organising training programs. Most of the Group's training programs are tailored to the licensing activities and aimed at fulfilling the SFC Continuous Professional Training ("CPT") requirement for licensed employees. To maintain their professional competence to remain fit and proper, 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 and anti-terrorist financing seminars, SFC enforcement case analysis and risk management training courses to the employees. The Group maintains the attendance or completion records of the CPT activities for a minimum of 3 years to enable the Group to meet the requirements of the SFC.

B. SOCIAL (Continued)

B4. Labour Standards

General Disclosure

Prevention of Child and Forced Labour

The Group has complied with all relevant child labour and forced labour laws in Hong Kong, such as "Employment Ordinance" and "Occupational Safety and Health Ordinance".

The Group strictly prohibits employing any child labour or forced labour in its Hong Kong operation. To combat against illegal employment on child labour 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.

At the same time, the Group also avoids using the administrative supplies and services from those vendors and contractors with records of employing child or forced labour.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations that would have a significant impact on the Group.

B5. Supply Chain Management

General Disclosure

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. The Group highly values the importance of potential environmental and social risks management in its supply chain. The Group has established a stringent and standardized procurement system and a systematic selection process for suppliers, while requiring suppliers to have relevant environmental and social risk control management.

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. We will also take measures to examine whether suppliers have complied with relevant laws and regulations, and other standards for health, safety, forced labour and child labour, as well as to examine suppliers' awareness of these aspects.

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.

In addition, we make procurement an open, fair and impartial basis without any discrimination against any particular supplier, nor corruption and bribery. Employees and any party related to the relevant suppliers are forbidden to take part in the subject procurement. The Group stresses the integrity of its suppliers. We only select those with good business track records and no material non-compliances or unethical behaviours.

B. SOCIAL (Continued)

B6. Product Responsibility

General Disclosure

We maintain an on-going communication with our customers to ensure understanding of their expectations and satisfying their demands. We keep on improving our service quality by monitoring the customer satisfaction levels.

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, including but not limited to "Securities and Futures Ordinance"; "Personal Data (Privacy) Ordinance"; "Companies Ordinance"; "Anti-Money Laundering and Counter-Terrorist Financing Ordinance"; "Prevention of Bribery Ordinance"; "Insurance Ordinance"; "Drug Trafficking (Recovery of Proceeds) Ordinance"; "Organized and Serious Crimes Ordinance"; "United Nations (Anti-Terrorism Measures) Ordinance"; and "Mandatory Provident Fund Schemes Ordinance".

During the Reporting Period, we were not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group, concerning health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Products and Services Quality

The Group has established internal procedures and manuals such as General Compliance Manual, Sales Manual for Brokerage Department and to ensure that the products and services the Group provides comply with the requirements 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, telephones (with recording function) and relevant documents to its clients, so they can make an informed decision. Clients who 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.

Online trading system is used to support the Group in providing its products and services via the internet. The Group's online trading 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 system with two different Internet connections of mutual backup function, 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.

B. SOCIAL (Continued)

B6. Product Responsibility (Continued)

General Disclosure (Continued)

Advertising, Labelling and Sales

The Group is committed not to providing advertisements 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". Marketing staff 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. This is to ensure the Group's advertisements do not contain false, misleading and deceptive statements, commitments and forecasts, and to ensure information provided to customers is true, accurate, not misleading, and in compliance with relevant laws and regulations.

In addition, we have fairly strict specifications to monitor the behaviour of sales. We prohibit high-pressure sales tactics to induce customers from trading, so as to prevent customers from making investment decisions under pressure or haste. At the same time, we give enough time for customers to understand the materials, consider carefully and seek independent third party advice, if necessary, before making any investment decisions.

Customer Service

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.

Protection of Customer Information

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 has enabled the Group to stay competitive in the market. In addition, the Group has established the Information System Accident Handling Process. In the event of an information system accident, the Group will handle the accident according to the following procedures to ensure the stability and security of the Group's information system to protect customer privacy. The information system accident handling process is as follows:

1. Identify information system accidents

2. Report the accident to the department head and director

3. Accident analysis and implementation of interim solutions

4. Investigate the cause of the accident and find a long-term solution

5. Implement long-term solutions and issue accident reports

B. SOCIAL (Continued)

B6. Product Responsibility (Continued)

General Disclosure (Continued)

Intellectual Property ("IP") 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).

B7. Anti-corruption

General Disclosure

Anti-corruption

The Group believes that a corporate culture of high integrity is the key to its continued success. Therefore, the Group recognizes the importance of its anti-corruption work, policy and system, and are committed to building a fair, open and transparent corporate culture. 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. And our group has highly complied with "Prevention of Bribery Ordinance".

The Group has formulated and strictly enforced its anti-corruption policies as stipulated in the Prevention of Bribery Guideline. 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 Legal and Compliance 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 Legal and Compliance 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 Legal and Compliance Department, a report is to be made to the relevant regulators or law enforcement authorities.

In addition, the Group has established the Prevention of Money Laundering and Terrorist Financing Policy, and cooperated with law enforcement agencies to take appropriate measures to comprehensively combat money laundering and terrorist financing activities to prevent criminals or terrorists, and to do money laundering action and terrorist financing through Southwest Securities International Securities Limited.

During the Reporting Period, the Group had not identified any non-compliance to laws and regulations in relation to corruption, bribery, extortion, fraud and money laundering, which had a significant impact on the Group.

B. SOCIAL (Continued)

B8. Community Investment

General Disclosure

Corporate Social Responsibility

Our employees believe that the Group, as a corporate citizen, should have the sense of fulfilling the social responsibility for the society. The core value of our company is in order to attain sustainable development goals, it must be achieved by maintaining the balance of the Group's development to the development of society. Hence, the Group pays attention to the difficulties and the social needs of the minority and vulnerable group. We actively donate to society, contribute to society and promote a harmonic society. The Group proactively partners and works with different NGOs and charity organizations to conduct charitable and social activities so as to respond to society's needs and establish a good model for the public.

