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Southwest Securities International Securities Limited

西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “Board”) of directors (the “Directors”) of Southwest Securities International Securities Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the comparatives figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2018	2017
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fee and commission income		37,991	29,113
Interest income		32,884	30,664
Net investment gains		2,171	30,837
Total revenue	2	73,046	90,614
Other income and gains	3	4,162	36,369
Total revenue and other income and gains		77,208	126,983
Fee and commission expenses	2	(13,212)	(10,195)
Fair value change on derivative financial instruments		90,822	11,021
Finance costs	2, 4b	(70,201)	(57,210)
Staff costs	4a	(48,816)	(34,934)
Depreciation		(5,254)	(4,134)
Other operating expenses		(96,837)	(85,318)
Other losses arising from consolidation of investment fund	2, 4c	(14,626)	–
Total expenses		(158,124)	(180,770)
Loss before tax	4	(80,916)	(53,787)
Income tax expense	5	–	–
Loss for the period attributable to equity shareholders of the Company		(80,916)	(53,787)

* For identification purpose only

		Unaudited	
		Six months ended 30 June	
		2018	2017
	<i>Note</i>	HK\$'000	HK\$'000
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of financial statements of foreign subsidiaries		(177)	(318)
Change in fair value of available-for-sale financial assets		–	8,456
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		(168)	–
Other comprehensive income for the period, net of tax		<u>(345)</u>	<u>8,138</u>
Total comprehensive income for the period attributable to equity shareholders of the Company		<u>(81,261)</u>	<u>(45,649)</u>
Loss per share			
— Basic (<i>HK cents</i>)	6	<u>(3.315)</u>	<u>(2.203)</u>
— Diluted (<i>HK cents</i>)	6	<u>(3.315)</u>	<u>(2.203)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 30 June 2018 HK\$'000	Audited At 31 December 2017 HK\$'000
	<i>Note</i>		
Non-current assets			
Fixed assets		17,145	20,429
Intangible assets		–	–
Financial assets at fair value through other comprehensive income	7	1,079	–
Available-for-sale financial assets	7	–	1,247
Other non-current assets		9,353	6,033
		27,577	27,709
Current assets			
Loans and advances		–	30
Financial assets at fair value through profit or loss	8	779,553	790,261
Derivative financial assets		225	–
Accounts receivable	9	880,542	612,082
Deposits, prepayments and other receivables		19,506	124,521
Cash and bank balances	10	548,984	645,184
		2,228,810	2,172,078
Current liabilities			
Bonds payable	13	1,934,891	1,797,552
Derivative financial liabilities	11	1,218	75,019
Accounts payable	12	17,125	25,526
Other payables and accrued charges		45,818	49,780
Other liabilities arising from consolidation of investment fund	14	103,726	–
Tax payable		3,000	3,000
		2,105,778	1,950,877
Net current assets		123,032	221,201
NET ASSETS		150,609	248,910
Capital and reserves			
Share capital		244,121	244,121
Reserves		(93,512)	4,789
TOTAL EQUITY		150,609	248,910

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the 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 condensed 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).

These condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017. These condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

All amounts have been rounded to the nearest thousand of Hong Kong dollars (“HK\$”), unless otherwise indicated.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective for the current accounting period and has already commenced an assessment of the impact of these new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) but is not yet in a position to reasonably estimate their impact on its results of operations and financial position.

The Group applies, for the first time, HKFRS 9 Financial Instruments and as required by HKAS 34 Interim Financial Reporting, the nature and effect of these changes are disclosed below.

Several other HKFRSs, amendments and interpretations apply for the first time in 2018, but do not have a material impact on the interim condensed consolidated financial statements of the Group.

First Adoption of HKFRS 9 Financial Instruments

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.

As permitted by the transitional provisions of HKFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition are recognised in the opening retained profits of current year.

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

Classification and measurement

The Group classifies its financial assets as subsequently measured at either amortized cost or fair value depending on the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortized cost only if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Financial liabilities continue to be measured at either amortized cost or fair value through profit or loss (“FVTPL”). The criteria for designating a financial liability at FVTPL by applying the fair value option remains unchanged.

Impairment

HKFRS 9 required the impairment to be assessed based on an expected credit loss model, replacing the incurred loss methodology model under HKAS 39. Key changes in the Group’s accounting policy for impairment of financial assets are listed below.

The Group applies the simplified approach for certain accounts receivable with one year or less maturity and those that do not contain a significant financing component. Other than these, the general approach is applied.

Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime expected credit loss (“ECL”).

