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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 2019

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 2019 together with the comparatives figures for the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Unaudited | |
|---|--------------|---------------------------------|-----------------|
| | | Six months ended 30 June | |
| | | 2019 | 2018 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | 3 | 131,483 | 73,046 |
| Other income and gains | 5 | 17,495 | 4,162 |
| Reversal of allowance for doubtful debts | | 4,754 | – |
| Fair value change on derivative financial liabilities | | – | 77,413 |
| | | 153,732 | 154,621 |
| Fee and commission expenses | | (10,677) | (13,212) |
| Finance costs | 6a | (78,459) | (70,201) |
| Staff costs | 6b | (39,301) | (48,816) |
| Depreciation and amortisation | | (13,279) | (5,254) |
| Expected credit losses on financial assets, net | 6c | (58,472) | (3,452) |
| Other operating expenses | | (13,796) | (79,976) |
| Other losses arising from consolidation of investment fund | 6c | – | (14,626) |
| Total expenses | | (213,984) | (235,537) |
| Loss before tax | 6 | (60,252) | (80,916) |
| Income tax credit | 7 | 76 | – |
| Loss for the period attributable to equity shareholders of the Company | | (60,176) | (80,916) |

| | | Unaudited | |
|---|---|---------------------------------|------------------------|
| | | Six months ended 30 June | |
| | | 2019 | 2018 |
| <i>Notes</i> | | HK\$'000 | HK\$'000 |
| Other comprehensive income | | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | | |
| | Exchange difference on translation of foreign operation | <u>(61)</u> | <u>(177)</u> |
| | Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | <u>(61)</u> | <u>(177)</u> |
| 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) |
| | Reclassification of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income | <u>388</u> | <u>–</u> |
| | Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | <u>388</u> | <u>(168)</u> |
| | Other comprehensive income for the period, net of tax | <u>327</u> | <u>(345)</u> |
| | Total comprehensive income for the period attributable to equity shareholders of the Company | <u>(59,849)</u> | <u>(81,261)</u> |
| | | | (Restated) |
| Loss per share | | | |
| | — Basic (<i>HK cents</i>) | 8 <u>(2.465)</u> | <u>(3.315)</u> |
| | — Diluted (<i>HK cents</i>) | 8 <u><u>(2.316)</u></u> | <u><u>(3.114)</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|--|------|--|--|
| | Note | | |
| Non-current assets | | | |
| Fixed assets | | 10,503 | 13,744 |
| Right-of-use assets | | 50,050 | – |
| Financial assets at fair value through other comprehensive income | 9 | – | 1,079 |
| Other non-current assets | | 8,304 | 7,654 |
| | | <u>68,857</u> | <u>22,477</u> |
| Current assets | | | |
| Financial assets at fair value through profit or loss | 10 | 317,726 | 447,324 |
| Accounts receivable | 11 | 970,913 | 1,099,683 |
| Deposits, prepayments and other receivables | | 10,462 | 14,881 |
| Cash and bank balances | 12 | 412,296 | 441,812 |
| | | <u>1,711,397</u> | <u>2,003,700</u> |
| Current liabilities | | | |
| Bonds payable | 14 | – | 1,945,475 |
| Lease liabilities | | 7,480 | – |
| Accounts payable | 13 | 9,755 | 4,002 |
| Other payables and accrued charges | | 41,901 | 38,906 |
| Tax payable | | – | 8,000 |
| | | <u>59,136</u> | <u>1,996,383</u> |
| Net current assets | | <u>1,652,261</u> | <u>7,317</u> |
| Total assets less current liabilities | | <u>1,721,118</u> | <u>29,794</u> |
| Non-current liabilities | | | |
| Bonds payable | 14 | 1,551,115 | – |
| Lease liabilities | | 43,158 | – |
| | | <u>1,594,273</u> | <u>–</u> |
| NET ASSETS | | <u>126,845</u> | <u>29,794</u> |
| Capital and reserves | | | |
| Share capital | | 366,182 | 244,121 |
| Reserves | | (239,337) | (214,327) |
| TOTAL EQUITY | | <u>126,845</u> | <u>29,794</u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements, for the year ended 31 December 2018.

The measurement basis used in the preparation of these interim condensed consolidated financial information 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 financial information is 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.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

| | |
|--|---|
| Amendments to HKFRS 9 | <i>Prepayment Features with Negative Compensation</i> |
| HKFRS 16 | <i>Leases</i> |
| Amendments to HKAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> |
| Amendments to HKAS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 23 | <i>Uncertainty over Income Tax Treatments</i> |
| Annual Improvements 2015–2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Other than as explained below regarding the impact of HKFRS 16 Leases and HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of accumulative losses at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were 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 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | Increase/ (decrease) HK\$'000 (Unaudited) |
|---------------------------------|--|
| Assets | |
| Increase in right-of-use assets | 58,200 |
| Decrease in other payables | (805) |
| | <hr/> 57,395 <hr/> |
| Liabilities | |
| Increase in lease liabilities | 58,200 |
| | <hr/> 58,200 <hr/> |
| Increase in total liabilities | 58,200 |

Accordingly, the Group recognised right-of-use assets of HK\$58,200,000 and lease liabilities of HK\$58,200,000 as at 1 January 2019. Decrease in other payables of HK\$805,000, as at 1 January 2019.