During the Reporting Period, the Group had made donations to The Hong Kong Federation of Youth Groups and Society for the Prevention of Cruelty to Animals for supporting social welfare.

In recognition of the Group's continuous contribution to the community, the Group obtained various awards and certifications during the Reporting Period:

- "Caring Company" Logo by the Hong Kong Council of Social Service for the eleventh 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.

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

The Group also hopes to raise employees' sense of social responsibility. Therefore, it has encouraged employees to participate in charity activities during their work and personal time to make greater contributions to the community. It has also arranged employees to participate in environmental protection activities, donation for educational development, and social services. We believe by giving back to the community through relevant activities, the community awareness of employees can be enhanced and correct values can be established.

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions — Exhaust Gas and GHG Emissions, Waste Management, Sewage Discharge
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Not applicable — Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of reduction initiatives and results achieved.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Electricity and Energy Consumption
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Not applicable — Explained
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Electricity and Energy Consumption
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Not applicable — Explained

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED (Continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED (Continued)

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

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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 (the "Group") set out on pages 60 to 137, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2018, 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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter

Impairment assessment on accounts receivable arising from securities margin clients

The Group has adopted HKFRS 9 on 1 January 2018. The key change arising from the adoption is that the Group's credit losses are now estimated based on a forward looking expected-loss impairment model rather than an incurred loss model.

As at 1 January 2018, an additional impairment allowance of HK$16.2 million arising from securities margin clients with a gross balance of HK$566.0 million was recognised on initial adoption of HKFRS 9 and the opening accumulated losses were restated in accordance with the transitional arrangements.

As at 31 December 2018, gross accounts receivable arising from securities margin clients and its related impairment allowance amounted to HK$1,107.8 million and HK$71.8 million respectively.

The assessment of impairment for accounts receivable arising from securities margin clients involves significant management judgements and estimates in the assessment of credit risk, the uses of models and the choices of inputs in the calculation of expected credit loss at the reporting date.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

How our audit addressed the key audit matter

We obtained an understanding of the Group's credit risk management and practices, and assessed the Group's impairment provisioning policy and related management judgements.

For assessment of impairment allowance of securities margin clients as at 1 January 2018 and 31 December 2018:

- We tested the appropriateness of the Group's determination of significant increase in credit risk and the basis for classification of exposures into the three stages. Our testing included checking to margin loan overdue information, loan-to-value percentage or other related information, and considering the stage classification determined by the Group.

- For securities margin clients classified at stage 1 and stage 2, we evaluated the Group's estimation methodology of expected credit losses, and checked the parameters to external data sources where available, including default rates provided by credit rating agency. Furthermore, we assessed and tested the sensitivity of the impairment allowance to changes in modelling assumptions, including the forward-looking probability weighted economic scenarios.

- For securities margin clients classified at stage 3, we checked the valuation of the collateral and other sources of cash flows, and developed a reasonable range of expected cash shortfall for comparison with the Group's assessment of impairment allowance.

We also evaluated the Group's disclosures in relation to credit risk and transitional arrangements of HKFRS 9 in Note 1 and Note 15 to the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)
Revenue recognition of corporate finance services relating to IPO sponsor fee income	
The Group adopted HKFRS 15 on 1 January 2018. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. For the year ended 31 December 2018, IPO sponsor fee income of HK$18.7 million was recognised by the Group. The recognition of IPO sponsor fee income involves significant management judgements and estimates on: (i) the identification of performance obligation; (ii) the establishment of the timing of satisfaction of the performance obligation; and (iii) the determination of an appropriate method to measure the progress towards the completion of the performance obligation. As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation. In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract. For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date. For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.	We obtained an understanding of the Group's methodology for revenue recognition, including an evaluation of management judgements on the determination of the amount and timing of recognition of revenue from contracts with customers. Our procedures to assess the recognition of revenue of IPO sponsor fee income included the following: • We inspected IPO sponsor contracts, on a sample basis, to assess whether performance obligations were properly identified and whether the appropriate method (i.e. overtime versus at a point in time) for recognising revenue upon the satisfaction of the performance obligation was used. • For the measurement of project progress and the recognition of the related revenue overtime, we obtained the project status reports, on a sample basis, and assessed their reasonableness by checking to the supporting evidence, such as project minutes and correspondences with The Stock Exchange of Hong Kong Limited. • For IPO sponsor fee income being recognized at a point in time, we checked to the supporting evidence, for example, successful listing announcement or termination notice. We also evaluated the Group's disclosures in relation to HKFRS 15 requirements in Note 1, and Note 3 to the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)
Uncertainty related to ability to settle bonds payable due in May 2019 that may cast doubt on going concern	
As at 31 December 2018, the short-term liquid resources of the Group, namely, financial assets at fair value through profit or loss and cash and bank balance, amounted to HK$889.1 million in aggregate. This aggregate amount was insufficient to settle bonds payable due in May 2019 of HK$1,945.5 million as at 31 December 2018. The facts and circumstances were analysed and the directors of the Company consider that the going concern basis of accounting is appropriate. The Group obtained a letter of undertaking from the immediate holding company, Southwest Securities International Investment Limited ("SWII"), confirming its intention to provide financial support to enable the Group to continue operating for a period of not less than twelve months from 1 March 2019. Furthermore, the Group has prepared cash flow forecasts with different scenarios for the next twelve months after the year end date. Based on the above, in the opinion of the directors of the Company, the Group will be able to meet its debts as and when they fall due.	Our procedures in relation to the consideration of the going concern basis of accounting included the following: • We discussed with management of the Group and obtained understanding on the measures taken by management to address the going concern and the basis and assumptions adopted in the preparation of the cash flow forecasts for the scenarios for the next twelve months after the end of the reporting period. • We assessed the reasonableness of the underlying data of the cash flow forecasts, such as assumptions and parameters, and the appropriateness of the calculation basis. In addition, we verified the relevant supporting evidence. • We checked to the executed underwriting agreement for the rights issue entered between the Company and the underwriter. The Company will raise approximately HK$159.9 million before expenses as explained in note 1 to the consolidated financial statements. • In view of the written letter from SWII for its financial support to the Group, we discussed with management of SWII and reviewed the financial position of SWII as at 31 December 2018.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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 THE DIRECTORS 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 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 Bermuda Companies Act 1981, 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 judgement and maintain professional scepticism 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.