Under the general approach, financial assets migrate through the following three stages based on the degree of the change in credit risk since initial recognition:

- Stage 1: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.
- Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized.
- Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognized and the interest income is calculated by applying the effective interest rate to the net amortized cost of the financial assets.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. 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.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognized using an impairment allowance account. If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment allowance reverts from lifetime ECL to 12-months ECL.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group as at 1 January 2018:

(i) *Classification and measurement of financial instruments.*

Financial assets/liabilities	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Available-for-sale financial assets	Cost less impairment	Fair value through other comprehensive income (without recycling)	1,247	1,247
Other non-current assets	Amortized cost (loans and receivables)	Amortized cost	6,033	6,033
Loans and advances	Amortized cost (loans and receivables)	Amortized cost	30	30
Financial assets at fair value through profit or loss	Fair value through profit or loss (held for trading)	Fair value through profit or loss	790,261	790,261
Accounts receivable	Amortized cost (loans and receivables)	Amortized cost	612,082	595,057
Deposits and other receivables	Amortized cost (loans and receivables)	Amortized cost	124,521	124,506
Cash and bank balances	Amortized cost (loans and receivables)	Amortized cost	645,184	645,184
Bonds payable	Amortized cost	Amortized cost	1,797,552	1,797,552
Derivative financial liabilities	Fair value through profit or loss (derivative)	Fair value through profit or loss	75,019	75,019
Accounts payable	Amortized cost	Amortized cost	25,526	25,526
Other payables and accrued charges	Amortized cost	Amortized cost	49,780	49,780

(ii) *Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9*

Financial assets	Original carrying amount under HKAS 39 HK\$'000	Remeasurement (ECL allowance) HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Accounts receivable	612,082	(17,025)	595,057
Deposits and other receivables	124,521	(15)	124,506

(iii) *Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9*

Financial assets	Impairment allowance under HKAS 39 HK\$'000	Remeasurement (ECL allowance) HK\$'000	Impairment allowance under HKFRS 9 HK\$'000
Accounts receivable	48,145	17,025	65,170
Deposits and other receivables	–	15	15

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

Reportable operating segments

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

For the six months ended 30 June 2018 (Unaudited)							
	Brokerage and margin financing HK\$'000	Wealth management HK\$'000	Corporate finance HK\$'000	Proprietary trading HK\$'000	Asset management HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
Revenue	43,850	2,467	23,458	2,171	1,100	-	73,046
Commission expenses	(6,190)	(1,279)	(507)	(4,350)	(886)	-	(13,212)
Finance costs	(28,397)	-	-	(25,903)	-	(7)	(54,307)
Other losses arising from consolidation of investment fund	-	-	-	(14,626)	-	-	(14,626)
Results	(17,792)	(1,178)	400	(47,496)	(376)	19,201	(47,241)
Unallocated expenses, represented central administration costs							(12,527)
Depreciation							(5,254)
Unallocated finance costs							(15,894)
Loss before tax							(80,916)

For the six months ended 30 June 2017 (Unaudited)							
	Brokerage and margin financing HK\$'000	Wealth management HK\$'000	Corporate finance HK\$'000	Proprietary trading HK\$'000	Money lending HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
Revenue	31,982	4,383	13,242	30,837	10,170	-	90,614
Commission expenses	(4,214)	(1,676)	-	(3,478)	(827)	-	(10,195)
Finance costs	(12,271)	-	-	(19,676)	(4,210)	(5,480)	(41,637)
Results	10,469	(987)	(2,274)	5,021	4,198	(39,380)	(22,953)
Unallocated expenses, represented central administration costs							(11,127)
Depreciation							(4,134)
Unallocated finance costs							(15,573)
Loss before tax							(53,787)

The accounting policies of the operating segments are consistent with those applied in preparing the Group's annual consolidated financial statements for the year ended 31 December 2017. Segment profit and loss represents the profit earned by or loss incurred from each segment without allocation of central administration costs, directors' salaries, depreciation and income tax expense. This is the measure reported to the Directors for the purpose of resources allocation and performance assessment.

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the six months ended 30 June 2018 and 30 June 2017, the Group's revenue is mainly derived from customers in Hong Kong.

3. OTHER INCOME AND GAINS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Other income		
Dividend income from available-for-sale financial assets	–	962
Dividend income from financial assets at fair value through other comprehensive income	7	–
Handling income	423	469
Other interest income	3,729	10,302
Sundry income	3	35
	<u>4,162</u>	<u>11,768</u>
Other gains		
Reversal of allowance for doubtful debts	–	24,601
	<u>–</u>	<u>24,601</u>
	<u>4,162</u>	<u>36,369</u>

4. LOSS BEFORE TAX

	Note	Unaudited	
		2018	2017
		HK\$'000	HK\$'000
Loss before tax is arrived at after charging:			
(a) Employee benefit expenses			
Salaries, commission and allowances		47,862	34,045
Contributions to retirement benefit schemes		954	889
		<u>48,816</u>	<u>34,934</u>
(b) Finance costs			
Bank loan interest expenses		8	10
Bonds payable interest expenses		70,051	57,182
Other interest expenses		142	18
		<u>70,201</u>	<u>57,210</u>
(c) Other losses arising from consolidation of investment fund			
	(i)	<u>14,626</u>	<u>–</u>
(d) Other items			
Exchange loss, net	(ii)	71,468	51,567
Impairment loss on accounts receivable		–	5,149
Net impairment on accounts receivable		2,882	–
Net impairment on deposits and other receivables		(5)	–
Net impairment on loan commitment		575	–
		<u>74,920</u>	<u>56,716</u>

Note:

- (i) Other losses arising from consolidation of investment fund is the net profit of a consolidated investment fund attributable to third-party investors of HK\$14,626,000 (*for the six months ended 30 June 2017: Nil*). Details of the Group's interest in a consolidated investment fund are disclosed in note 14.
- (ii) Included an amount of HK\$72,412,000 (*for the six months ended 30 June 2017: HK\$58,760,000*) representing an exchange loss arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in RMB. Detailed information is set out in note 13.

5. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided for entities within the Group for the six months ended 30 June 2018 (*for the six months ended 30 June 2017: Nil*) as they have either incurred losses for taxation purpose or their estimated assessable profits for the period are wholly absorbed by unutilized tax losses brought forward from previous years.

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

6. LOSS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss attributable to equity shareholders of the Company	<u>(80,916)</u>	<u>(53,787)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares in issue for the purpose of basic loss per share (<i>note</i>)	<u>2,441,220</u>	<u>2,441,220</u>
Basic loss per share (<i>HK cents</i>)	<u>(3.315)</u>	<u>(2.203)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(3.315)</u>	<u>(2.203)</u>

Note:

There were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2018 and 30 June 2017. Accordingly, the diluted loss per share for the respective periods are the same as the basic loss per share.

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

	Unaudited	Audited
	At	At
	30 June	31 December
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities		
At cost	–	14,268
Impairment losses	–	(13,021)
Available-for-sale financial assets	<u>–</u>	<u>1,247</u>
Financial assets at fair value through other comprehensive income	<u>1,079</u>	<u>–</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Unaudited At 30 June 2018 <i>HK\$'000</i>	Audited At 31 December 2017 <i>HK\$'000</i>
	<i>Note</i>		
Equity securities			
— Listed in Hong Kong	<i>(i)</i>	373,082	239,021
— Listed outside Hong Kong	<i>(i)</i>	27,943	31,150
		<u>401,025</u>	<u>270,171</u>
Debt securities			
— Listed in Hong Kong	<i>(ii)</i>	–	344,415
— Listed outside Hong Kong	<i>(ii)</i>	–	30,064
— Unlisted	<i>(iii)</i>	231,739	–
		<u>231,739</u>	<u>374,479</u>
Unlisted fund investments	<i>(iv)</i>	146,789	145,611
		<u>779,553</u>	<u>790,261</u>

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 value of the listed debt securities is determined with reference to quoted active market bid price on the respective stock exchange at the end of each reporting period.
- (iii) For the unlisted debt securities, the fair values are determined using the discounted cash flow method of which key inputs are market-observable data. Including but not limited to the yields of Hong Kong government bonds and treasury bills source from Hong Kong Monetary Authority and the credit spread of comparable notes sourced from Bloomberg.
- (iv) For the unlisted fund investments, the fair values were determined by their net assets values quoted by the relevant investments trusts with reference to the underlying assets (mainly are listed securities) of the funds.
- (v) The Group has not pledged any equity securities, debt securities and fund investment at 30 June 2018 to any bank as collateral for the banking facilities granted (*at 31 December 2017: Nil*).

9. ACCOUNTS RECEIVABLE

The carrying values of accounts receivable arising from the ordinary course of business of the Group are as follows:

	<i>Note</i>	Unaudited At 30 June 2018 HK\$'000	Audited At 31 December 2017 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	<i>(b)(i)</i>	831,952	565,970
— securities cash clients	<i>(b)(ii)</i>	1,207	13,581
— securities subscription clients	<i>(b)(ii)</i>	49,594	254
— securities and options clearing houses and brokers	<i>(b)(ii)</i>	57,059	66,630
— futures clients	<i>(b)(ii)</i>	2	11
— futures clearing house and brokers	<i>(b)(ii)</i>	2,652	3,786
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)(ii)</i>	5,573	7,223
Accounts receivable arising from the provision of insurance broking services	<i>(b)(ii)</i>	555	572
Accounts receivable arising from the provision of asset management services	<i>(b)(ii)</i>	—	2,200
		948,594	660,227
Less: impairment		(68,052)	(48,145)
		880,542	612,082

Notes:

(a) Settlement terms

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

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

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

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

The settlement terms of accounts receivable arising from the provision of asset management services are according to the terms stipulated in the respective asset management agreements.

(b) Accounts receivable analysis

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

		Unaudited At 30 June 2018 HK\$'000	Audited At 31 December 2017 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	<i>1</i>	831,952	565,970
Less: impairment		(66,503)	(48,065)
		765,449	517,905

Note:

- 1 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\$2,433,368,000 (at 31 December 2017: HK\$1,790,473,000).