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease properties for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

| | Right-of-use assets | |
|--------------------------------|----------------------------|--------------------|
| | Premises | Lease |
| | HK\$'000 | liabilities |
| | HK\$'000 | HK\$'000 |
| As at 1 January 2019 | 57,395 | 58,200 |
| Amortization charge | (7,345) | – |
| Interest expense | – | 155 |
| Payments | – | (7,717) |
| | <hr/> | <hr/> |
| As at 30 June 2019 (unaudited) | 50,050 | 50,638 |
| | <hr/> | <hr/> |

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

- (c) 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group’s interim condensed consolidated financial information.

3. REVENUE

An analysis of revenue is as follows:

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| <i>Brokerage:</i> | | |
| — commission income on securities dealing | 3,585 | 5,644 |
| — commission income on futures and options dealing | 4,474 | 3,906 |
| — insurance brokerage fee income | 2,178 | 2,467 |
| | 10,237 | 12,017 |
| <i>Corporate finance:</i> | | |
| — IPO sponsor fee income | 9,988 | 8,770 |
| — underwriting and placing commission income | 3,991 | 1,416 |
| — consultancy and financial advisory fee income | 1,630 | 1,465 |
| — corporate financial arrangement and commitment fee income | 504 | 13,223 |
| | 16,113 | 24,874 |
| <i>Asset management:</i> | | |
| — asset management fee income | 507 | 1,100 |
| Total revenue from contracts with customers | 26,857 | 37,991 |
| Revenue from other sources | | |
| <i>Interest income calculated using the effective interest method from:</i> | | |
| — margin financing | 56,927 | 32,884 |
| <i>Net gains from proprietary trading</i> | 47,699 | 2,171 |
| Total revenue from other sources | 104,626 | 35,055 |
| Total revenue | 131,483 | 73,046 |

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. 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, corporate finance, proprietary trading and asset management are the Group's major operating segments.

| | For the six months ended 30 June 2019 (Unaudited) | | | | | |
|---|---|----------------------------------|---------------------------------|------------------------------------|---------------------------------|--------------------------|
| | Brokerage and margin financing 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 | 67,164 | 16,113 | 507 | 47,699 | – | 131,483 |
| Other income and gains | 10,100 | – | – | 327 | 7,068 | 17,495 |
| Reversal of allowance for doubtful debts | 4,754 | – | – | – | – | 4,754 |
| Fee and commission expenses | (7,741) | (1,344) | – | (1,592) | – | (10,677) |
| Finance costs | (39,241) | – | – | (14,181) | – | (53,422) |
| Expected credit losses on financial assets, net | (56,758) | (1,889) | – | – | 175 | (58,472) |
| Other operating expenses and costs | (27,121) | (11,764) | (406) | (9,239) | (3,489) | (52,019) |
| Segment results | (48,843) | 1,116 | 101 | 23,014 | 3,754 | (20,858) |
| Unallocated expenses, represented central administration costs | | | | | | (8,423) |
| Depreciation | | | | | | (5,934) |
| Unallocated finance costs | | | | | | (25,037) |
| Loss before tax | | | | | | (60,252) |

| | For the six months ended 30 June 2018 (Unaudited) | | | | | |
|---|---|----------------------------------|---------------------------------|------------------------------------|---------------------------------|--------------------------|
| | Brokerage and margin financing 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 | 44,901 | 24,874 | 1,100 | 2,171 | – | 73,046 |
| Other income and gains | 1,073 | – | – | 209 | 2,880 | 4,162 |
| Fee and commission expenses | (7,037) | (939) | (886) | (4,350) | – | (13,212) |
| Finance costs | (28,397) | – | – | (25,903) | (7) | (54,307) |
| Expected credit losses on financial assets, net | (2,833) | (590) | – | – | (29) | (3,452) |
| Other operating expenses and costs | (27,661) | (21,961) | (590) | (4,997) | 16,357 | (38,852) |
| Other losses arising from consolidation of investment fund | – | – | – | (14,626) | – | (14,626) |
| Segment results | (19,954) | 1,384 | (376) | (47,496) | 19,201 | (47,241) |
| Unallocated expenses, represented central administration costs | | | | | | (12,527) |
| Depreciation | | | | | | (5,254) |
| Unallocated finance costs | | | | | | (15,894) |
| Loss before tax | | | | | | <u>(80,916)</u> |

For annual consolidated financial statements, the insurance broking business was included in wealth management and the underwriting and placing business was included in brokerage and margin financing business. In order to better align with the Group's internal segment report, the insurance broking business is included in brokerage and margin financing business, and the underwriting and placing business is included in the corporate finance business for the condensed financial statements. 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 2019 and 30 June 2018, the Group's revenue is mainly derived from customers in Hong Kong.