- 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.

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.

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

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 partner on the audit resulting in this independent auditor's report is Tso Miu Yue, Agnes.

Certified Public Accountants
Hong Kong
22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	*3*	**122,172**	240,097
Other income and gains	*5*	**8,479**	27,102
Reversal of allowance for doubtful debts		**–**	37,660
Fair value change on derivative financial liabilities	*19*	**77,413**	135,367
		208,064	440,226
Fee and commission expenses		**(24,668)**	(24,857)
Fair value change on derivative financial assets		**–**	(5,851)
Finance costs	*6a*	**(146,479)**	(117,878)
Staff costs	*6b*	**(96,360)**	(96,212)
Depreciation		**(10,928)**	(9,112)
Expected credit losses on financial assets, net		**(7,599)**	–
Impairment loss on accounts receivable		**–**	(5,150)
Other operating expenses		**(104,301)**	(177,074)
Other losses arising from consolidation of investment fund		**(14,477)**	–
Total expenses		**(404,812)**	(436,134)
(Loss)/profit before tax	*6*	**(196,748)**	4,092
Income tax expense	*8*	**(5,000)**	(3,000)
(Loss)/profit for the year attributable to equity shareholders of the Company		**(201,748)**	1,092
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		**(160)**	680
Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets		**–**	12,069
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(160)**	12,749
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		**(168)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(168)**	–
Other comprehensive income for the year, net of tax		**(328)**	12,749
Total comprehensive income for the year attributable to equity shareholders of the Company		**(202,076)**	13,841
			(Restated)
(Loss)/earnings per share			
— Basic (HK cents)	*9*	**(7.765)**	0.042
— Diluted (HK cents)	*9*	**(7.765)**	0.042

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity shareholders of the Company							
	Share capital *HK$'000*	Investment revaluation reserve *HK$'000*	Share premium *HK$'000*	*Capital reserve *HK$'000*	Foreign exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total reserve *HK$'000*	Total *HK$'000*
At 1 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	–	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

	Attributable to equity shareholders of the Company							
	Share capital ***HK$'000***	**Investment revaluation reserve** ***HK$'000***	**Share premium** ***HK$'000***	***Capital reserve** ***HK$'000***	**Foreign exchange reserve** ***HK$'000***	**Accumulated losses** ***HK$'000***	**Total reserve** ***HK$'000***	**Total** ***HK$'000***
At 1 January 2018	**244,121**	**–**	**214,319**	**40,836**	**444**	**(250,810)**	**4,789**	**248,910**
Effect of adoption of HKFRS 9	**–**	**(13,021)**	**–**	**–**	**–**	**(4,019)**	**(17,040)**	**(17,040)**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(201,748)**	**(201,748)**	**(201,748)**
Exchange difference on translation of financial statements of foreign subsidiaries	**–**	**–**	**–**	**–**	**(160)**	**–**	**(160)**	**(160)**
Change in fair value of financial assets at fair value through other comprehensive income	**–**	**(168)**	**–**	**–**	**–**	**–**	**(168)**	**(168)**
Other comprehensive income for the year, net of tax	**–**	**(168)**	**–**	**–**	**(160)**	**–**	**(328)**	**(328)**
Total comprehensive income for the year	**–**	**(168)**	**–**	**–**	**(160)**	**(201,748)**	**(202,076)**	**(202,076)**
At 31 December 2018	**244,121**	**(13,189)**	**214,319**	**40,836**	**284**	**(456,577)**	**(214,327)**	**29,794**

* 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 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Fixed assets	10	**13,744**	20,429
Financial assets at fair value through other comprehensive income	12	**1,079**	–
Available-for-sale financial assets	12	**–**	1,247
Other non-current assets	13	**7,654**	6,033
		22,477	27,709
Current assets			
Loans and advances		**–**	30
Financial assets at fair value through profit or loss	14	**447,324**	790,261
Accounts receivable	15	**1,099,683**	612,082
Prepayments, other receivables and other assets	16	**14,881**	124,521
Cash and bank balances	17	**441,812**	645,184
		2,003,700	2,172,078
Current liabilities			
Bonds payable	18	**1,945,475**	1,797,552
Derivative financial liabilities	19	**–**	75,019
Accounts payable	20	**4,002**	25,526
Other payables and accrued charges	21	**38,906**	49,780
Tax payable		**8,000**	3,000
		1,996,383	1,950,877
Net current assets		**7,317**	221,201
NET ASSETS		**29,794**	248,910
Capital and reserves			
Share capital	23	**244,121**	244,121
Reserves		**(214,327)**	4,789
TOTAL EQUITY		**29,794**	248,910