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

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

	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	2018 Unaudited 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
Restated on adoption of HKFRS 9	2,797	236	61,212	(48,065)	16,180
Charged/(credit) to profit or loss	2,012	758	(512)	–	2,258
As at 30 June	4,809	994	60,700	–	66,503

	2017 Audited HK\$'000
As at 1 January	80,575
Impairment loss recognized	5,150
Reversal of impairment loss recognized	(37,660)
	<hr/>
As at 31 December	48,065
	<hr/> <hr/>

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

	<i>Note</i>	Unaudited At 30 June 2018 HK\$'000	Audited At 31 December 2017 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients		1,207	13,581
— securities subscription clients		49,594	254
— securities and options clearing houses and brokers	<i>1</i>	57,059	66,630
— futures clients		2	11
— futures clearing house and brokers		2,652	3,786
Accounts receivable arising from the provision of corporate finance advisory services		5,573	7,223
Accounts receivable arising from the provision of insurance broking services		555	572
Accounts receivable arising from the provision of asset management services		—	2,200
		<hr/>	<hr/>
		116,642	94,257
Less: impairment		(1,549)	(80)
		<hr/>	<hr/>
		115,093	94,177
		<hr/> <hr/>	<hr/> <hr/>

Note:

- 1 The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits not otherwise dealt with in the condensed consolidated financial statements amounted to HK\$16,985,000 (at 31 December 2017: HK\$10,860,000).

The movements in the impairment allowance of accounts receivable were as follows:

	2018 Unaudited HK\$'000	2017 Audited HK\$'000
As at 1 January	80	700
Restated on adoption of HKFRS 9	845	–
Impairment loss recognised	634	–
Amount written off	–	(620)
Reversal of impairment loss recognised	(10)	–
	<hr/>	<hr/>
As at 30 June 2018/31 December 2017	1,549	80

Accounts receivable neither past due nor credit-impaired

	Accounts receivable from securities and options clearing house and brokers	Accounts receivable from securities subscription clients	Accounts receivable from futures clients	Accounts receivable from futures clearing house and brokers	Accounts receivable arising from the provision of corporate finance advisory services	Accounts receivable arising from the provision of insurance broking services	Accounts receivable arising from the provision of asset management services	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Unaudited									
As at 30 June 2018									
Neither past due nor credit-impaired	1,207	49,594	57,059	2	2,652	2,849	302	–	113,665
Less: impairment	–	(15)	(16)	–	(1)	(106)	–	–	(138)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,207	49,579	57,043	2	2,651	2,743	302	–	113,527
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Audited									
As at 31 December 2017									
Neither past due nor credit-impaired	13,581	254	66,630	11	3,786	4,451	330	2,200	91,243
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Accounts receivable past due but not credit-impaired

	Accounts receivable from securities subscription clients	Accounts receivable from securities clearing house and brokers	Accounts receivable from futures clients	Accounts receivable from futures clearing house and brokers	Accounts receivable arising from the provision of corporate finance advisory services	Accounts receivable arising from the provision of insurance broking services	Accounts receivable arising from the provision of asset management services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unaudited								
As at 30 June 2018								
Past due less than 6 months	-	-	-	-	1,453	23	-	1,476
Past due 6 to 12 months	-	-	-	-	135	27	-	162
Past due over 12 months	-	-	-	-	-	-	-	-
Less: impairment	-	-	-	-	(172)	-	-	(172)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,416</u>	<u>50</u>	<u>-</u>	<u>1,466</u>
Audited								
As at 31 December 2017								
Past due less than 6 months	-	-	-	-	1,636	52	-	1,688
Past due 6 to 12 months	-	-	-	-	1,136	14	-	1,150
Past due over 12 months	-	-	-	-	-	176	-	176
Less: impairment	-	-	-	-	(80)	-	-	(80)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,692</u>	<u>242</u>	<u>-</u>	<u>2,934</u>

Credit-impaired accounts receivable

	Accounts receivable from securities subscription clients	Accounts receivable from securities clearing house and brokers	Accounts receivable from futures clients	Accounts receivable from futures clearing house and brokers	Accounts receivable arising from the provision of corporate finance advisory services	Accounts receivable arising from the provision of insurance broking services	Accounts receivable arising from the provision of asset management services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unaudited								
As at 30 June 2018								
Credit-impaired accounts receivable	-	-	-	-	1,136	203	-	1,339
Less: impairment	-	-	-	-	(1,036)	(203)	-	(1,239)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>

No credit-impaired accounts receivable as at 31 December 2017.

10. CASH AND BANK BALANCES

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 condensed consolidated financial statements amounted to approximately HK\$332,173,000 (at 31 December 2017: HK\$489,030,000).

11. DERIVATIVE FINANCIAL LIABILITIES

		Unaudited	Audited
		At	At
		30 June	31 December
		2018	2017
	<i>Note</i>	HK\$'000	HK\$'000
Cross-currency swap	<i>(i)</i>	–	75,000
Futures contracts held for trading	<i>(ii)</i>	<u>1,218</u>	<u>19</u>
		<u>1,218</u>	<u>75,019</u>

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, as detailed in note 13 to the condensed consolidated financial statements, into Hong Kong dollars to manage the interest rate and currency risks. The cross-currency swap was settled in May 2018.

During the six months ended 30 June 2018, the profit on change in fair value of the cross-currency swap of HK\$90,822,000 (for the six months ended 30 June 2017: profit of HK\$18,411,000) are recognized in the profit or loss.

- (ii) The futures contracts are classified as held for trading. At 30 June 2018, the fair value of the futures contracts were amounted to HK\$1,218,000 (at 31 December 2017: HK\$19,000). Fair value was determined with reference to quoted active market price on the Hong Kong Futures Exchange. During the reporting period, the gain on change in fair value of futures contracts amounting to HK\$9,658,000 (for the six months ended 30 June 2017: loss of HK\$21,494,000) was recognized in the profit or loss.

12. ACCOUNTS PAYABLE

	<i>Note</i>	Unaudited At 30 June 2018 HK\$'000	Audited At 31 December 2017 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	<i>(i)</i>	9,222	10,965
— securities margin clients	<i>(i)</i>	5,004	4,957
— securities clearing houses	<i>(i)</i>	–	606
— futures clients	<i>(ii)</i>	2,645	3,779
Accounts payable to brokers	<i>(i)</i>	21	4,987
Accounts payable arising from the provision of insurance broking services	<i>(iii)</i>	233	232
		17,125	25,526

Notes:

Settlement terms

- (i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction dates.
- (ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.
- (iii) Accounts payable arising from the provision of insurance broking services are payable within 30 days.

At the end of the reporting period, accounts payable are stated net of clients' segregated assets of HK\$355,838,000 (at 31 December 2017: HK\$503,158,000).

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

13. BONDS PAYABLE

	HKD Bonds <i>(Note (i))</i> HK\$'000	USD Bonds <i>(Note (ii))</i> HK\$'000	RMB Bonds <i>(Note (iii))</i> HK\$'000	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 realignment	–	–	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	1,169,391	–	1,932,073
Imputed interest expenses for the year	2,054	1,054	2,695	5,803
Exchange realignment	–	(290)	72,412	72,122
Principal repayment	–	–	(1,872,659)	(1,872,659)
Carrying amount at 30 June 2018	764,736	1,170,155	–	1,934,891

Notes:

- (i) On 18 May 2018, the Company issued bonds with aggregate principal amount of HK\$780,000,000 (the “HKD Bonds”). The HKD Bonds bear interest from 18 May 2018 (inclusive) at the rate of 6.00% per annum. Interest on the HKD Bonds is payable semi-annually in arrears. The HKD Bonds are listed on the Stock Exchange 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 the Stock Exchange and will mature on 13 May 2019 with the outstanding principal and interest payable at the maturity date. At 30 June 2018, the fair value of the USD Bonds was US\$150,497,000.

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 bear interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the RMB Bonds is payable semi-annually in arrears. The RMB Bonds are listed on the Stock Exchange and are matured and fully settled on 28 May 2018.

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

14. INTERESTS IN CONSOLIDATED INVESTMENTS

The Group had consolidated a fund investment (“Consolidated Investment Fund”) where the Group is involved as an investment manager and an investor based on the facts and circumstances that (i) the third-party investors have no substantive removal rights to remove the Group as a fund manager and; (ii) the Group’s investment interests held together with its remuneration from servicing and managing the Consolidated Investment Fund resulted in significant exposure to the variability of returns.

As at 30 June 2018, the total assets and total liabilities (excluding third-party interest as stated below) of the Consolidated Investment Fund were HK\$236,088,000 and HK\$3,324,000 (*at 31 December 2017: Nil*).

For the six months ended 30 June 2018, interests held by third-party investors of HK\$14,626,000 (*for the six months ended 30 June 2017: Nil*) in the Consolidated Investment Fund are recognised as other losses arising from consolidation of investment fund in the condensed consolidated statement of profit or loss and other comprehensive income. As at 30 June 2018, the interests held by third-party investors amounted to HK\$103,726,000 (*at 31 December 2017: Nil*) is recognised as “other liabilities arising from consolidation of investment fund” in the condensed consolidated statement of financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

In the first half of 2018, major political and economic events mainly revolved around the United States, but the situation was unpredictable. The United States waged a trade war against China and even the whole world in March. Except for the agreement between U.S. Department of Commerce and ZTE to lift the ban on the latter, the United States failed to reach consensus with its counterparties notwithstanding rounds of talks, resulting in reciprocal tariffs to be imposed on certain products imported from both sides. The South Korean President and his counterpart from the North signed the “Panmunjom Declaration” in April to confirm the goal of denuclearizing North Korea. The two Korean leaders met again in May, prior to the historic meeting between Donald Trump and Kim Jong-un in June. However, after the third visit to North Korea by the U.S. Secretary of State in July this year, the two camps expressed some differences, once again bringing hidden worries to the geopolitical situation in the region. After Powell took over as the new chairman of the Federal Reserve, the United States raised interest rates twice in the first half of the year and suggested two more to go before year-end, exceeding the three rate hikes initially expected at the beginning of the year. China implemented a targeted RRR cut policy for inclusive financing in January and announced a targeted RRR cut of 1 percentage point in April, and again lowered the deposit reserve ratio requirement for certain banks by 50 basis points in July. In Hong Kong, Xiaomi Corp., the first listed company with a weighted voting right structure, launched its IPO in June but failed to be included in the list of eligible securities for Southbound Trading. As for other aspects, OPEC announced to increase output, though to a lesser extent than expected. Italy managed to form a new government in a second attempt, resolving a political crisis for the time being. Besides, both Brexit Secretary and Foreign Secretary of the United Kingdom resigned.