The consolidated financial statements on pages 60 to 137 were approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(196,748)**	4,092
Adjustments for:			
Depreciation		**10,928**	9,112
Fair value change on derivative financial liabilities		**(77,413)**	(135,367)
Fair value change on derivative financial assets		**–**	5,851
Gain on disposal of available-for-sale financial assets			
— equity securities		**–**	(8,943)
Impairment loss on financial assets		**7,599**	5,150
Loss on disposal of fixed assets	*6(c)*	**–**	117
Loss on disposal of available-for-sale financial assets			
— debt component of convertible bonds	*6(c)*	**–**	1,377
Reversal of allowance for doubtful debts		**–**	(37,660)
Exchange loss, net		**59,237**	126,860
Other interest income	*5*	**(7,236)**	(13,937)
Interest expenses	*6(a)*	**146,479**	117,878
Dividend income from financial assets at fair value through other			
comprehensive income/available-for-sale financial assets	*5*	**(7)**	(2,122)
Changes in working capital:			
Increase in other non-current assets		**(1,631)**	(1,363)
Decrease in loans and advances		**30**	11
Decrease/(increase) in financial assets at fair value through profit or loss		**342,937**	(393,544)
Increase in accounts receivable		**(512,119)**	(188,095)
Decrease/(increase) in prepayments and other receivables			
and other assets		**109,530**	133,114
Decrease in derivative financial liabilities held for trading		**(19)**	(311)
(Decrease)/increase in accounts payable		**(21,524)**	4,749
(Decrease)/increase in other payables and accrued charges		**(15,927)**	7,819
Cash used in operations		**(155,884)**	(365,212)
Interest received		**7,236**	12,895
Interest paid		**(191)**	(175)
Net cash used in operating activities		**(148,839)**	(352,492)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from financial assets at fair value through other comprehensive income/available-for-sale financial assets		**7**	2,122
Interest received from available-for-sale financial assets/ held-to-maturity investments		**–**	19,184
Proceeds from disposal of held-to-maturity investments		**–**	116,060
Interest received from cross-currency swap		**59,468**	111,482
Interest paid to cross-currency swap		**(43,646)**	(88,015)
Proceed from cross-currency swap final exchange		**1,859,250**	–
Payment of cross-currency swap final exchange		**(1,872,659)**	–
Proceeds from disposal of available-for-sale financial assets		**–**	337,545
Payment for purchase of fixed assets	*10*	**(4,243)**	(14,641)
Net cash (used in)/generated from investing activities		**(1,823)**	483,737
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds	*17b*	**1,957,319**	–
Payment of transaction costs on issuance of bonds	*17b*	**(25,510)**	–
Repayment of bonds issuance	*17b*	**(1,859,250)**	–
Proceeds from short-term bank loans	*17b*	**100,903**	140,000
Repayment of short-term bank loans	*17b*	**(100,903)**	(140,000)
Bank loan interest paid	*17b*	**(155)**	(49)
Interest paid on bonds issued	*17b*	**(122,909)**	(111,482)
Net cash used in financing activities		**(50,505)**	(111,531)
Net increase in cash and cash equivalents		**(201,167)**	19,714
Cash and cash equivalents at the beginning of the year		**645,184**	624,790
Effect on exchange rate changes		**(2,205)**	680
Cash and cash equivalents at the end of the year	*17*	**441,812**	645,184

The accompany 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 ("SSII"), 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.

The principal activities of the Company and its subsidiary (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 and money lending; and

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

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

Bonds repayments in May 2019

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

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

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basic of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Change in accounting policy and disclosures

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

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

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

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

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

(a) Classification and measurement

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Change in accounting policy and disclosures (Continued)

(a) Classification and measurement (Continued)

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

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

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

Notes:

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Change in accounting policy and disclosures (Continued)

(b) Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 15 and 16 to the consolidated financial statements.

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

(c) Reserves

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Change in accounting policy and disclosures (Continued)

(a) Classification and measurement (Continued)

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Further details are included in notes 2 and 3 to the consolidated financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 1 to the consolidated financial statements.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases* — Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of approximately HK$52,398,000 and lease liabilities of HK$53,204,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2015–2017 Cycle sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- HKFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends.

- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

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.

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)

Fair value measurement

The Group measures its financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded as investment revaluation reserve in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in profit or loss. The loss arising from impairment is recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Subsequent measurement (Continued)

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other income and gains in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has applied probability of default based on that of comparable companies, adjusted for forward-looking factors specific to the debtors and the economic environment.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include bonds payable, derivative financial liabilities, accounts payable and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

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 and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Provision of securities, futures and options brokerage services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income on securities and futures dealing and broking is generally due within one to three days after trade date.

Provision of underwriting and placing services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income from underwriting and placing is recognised when the underlying securities are being written or placed.

Provision of IPO sponsor services

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation. In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

IPO Sponsor fee is generally due within 30 to 90 days upon reaching the contracts' milestone payment terms.

Provision of consultancy and financial advisory services

The performance obligations for certain consultancy and financial advisory services are fulfilled when all the relevant duties of an advisor as stated in the contract are completed. Consultancy and financial advisory fee is generally due within 30 to 90 days upon reaching contracts' milestone payment terms.

Certain consultancy and financial advisory services' performance obligations are satisfied over time as services are rendered if the customer simultaneously receives and consumes the benefits provided by the Group. These services are charged at agreed fee billed on a mutually basis (e.g. regular period).

Provision of asset management services

Revenue from asset management services is recognised over time as the services are provided. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and due on a regular basis as mutually agreed.

Provision of insurance brokerage service

The performance obligation relating to the insurance brokerage service is satisfied at the point when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder. Insurance brokerage fees are generally due within 30 to 90 days upon the commencement of the policy.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Corporate finance arrangement and commitment services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Corporate finance arrangement and commitment is generally due when the service period is completed.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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 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 currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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 for financial reporting purposes.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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;
- (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); and
- (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.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of recognition of revenue from contracts with customers:

(i) Identification of the performance obligations, recognition of revenue over time versus at a point in time, and choosing an appropriate method of measuring progress of IPO sponsor service

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation.

In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(1) Provision for ECL allowance of accounts receivable from securities margin clients

The Group calculate ECL allowance for accounts receivable from securities margin clients based on the estimated probability of default of counterparties with similar credit ratings, with adjustment to reflect the current conditions and forecasts of future economic conditions, as appropriate.

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(2) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was nil *(2017: nil)*. The amount of unrecognised tax losses is disclosed in note 22 to the consolidated financial statements.