Hong Kong Market

The Hang Seng Index rose above 33,000 in January 2018, hitting a record high of 33,154 but closed at 28,955 at the end of June, down 3.2% from the end of last year as a result of U.S. interest rate hikes, rising government bonds yields and the Sino-U.S. trade war. The Hang Seng China Enterprises Index closed at 11,073, down 5.4% over last period. In the first half of 2018, the average daily turnover of the Hong Kong stock market was HK\$126.6 billion, representing a year-on-year surge of 66.6% and a period-on-period increase of 26.5%, with four-day turnover exceeding HK\$200.0 billion in February and March. In the first half of 2018, Southbound Trading under Shanghai Connect and Shenzhen Connect brought in RMB79.0 billion and RMB88.5 billion to the Hong Kong market respectively. At the end of June 2018, the number of listed companies on the Main Board and GEM reached 2,215 (including 1,848 main board listed companies, representing a year-on-year increase of 5.8% and a period-on-period increase of 3.0%), increased by 8.9% and 4.6% as compared with corresponding period and last period respectively, while the total market capitalization of the securities market decreased slightly by 2.6% from last period to HK\$33.1 trillion. In the first half of 2018, there were a total of 108 newly listed companies (including companies transferred from GEM to Main Board), largely increased by 50.0% over last year; total funds raised was HK\$189.8 billion, an increase of 8.9% when compared with last period, while total

funds raised through IPOs decreased by 8.1% from last year to HK\$50.4 billion. In the first half of 2018, the market share of the Category A (Position 1 to 14) of Stock Exchange Participants increased when compared with the second half of 2017, while the market share of Category C (Position > 65) decreased, and those for Category B (Position 15 to 65) remained at the similar level as last period.

BUSINESS REVIEW

The Group carries out a wide range of businesses, including brokerage, corporate finance, wealth management, asset management, proprietary, etc. In comparison with the Chinese brokerage firms in Hong Kong, in addition to receiving tremendous support from Southwest Securities Co., Ltd. (“SWSC”), its parent company in China with solid foundation, the advantages brought from the Group’s comprehensive and diversified businesses also exert supporting forces on the Group’s overall strength.

In the first half of 2018, while consolidating traditional securities businesses such as brokerage and wealth management, the Group put its focuses on the business development of corporate finance, asset management and loan financing and continued to expand its business scopes, achieving remarkable results. At the same time, in view of more stringent regulatory requirements and unstable market environment, the Group also strengthened risk control and compliance management, stepped up its efforts in anti-money laundering, strictly set up internal firewalls, streamlined organizational structure, improved operational efficiency, attached importance to talent pools and incentives, enhanced profitability and risk resistance.

In the first half of 2018, the Group recorded a total revenue of HK\$73.0 million (the first half of 2017: HK\$90.6 million) and loss before tax of HK\$80.9 million (the first half of 2017: loss before tax of HK\$53.8 million). In particular, business segments with outstanding performance include asset management business, corporate finance business and loan financing business. In the first half of 2018, the establishment of new structured funds resulted in a further increase in income from asset management business. Thanks to the strong brand prestige in the industry, the revenue from corporate finance business and loan financing business recorded a significant year-on-year increase, showing a trend of positive development.

Brokerage and Margin Financing

Revenue generated from the Group’s brokerage and margin financing business amounted to HK\$43.9 million during the Review Period (for the six months ended 30 June 2017: HK\$32.0 million).

The Group’s revenue generated from brokerage business slightly decreased by 4.5% to HK\$11.0 million (for the six months ended 30 June 2017: HK\$11.5 million). Hong Kong stock market has been flourishing in the first half year of 2018 where overall average daily turnover expanded by 66.6% to HK\$126.6 billion (for the six months ended 2017: HK\$76.0 billion). Though, it is the Group’s strategy to put more focus on margin financing than on brokerage in this business segment, the performance of brokerage business remained steady.

The Group's revenue generated from margin financing business remarkably increased by 60.5% to HK\$32.9 million (for the six months ended 30 June 2017: HK\$20.5 million). The Group targeted for high-net-worth customers and explored high quality project financing. The result was satisfactory which supports the Group to continue this business development direction.

Wealth Management

In view of the avalanche of the stringent regulations and disclosure requirements issued by insurance regulatory authorities, the sales process has lengthened and causing sales to drop. The Group's wealth management business recorded a decrease of 43.2% to HK\$2.5 million during the Review Period (for the six months ended 30 June 2017: HK\$4.4 million).

Corporate Finance

Revenue generated from the Group's corporate finance business amounted to HK\$23.5 million during the Review Period (for the six months ended 30 June 2017: HK\$13.2 million), representing a growth of 77.1%.

The Group's corporate finance business focused on the development and execution of IPO projects and financial advisory projects, and achieved satisfactory results during the period under review. Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Group, completed the sponsorship project for Grace Wine (8146:HK) as its sole sponsor in June 2018. Grace Wine has been successfully listed on the GEM with funds raised amounting to HK\$70.0 million. Besides, several IPO projects are applying for listing while some are under negotiation. The Group is also actively expanding M&A financing projects so as to establish its market position in this area. The M&A financing projects completed during the period under review have generated considerable income and created synergistic effects, contributing relevant financing interest income and stable income stream.

In addition, the Hong Kong Stock Exchange revised the GEM Listing Rules and the Main Board Listing Rules in mid-February 2018, which raised the requirements of fund raising for listing on the Main Board and the financial requirements for GEM. Since the end of April this year, the Hong Kong Stock Exchange has accepted new economy companies, such as innovative companies with weighted voting rights and biotech companies without revenue, to apply for listing. It is expected that the reform of the Hong Kong listing regime will revitalize the capital market in Hong Kong, indirectly encouraging the development of new economy companies, enhancing the competitiveness of Hong Kong as a financial center and making the market in Hong Kong a cradle for the development of innovative companies. In the long run, it also brings new opportunities for the corporate finance business in Hong Kong and attracts more major international enterprises to list in Hong Kong. In order to grasp this new business opportunity, the Group has laid a good foundation for the introduction of more quality enterprises in Mainland China into the capital market in Hong Kong through the cooperation with its parent company SWSC during the period under review. It is expected that the fruit of our efforts will be realized in the second half of 2018.

Proprietary Trading

The proprietary trading business recorded a gain of HK\$2.2 million for the Review Period (for the six months ended 30 June 2017: gain of HK\$30.8 million).

During the first half of 2018, even with solid growth outlook, Hong Kong stock market was adversely impacted by the overhang of global trade war, leading to a drop of 3.2% of Hang Seng Index. Slump of Shanghai A share, which was dropped by approximately 16% in the first half of 2018, together with the outflow from Southbound Connect since April 2018, exacerbate the negative sentiment.

On the other hand, the Company, as an investor in the fund established by Southwest Securities (HK) Asset Management Limited (“SWSAM”), has enriched and diversified its portfolio of overall proprietary trading, thereby dispersing the risks posed by market unfavourable factors and stabilizing the overall income of the proprietary trading business.

During the second half of 2018, facing the challenging and unpredictable environment, the Group will explore enterprises with appreciation potential as investment targets under the supervision of a rigorous risk management mechanism and with capital preservation being the primary condition.

Asset Management

Revenue generated from the Group’s asset management business amounted to HK\$1.1 million during the Review Period (for the six months ended 30 June 2017: Nil). With the establishment and launch of the first hedge fund of HK\$230 million at the end of 2016, the Group established its first structured fund at the end of 2017 with an overall amount of HK\$300 million. During the period under review, the second structured fund was also put into operation with a total amount of HK\$200 million. As a fund manager, SWSAM, a wholly-owned subsidiary of the Group, receives stable income from asset management fees. In addition, as one of the fund’s investors, the Company also achieved certain returns, which has been reflected in the performance of proprietary trading business. The Group expects to attract more investors and continue to develop and strengthen its asset management business with its accumulated experience and management achievements.

Money Lending

During the Review Period, the Group has no interest income from money lending business (for the six months ended 30 June 2017: HK\$10.2 million).

In the first half of 2017, the Group has advanced a loan of HK\$200 million to a customer under the Money Lenders License. The Group would continue to seek more money lending business in future.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to HK\$4.2 million (for the six months ended 30 June 2017: HK\$36.4 million).

Other income and gains in the Review Period mainly included bank interest income amounted to HK\$3.4 million (for the six months ended 30 June 2017: HK\$1.9 million). Furthermore, the Group had no interest income from two long term investments (for the six months ended 30 June 2017: HK\$8.3 million). In February and August 2017, the Group completed the disposal of the convertible bonds issued by XinRen Aluminum Holdings Limited that was included in the available-for-sale financial assets and redeemed the guaranteed notes issued by HNA Tourism Finance Limited that was included in the held-to-maturity investments. Thus there is no interest income from the convertible bonds and guaranteed notes during the Review Period. In addition, reversals of provision for impairment for margin financing customers amounted to HK\$24.6 million during first half of 2017, however, no such item incurred during the Review Period.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK\$48.8 million (for the six months ended 30 June 2017: HK\$34.9 million).

The number of staff and fixed costs increased during the Review Period. As part of the salaries of frontline staff was linked to their performance, their related salaries increased along with the improving business and therefore the overall staff costs of the Group became higher. Moreover, the Group was flexible in adjusting staff deployment with reference to business growth and desired resources allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK\$13.2 million (for the six months ended 30 June 2017: HK\$10.2 million).