3. REVENUE

An analysis of revenue is as follow:

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

3. REVENUE (Continued)

Note:

(i) Disaggregated revenue information:

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

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

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

Reportable operating segments

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

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

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

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

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

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

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

Geographical segments

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

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

4. SEGMENT INFORMATION (Continued)

Major customers

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

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

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

5. OTHER INCOME AND GAINS

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

6. (LOSS)/PROFIT BEFORE TAX

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

Note:

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

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:

2018

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)*	–	1,788	2,129	18	3,935
Zhao Dongmei	–	–	–	–	–
Wang Huiyun	–	–	–	–	–
Xiong Xiaoqiang	–	–	–	–	–
Independent Non-executive Directors:					
Wu Jun	204	–	–	–	204
Meng Gaoyuan	204	–	–	–	204
Guan Wenwei	204	–	–	–	204
	612	1,788	2,129	18	4,547

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

2017

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

Notes:

(i) Mr. Luo Yi resigned as a director on 28 February 2019.

(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 2018 *(2017: Nil)*.

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

After due and careful consideration, the Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its holding 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 2018 *(2017: Nil)* or at any time during the year ended 31 December 2018 *(2017: Nil)*.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, one *(2017: 1)* was Director whose emoluments are disclosed above. The aggregate of the emoluments in respect of the four *(2017: four)* individuals, excluding Directors' emoluments, are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other benefits	**8,822**	7,518
Discretionary bonus	**7,715**	9,416
Contributions to retirement benefit schemes	**72**	72
	16,609	17,006

	Number of individuals	
	2018	2017
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	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**1**	2
HK$5,500,001 to HK$6,000,000	**1**	–
	4	4

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 for the years ended 31 December 2018 and 31 December 2017. There were no arrangements under which Directors waived or agreed to waive any remuneration for the years ended 31 December 2018 and 31 December 2017.

8. INCOME TAX EXPENSE

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

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

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(196,748)**	4,092
Income tax at applicable tax rate of 16.5% (2017: 16.5%)	**(32,463)**	675
Tax relief of 8.25% on first HK$2 million assessable profit	**(165)**	–
Tax effect on non-deductible expenses	**31,983**	39,619
Tax effect on non-taxable items	**(15,207)**	(32,112)
Unrecognised temporary difference	**1,671**	592
Utilisation of previously unrecognised tax losses	**(1,687)**	(14,945)
Tax effect on unrecognised tax losses	**20,946**	9,152
Effect of different tax rate of PRC subsidiaries	**(32)**	(27)
Over-provision of tax in prior years	**76**	–
Others	**(122)**	46
Total tax expense at effective tax rate of -2.5% (2017: 73.3%)	**5,000**	3,000

9. (LOSS)/EARNINGS PER SHARE

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

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

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

Note:

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

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 – 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
Reconciliation of carrying amount – 2018						
At 1 January 2018	**7,923**	**1,357**	**755**	**10,028**	**366**	**20,429**
Additions	**455**	**–**	**14**	**3,017**	**757**	**4,243**
Depreciation	**(4,117)**	**(341)**	**(189)**	**(6,018)**	**(263)**	**(10,928)**
At 31 December 2018	**4,261**	**1,016**	**580**	**7,027**	**860**	**13,744**
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
At 31 December 2018						
Cost	**10,984**	**1,708**	**1,030**	**22,249**	**1,443**	**37,414**
Accumulated depreciation and impairment losses	**(6,723)**	**(692)**	**(450)**	**(15,222)**	**(583)**	**(23,670)**
	4,261	**1,016**	**580**	**7,027**	**860**	**13,744**

11. 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") with carrying amount of nil as at 31 December 2018 ad 2017.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	2018 HK$'000	2017 HK$'000
Available-for-sale financial assets			
Unlisted equity securities, at cost	*(i)*	–	14,268
Impairment losses		–	(13,021)
Available-for-sale financial assets		–	1,247
Financial assets at fair value through other comprehensive income			
Unlisted equity investments, at fair value	*(i), (ii)*	**1,079**	–

Notes:

(i) The unlisted equity securities represent the Group's investments in three *(2017: three)* private entities.

(ii) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

13. OTHER NON-CURRENT ASSETS

	2018 HK$'000	2017 HK$'000
Reserve fund deposits with the Futures Exchange	**1,500**	1,709
Statutory deposits with the Stock Exchange	**300**	1,712
Statutory deposits with the Securities and Futures Commission ("SFC")	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**1,500**	2,412
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
Rental deposits — non-current portion	**4,164**	–
Less: impairment	**(10)**	–
	7,654	6,033

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

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

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

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

(iv) The Group participated with two independent third parties in a non-listed investment fund in the Cayman Islands in September 2017 with a principal business of investment in the securities traded in The Stock Exchange of Hong Kong Limited, including listed stocks, preference shares or convertible securities. In November 2017, Southwest Securities (HK) Asset Management Limited ("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.

15. ACCOUNTS RECEIVABLE

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

Notes:

(a) Accounts receivable analysis on securities margin clients

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

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

(i) (Continued)

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

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

(ii) Accounts receivable from securities margin clients of the Group are internally classified into the following categories:

Excellent : Margin obligations are expected to be met and exposures are fully secured by collaterals, which demonstrate good loan-to-collaterals' value ratios ("LTVs"). Repayment of interest and principal is not in doubt.

Good : Margin obligations are expected to be met and exposures are fully secured by collaterals, but LTVs are higher than the excellent grade exposures. Repayment of interest and principal is not in doubt.

Non-performing : Exposures where some losses of principal or interest may be possible after taking into account of the realizable value of the underlying collaterals.

Individually impaired : Exposures where default events have occurred and individual impairment assessments are made to determine the impairment allowances.