Fee and commission expenses mainly include commissions paid in the course of conducting the brokerage business, wealth management business and proprietary trading business. The increase in commission expenses during the Review Period was mainly a result of the increased commission income from the securities dealing, futures and options dealing.

Finance Costs

The Group's finance costs during the Review Period amounted to HK\$70.2 million (for the six months ended 30 June 2017: HK\$57.2 million).

The Group issued USD-denominated bonds, HKD-denominated bonds and redeemed RMB-denominated bonds in May 2018, so the finance costs during the Review Period were mainly bond interest expenses.

FUTURE PROSPECTS

Since the beginning of 2018, the Hong Kong market has experienced major ups and downs due to macroeconomic instability such as U.S. interest rate hikes, Sino-U.S. trade war, market anti-risk deleveraging and RMB depreciation, thereby bringing certain challenges to the Group.

In the second half of 2018, as a Mainland-funded securities firm, the Group will continue to uphold the spirit of China's 19th Party Congress and the National Financial Work Conference, adhere to its development direction of urging the financial sector to better serve the real economy, preventing and controlling financial risks and deepening financial reforms. Based on this, the Group makes use of the opportunities provided by the policies such as Hong Kong stock market accepting companies with weighted voting rights to list and opening "The New Third Board" to H shares, and is expected to develop steadily in an unstable market.

For the second half of 2018, the Group will focus on the following four aspects in order to enhance its overall competitiveness. Firstly, it will diversify financing channels, enhance capital strength and reduce operating costs. Secondly, it will strictly control business risks, raise the risk awareness of its business team and improve the level of business income under manageable risks. Thirdly, it will focus on business innovation, subject to compliance with regulatory requirements by actively exploring innovative business models, especially for the corporate financing business and asset management business. Fourthly, it will raise its management standard and recruit top financial talents to further rationalize its organizational structure, perfect its management system and enhance its operation efficiency. The Group always adopts a people-oriented approach by attaching importance to employee welfare and increasing staff loyalty to ensure the Group's strong development momentum.

In future, the Group is confident to continue to move forward steadily, strengthening the brand effect and forming a virtuous cycle of development.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2018, the Group had total cash and bank balances of HK\$549.0 million (at 31 December 2017: HK\$645.2 million), while net current assets amounted to HK\$123.0 million (at 31 December 2017: HK\$221.2 million). The current ratio as a ratio of current assets to current liabilities was 1.1 times (at 31 December 2017: 1.1 times).

At the end of the Review Period, the gearing ratio was 1,284.7% (at 31 December 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 Review Period and up to the date of this announcement.

Banking Facilities and Charges on Assets

As at 30 June 2018, the Group had no bank loans outstanding (at 31 December 2017: Nil) and had an aggregate banking facilities of HK\$516.0 million (at 31 December 2017: HK\$676.0 million).

In the case of certain banking facilities of HK\$246.0 million (at 31 December 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 Review Period, the Group pledged no investments in listed securities (at 31 December 2017: Nil) and no fixed deposits (at 31 December 2017: Nil) for the facilities.

Material Acquisitions, Disposals and Significant Investments

During the Review Period, there were no material acquisitions and disposals of investments (for the six months ended 30 June 2017: the Group disposed of the convertible bonds issued by XinRen Aluminum Holdings Limited included in the available-for-sale financial assets and realized a loss on disposal of HK\$1.4 million).

Contingencies

The Group has no material contingent liabilities as at 30 June 2018 (at 31 December 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 agrees to convert the final exchange amount of HK\$1.9 billion to RMB1.5 billion (i.e. pay HK\$1.9 billion and receive RMB1.5 billion). During the Review Period, the cross-currency swap was settled in May 2018 and the Group has no material capital commitment.

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 30 June 2018, the Group has no material exposure to fluctuations in exchange rates (at 31 December 2017: the Group has RMB exposure arising from the issuance of bonds. Considered the major operating cash flow is in Hong Kong dollars and to mitigate the relevant currency risks, the Group had entered into a three-year cross-currency swap as mentioned in the paragraph of “Commitments” in this announcement). During the Review Period, the bonds were matured and the cross-currency swap was settled in May 2018.

EMPLOYEES

As at 30 June 2018, the Group had a total of 120 employees. The Group has built up a series of internal employment policy, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group regards employees as important asset. The Group has established clear policy on its employee's remuneration 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 recognize and reward employees for their contributions. The Group offers various kinds of employee benefits to retain and motivate talented and experienced employees, including mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance.

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (*2017: HK\$ Nil*).

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with each Director and confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2018. Employees and consultants who are privy to inside information are required to follow the Model Code.

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 six months ended 30 June 2018.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the condensed consolidated financial statements for the six months ended 30 June 2018 (the “Interim Financial Statements”). The Audit Committee is satisfied that the Interim Financial Statements have been prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the HKEXnews at www.hkexnews.hk and of the Company at www.swsc.hk. The interim report for the six months ended 30 June 2018 will be despatched to the shareholders of the Company on or before 21 September 2018 and will be available at the aforesaid websites at the same time.

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

Hong Kong, 24 August 2018

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

* For identification purpose only