The following is the analysis of the gross carrying amount of the accounts receivable from securities margin clients as at 31 December 2018 by the Group's internal credit rating and year end classification:

2018

	12-months ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
Internal rating grade				
Excellent	**651,179**	**–**	**–**	**651,179**
Good	**230,644**	**–**	**–**	**230,644**
Non-performing	**–**	**160,637**	**–**	**160,637**
Individually impaired	**–**	**–**	**65,355**	**65,355**
	881,823	**160,637**	**65,355**	**1,107,815**

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

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

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

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

- Transfer of account receivables from securities margin clients of HK$158,828,000 from stage 1 to stage 2 has resulted in an increase in loss allowance of HK$6,028,000; and
- Transfer of account receivables from securities margin clients of HK$1,461,000 from stage 1 to stage 2 has resulted in an increase in loss allowance of HK$1,461,000

Impairment under HKAS 39 for the year ended 31 December 2017

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

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

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Accounts receivable other than securities margin clients analysis

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

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

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

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

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

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2018, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") of HK$3,060,000 *(2017: Nil)*, with legally enforceable right to set off the corresponding receivable and payable balances. Details of the offsetting of these balances are set out in note 15(c) to consolidated financial statements.

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Accounts receivable other than securities margin clients analysis (Continued)

(i) (Continued)

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

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

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

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

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Accounts receivable other than securities margin clients analysis (Continued)

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

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

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

(c) Offsetting

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

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

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

15. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(c) Offsetting (Continued)

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

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

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 *HK$'000*	2017 *HK$'000*
Deposits, prepayments and other receivables	**13,930**	21,810
Deposit with bank in respect of cross-currency swap*	**–**	102,711
Statutory deposits with the Stock Exchange	**1,028**	–
Contributions to the Central Clearing and Settlement System Guarantee Fund	**33**	–
Less: impairment	**(110)**	–
	14,881	124,521

* Deposit with bank in respect of cross-currency swap agreement was received in full when due on May 2018.

16. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The movements in the impairment allowance of prepayments and other receivables and other assets were as follows:

	2018			
	12-months ECL (Stage 1)	**Lifetime ECL not credit-impaired (Stage 2)**	**Lifetime ECL credit-impaired (Stage 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January	**–**	**–**	**–**	**–**
Effect of adoption of HKFRS 9	**15**	**–**	**–**	**15**
Charged/(credit) to profit or loss	**95**	**–**	**–**	**95**
As at 31 December	**110**	**–**	**–**	**110**

17. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018	2017
	HK$'000	*HK$'000*
Pledged deposits	**–**	–
Cash and bank balances	**441,812**	645,184
Cash and cash equivalents in the consolidated statement of cash flows	**441,812**	645,184

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$824,959,000 *(2017: HK$489,030,000)*.

17. 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 2018	–	10,815	1,797,552	1,808,367
Changes from financing cash flows:				
Proceeds from short-term in bank loans *(Note (i))*	100,903	–	–	100,903
Repayment of short-term in bank loans *(Note (i))*	(100,903)	–	–	(100,903)
Repayment of bonds issuance	–	–	(1,859,250)	(1,859,250)
Proceeds from issuance of bonds	–	–	1,957,319	1,957,319
Payment of transaction costs of issuance of bonds	–	–	(25,510)	(25,510)
Bank loan interest paid	(155)	–	–	(155)
Bonds interest paid	–	(122,909)	–	(122,909)
Total changes from financing cash flows	(155)	(122,909)	72,559	(50,505)
Exchange difference	–	628	56,564	57,192
Other changes:				
Interest expenses	155	127,333	18,800	146,288
At 31 December 2018	–	15,867	1,945,475	1,961,342

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

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans	Interest payable including in other payable and accrued charges	Bonds payable	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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 difference	**–**	**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$100,903,000 *(2017: HK$140,000,000)* were drawndown for the Group's margin financing business, in which HK$50,903,000 *(2017: HK$100,000,000)* were secured by new issued shares of a listed company subscribed by margin clients and HK$50,000,000 *(2017: 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.

18. BONDS PAYABLE

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

Note:

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

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

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

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

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

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

19. DERIVATIVE FINANCIAL LIABILITIES

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

Notes:

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

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

20. ACCOUNTS PAYABLE

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

20. 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.

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.

21. OTHER PAYABLES AND ACCRUED CHARGES

	2018 HK$'000	2017 HK$'000
Accrued charges	**22,439**	38,245
Interest payables	**15,867**	10,815
Other payables	**600**	720
	38,906	49,780

22. DEFERRED TAXATION

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**–**	–	**(563)**	(1,155)
Tax losses	**563**	1,155	**–**	–
Deferred tax assets (liabilities)	**563**	1,155	**(563)**	(1,155)
Offset deferred tax assets and liabilities	**(563)**	(1,155)	**563**	1,155
Net deferred tax assets (liabilities)	**–**	–	**–**	–

Unrecognised deferred tax assets arising from

	2018	2017
	HK$'000	*HK$'000*
Deductible temporary differences	**6,175**	66
Tax losses	**701,789**	564,737
	707,964	564,803

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.

23. SHARE CAPITAL

	2018		2017	
	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

24. 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 years ended 31 December 2017 and 2018, there were no outstanding share option and no share option was granted, exercised, cancelled or lapsed under both the 2004 Share Option Scheme and the 2013 Share Option Scheme.

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

25. 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:

	2018 ***HK$'000***	2017 *HK$'000*
Employer's contributions charged to profit or loss *(Note 6(b))*	**2,009**	1,785

26. 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**	**2018** ***HK$'000***	2017 *HK$'000*
Key management personnel, other than Directors	Salaries, commission and allowances	**28,694**	20,169
	Contributions to retirement benefit schemes	**173**	202
		28,867	20,371
Ultimate holding company	Referral fee expenses	**370**	711
A related company *(Note)*	Underwriting and placing commission income	**591**	1,562
	Bond interest income	**464**	502
		1,055	2,064

Note:

This related company and SWSC 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").

27. 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:

2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
		Equity investments	Held for trading	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at fair value through other comprehensive income	–	1,079	–	1,079
Other non-current assets	7,654	–	–	7,654
Financial assets at fair value through profit or loss	–	–	447,324	447,324
Accounts receivable	1,099,683	–	–	1,099,683
Other receivables and other assets	8,201	–	–	8,201
Cash and bank balances	441,812	–	–	441,812
	1,557,350	1,079	447,324	2,005,753

2018	Financial liabilities at amortised cost	Total
	HK$'000	*HK$'000*
Financial liabilities		
Bonds payable	1,945,475	1,945,475
Accounts payable	4,002	4,002
Other payables and accrued charges	38,906	38,906
	1,988,383	1,988,383

27. 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	Held-to-maturity HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Financial assets at fair value through profit or loss: Held for trading HK$'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
Other receivables and other assets	–	116,767	–	–	116,767
Cash and bank balances	–	645,184	–	–	645,184
	–	1,380,096	1,247	790,261	2,171,604

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

28. 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 the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through profit or loss, certain accounts receivable from securities margin clients with floating interest rates, cash and bank balances and bonds payable.

The Group's investments in debt securities being classified as financial assets at fair value through profit or loss and bonds payable bear fixed interest rates. Therefore, in the opinion of the directors, the interest rate risk arising from the debt securities and bonds payable are considered to be minimal.

As at 31 December 2018, if the interest rate on the bank balances is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax *(2017: profit before tax)* for the year of the Group would have decreased/increased by HK$2,209,000 *(2017: increased/ decreased by HK$3,226,000)* as a result of higher/lower interest income.

The Group has interest earning assets in securities margin loans to clients and the exposure to interest rate risk mainly arises on certain client securities margin accounts with floating interest rates. As at 31 December 2018, if the interest rate on the margin loans is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax for the year would have decreased/ increased by HK$1,885,000 *(2017: the Group's profit before tax would be increased/decreased by HK$1,536,000)* as a result of higher/lower interest income.

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 Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the Group's consolidated statement of financial position. These amounts represent the worst case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached.

The Group has concentration of credit risk as 25% *(2017: 24%)* and 60% *(2017: 46%)* 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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position:

- Bank deposits and balances are placed with authorized financial institutions in Hong Kong and reputable financial institution in PRC, which management believes are of high credit quality.

- For accounts receivable from securities margin clients, the Group's policy requires the review of individual outstanding amounts regularly depending on individual circumstances or market condition. The assessment normally encompasses collateral held, which is valued on a daily basis for marketable securities, and the anticipated receipts for that individual account. Details of the provision for impairment losses of accounts receivable from securities margin clients are included in note 15 to the consolidated financial statements.

- For the debt securities investments, management monitors the credit quality on these investments on a regular basis and consider the credit risk is manageable.

Foreign currency risk

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

The Group considers the risk exposure to foreign currency fluctuation in U.S. dollar would be minimal as long as the Hong Kong dollar remains pegged to the U.S. dollar.

As at 31 December 2017, 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 18)*, in which the Group agrees to exchange, at specific intervals, Renminbi principal and interest of the Bonds payable into Hong Kong dollars. The Renminbi bonds payable and the cross-currency swap were matured and settled during the year ended 31 December 2018. There were no material Renminbi exposure as at 31 December 2018.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. 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:

	2018					2017				
	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	**–**	**2,017,974**	**–**	**2,017,974**	**1,945,475**	–	1,848,529	–	1,848,529	1,797,552
Accounts payable	**4,002**	**–**	**–**	**4,002**	**4,002**	25,526	–	–	25,526	25,526
Other payables and accrued charges	**23,039**	**15,867**	**–**	**38,906**	**38,906**	38,965	10,815	–	49,780	49,780
Derivative financial liabilities										
Cross-currency swap					**–**					75,000
– Receipts	**–**	**–**	**–**	**–**		–	(1,848,529)	–	(1,848,529)	
– Payments	**–**	**–**	**–**	**–**		–	1,909,332	–	1,909,332	
Futures contracts	**–**	**–**	**–**	**–**	**–**	19	–	–	19	19
	27,041	**2,033,841**	**–**	**2,060,882**	**1,988,383**	64,510	1,920,147	–	1, 984,657	1,947,877

28. 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 financial assets at fair value through other comprehensive income/available-for-sale financial assets and financial assets at fair value through profit or loss as at 31 December 2017 and 2018, details of which have been set out in notes 12 and 14 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:

	2018		2017	
	At 31/12/2018	**High/Low from 1/1/2018 to 31/12/2018**	At 31/12/2017	High/Low from 1/1/2017 to 31/12/2017
Hong Kong — Hang Seng Index	**25,846**	**33,484/24,541**	29,919	30,003/22,134
PRC — SZSE Component Index	**7,240**	**11,633/7,084**	11,040	11,715/9,483
PRC — SSE Composite Index	**2,494**	**3,587/2,449**	3,307	3,447/3,052

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.

At the end of the reporting period, if the equity price had been 5% *(2017: 5%)* higher/lower with all other variables held constant, the Group's loss before tax would be decreased/increased by HK$14,619,000 *(2017: the Group's profit before tax would be increased/decreased by HK$32,233,000)* as a result of changes in fair value of listed financial assets classified as financial assets at fair value through profit or loss. Investment revaluation reserve would be increased/decreased by HK$54,000 *(2017: Nil)* as a result of changes in fair value of unlisted equity securities classified as financial assets at fair value through other comprehensive income.

29. 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 2018 and 31 December 2017 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.

2018

	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	**246,860**	**246,860**	**–**	**–**
— Debt securities listed outside Hong Kong	**154,944**	**–**	**154,944**	**–**
— Unlisted fund investments	**45,520**	**–**	**45,520**	**–**
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	**1,079**	**–**	**–**	**1,079**

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	–	–

Management has assessed that the carrying amounts of other non-current assets, accounts receivable, other receivables and other assets, cash and cash equivalents, bonds payable, accounts payable and other payables and accrued charges approximate their fair values largely due to the short term maturities of these instruments or immaterial impact on discounting for non-current assets.

29. FAIR VALUE MEASUREMENTS (Continued)

Movements in Level 3 fair value measurements of financial assets

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 *HK$'000*
Equity investments at fair value through other comprehensive income	
At 1 January	–
Effect of adoption of HKFRS 9	**1,247**
Total losses recognised in other comprehensive income	**(168)**
At 31 December	**1,079**

The fair value is determined with reference to the latest net asset value of the investments which are the deemed resale reference price of the investments. Management have determined that the reported net asset values represent fair value of these investments.

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

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

The fair values of certain listed debt securities, unlisted fund investments 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.

(i) Listed debt securities

The fair value of debt securities was determined with reference to the quoted price provided by brokers/ financial institutions.

(ii) Unlisted fund investments

Note 14 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.

(iii) Derivative financial liabilities

Derivative financial liabilities, mainly representing cross-currency swap, are determined using the discounted cash flow method, of which key inputs are observable forward exchange rate and discount rate. The fair values are estimated by an independent valuer.

29. FAIR VALUE MEASUREMENTS (Continued)

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.

30. 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 and bonds. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

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$1,945,475,000 *(2017: HK$1,797,552,000)* for financing the operations of the Group which resulted in a gearing ratio of 6,529.8% *(2017: 722.2%)*.

31. 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.

	2018 ***HK$'000***	2017 *HK$'000*
Minimum lease payments paid under operating leases		
— Land and buildings	**17,378**	32,873
— Other assets	**301**	253
	17,679	33,126

31. COMMITMENTS (Continued)

Commitments under operating leases (Continued)

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:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**16,392**	16,069
In the second to fifth year, inclusive	**1,287**	17,057
	17,679	33,126

Capital commitments

	2019	2018
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the consolidated financial statements	**971**	997

32. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK$90,000,000 *(2017: HK$90,000,000)* and unlimited guarantee for a facility amounted to HK$200,000,000 *(2017: HK$560,000,000)* for banking facilities granted to subsidiaries from banks, which none of the amount was utilised *(2017: Nil)*.

33. 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	2018 HK$'000	2017 HK$'000
Non-current assets			
Interests in subsidiaries	*(a)*	**1,402,602**	874,567
		1,402,602	874,567
Current assets			
Financial assets at fair value through profit or loss		**251,341**	592,373
Deposits, prepayments and other receivables		**55,965**	363,621
Cash and bank balances		**281,941**	301,736
		589,247	1,257,730
Current liabilities			
Bonds payable		**1,945,355**	1,796,634
Derivative financial liabilities		**–**	75,019
Other payables and accrued charges		**16,700**	11,734
		1,962,055	1,883,387
Net current liabilities		**(1,372,808)**	(625,657)
Total assets less current liabilities		**29,794**	248,910
NET ASSETS		**29,794**	248,910
Capital and reserves			
Share capital		**244,121**	244,121
Reserves	*(b)*	**(214,327)**	4,789
TOTAL EQUITY		**29,794**	248,910

Approved and authorised for issue by the Board of Directors on 22 March 2019 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

33. 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 2017	(12,269)	214,079	65,059	(275,921)	(9,052)
Profit for the year	–	–	–	1,572	1,572
Other comprehensive loss 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 loss for the year	12,269	–	–	–	12,269
Total comprehensive loss for the year	12,269	–	–	1,572	13,841
At 31 December 2017	–	214,079	65,059	(274,349)	4,789
At 1 January 2018	**–**	**214,079**	**65,059**	**(274,349)**	**4,789**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**(219,116)**	**(219,116)**
Total comprehensive income for the year	**–**	**–**	**–**	**(219,116)**	**(219,116)**
At 31 December 2018	**–**	**214,079**	**65,059**	**(493,465)**	**(214,327)**

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

Notes: (Continued)

(b) Movements of the reserves (Continued)

1. 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.

2. Share premium

The share premium account of the Company of HK$214,079,000 *(2017: 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).

3. 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 *(2017: Nil)*.

34. 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	100%	–	100%	Provision of asset management services, distribution of unit trusts and mutual funds
Southwest Securities (HK) Capital Limited ("SWSCAP")	Hong Kong/ Hong Kong	HK$60,000,000 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

34. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Futures Limited ("SWSFUT")	Hong Kong/ Hong Kong	HK$40,000,000 ordinary shares and HK$10,000,000 non-voting deferred shares *(2017: HK$30,000,000 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 broking services
Southwest Securities (HK) Investments Limited ("SWSINV")	Hong Kong/ Hong Kong	HK$1 ordinary share	100%	–	100%	Investment holding

34. 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	
西證咨詢服務（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.

35. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group had proposed to raise approximately HK$159.9 million before expenses by issuing 1,220,610,204 rights shares at the subscription price of HK$0.131 per rights shares. Details were discussed in note 1 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS:

	Financial year/period					
	1/1/2018 – 31/12/2018	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$'000*	*HK$'000*
Revenue	**122,172**	240,097	92,038	16,024	56,245	69,912
Profit (Loss) before tax	**(196,748)**	4,092	(167,186)	18,305	12,941	(17,646)
Income tax (expense) credit	**(5,000)**	(3,000)	263	(4,680)	(1,650)	(93)
Profit (Loss) for the year/period	**(201,748)**	1,092	(166,923)	13,625	11,291	(17,739)
Attributable to:						
Equity shareholders of the Company	**(201,748)**	1,092	(166,923)	13,625	11,291	(17,739)

ASSETS AND LIABILITIES:

	Assets and liabilities at					
	31/12/2018	31/12/2017	31/12/2016	31/12/2015	30/6/2015	30/6/2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**22,477**	27,709	104,222	433,326	140,010	113,097
Current assets	**2,003,700**	2,172,078	2,040,151	1,975,709	2,328,413	286,689
Total assets	**2,026,177**	2,199,787	2,144,373	2,409,035	2,468,423	399,786
Current liabilities	**(1,996,383)**	(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	**(1,996,383)**	(1,950,877)	(1,909,304)	(2,001,384)	(1,939,590)	(236,770)
Net total assets	**29,794**	248,910	235,069	407,651	528,833	163,016
Current ratio	**1.00**	1.11	8.16	7.99	27.30	1.21
Gearing ratio	**6,530%**	722%	706%	430%	351%	115%

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