5. OTHER INCOME AND GAINS

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Other income | | |
| Dividend income from financial assets at fair value through other comprehensive income | – | 7 |
| Handling income | 2,871 | 423 |
| Other interest income | 11,144 | 3,729 |
| Sundry income | 20 | 3 |
| | <u>14,035</u> | <u>4,162</u> |
| Other gains | | |
| Exchange gains, net | 3,460 | – |
| | <u>3,460</u> | <u>–</u> |
| | <u>17,495</u> | <u>4,162</u> |

6. LOSS BEFORE TAX

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Loss before tax is arrived at after charging: | | |
| (a) Finance costs | | |
| Bank loan interest expenses | – | 8 |
| Bonds interest expenses | 67,704 | 64,054 |
| Imputed interest expenses on bonds payable | 10,550 | 5,997 |
| Other interest expenses | 205 | 142 |
| | <u>78,459</u> | <u>70,201</u> |
| (b) Staff costs | | |
| Salaries, commission and allowances | 38,339 | 47,862 |
| Contributions to retirement benefit schemes | 962 | 954 |
| | <u>39,301</u> | <u>48,816</u> |
| (c) Other items | | |
| Expected credit losses on financial assets, net | 58,472 | 3,452 |
| Other losses arising from consolidation of investment fund | (i) – | 14,626 |
| Exchange loss, net | (ii) – | 58,059 |
| | <u>58,472</u> | <u>76,137</u> |

Notes:

- i) Other losses arising from consolidation of investment fund is the net profit of a consolidated investment fund attributable to third-party investors.

For the six months ended 30 June 2018, 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. This investment was redeemed in November 2018.

- ii) There was no net exchange loss for the six months ended 30 June 2019. For the six months ended 30 June 2018, the net exchange loss of HK\$58,758,000 represented 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 14.

7. INCOME TAX CREDIT

Hong Kong Profits Tax has not been provided for entities within the Group for the six months ended 30 June 2019 (*for the six months ended 30 June 2018: 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.

8. 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 | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Loss attributable to equity shareholders of the Company | <u>(60,176)</u> | <u>(80,916)</u> |
| Number of shares | '000 | '000 |
| | | (Restated) |
| Weighted average number of ordinary shares in issue for the purpose of diluted loss per share | <u>2,598,194</u> | <u>2,598,194</u> |
| Basic loss per share (<i>HK cents</i>) | <u>(2.465)</u> | <u>(3.315)</u> |
| Diluted loss per share (<i>HK cents</i>) | <u>(2.316)</u> | <u>(3.114)</u> |

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|--|--|--|
| Financial assets at fair value through other comprehensive income | | |
| Unlisted equity investments, at fair value | — | 1,079 |

The unlisted equity securities represent the Group's investments in three private entities. During the six months period ended 30 June 2019, the Group disposed one unlisted equity investment. Resulting in a gain on disposal of financial assets at fair value through other comprehensive income which amounted to HK\$388,000. It was reclassified from investment revaluation reserve upon disposal to other comprehensive income as reclassification adjustment.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|----------------------------|--|--|
| | <i>Note</i> | |
| Equity securities | | |
| — Listed in Hong Kong | (i) | 13,071 |
| Debt securities | | |
| — Listed outside Hong Kong | (ii) | 95,277 |
| — Unlisted | (iii) | 158,543 |
| | | 253,820 |
| Unlisted fund investments | (iv) | 50,835 |
| | | 317,726 |

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 2019 to any bank as collateral for the banking facilities granted (at 31 December 2018: Nil).

11. ACCOUNTS RECEIVABLE

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

| | | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|--|-------------|--|--|
| | <i>Note</i> | | |
| Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts: | | | |
| — securities cash clients | (b) | 3,251 | 1,002 |
| — securities margin clients | (a) | 1,082,746 | 1,107,815 |
| — securities subscription clients | (b) | — | 191 |
| — securities and options clearing houses and brokers | (b) | 4,080 | 57,228 |
| — futures clients | (b) | 2 | 2 |
| — futures clearing house and brokers | (b) | 1,048 | 2,390 |
| Accounts receivable arising from the provision of corporate finance advisory services | (b) | 5,872 | 3,223 |
| Accounts receivable arising from the provision of asset management services | (b) | — | 98 |
| | | <u>1,096,999</u> | <u>1,171,949</u> |
| Less: impairment | | <u>(126,086)</u> | <u>(72,266)</u> |
| | | <u><u>970,913</u></u> | <u><u>1,099,683</u></u> |

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:

| | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|--|--|--|
| Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts: | | |
| — Securities margin clients | 1,082,746 | 1,107,815 |
| Less: Impairment | | |
| — Stage 1 | — | — |
| — Stage 2 | (1,196) | (7,492) |
| — Stage 3 | (122,579) | (64,279) |
| | <u><u>958,971</u></u> | <u><u>1,036,044</u></u> |

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\$2,279,061,000 (at 31 December 2018: HK\$2,935,601,000).

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.

- (ii) 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 | Lifetime ECL credit- impaired (Stage 3) HK\$'000 | Impairment allowance under HKAS 39 HK\$'000 | Total HK\$'000 |
|--|---|---|--|---|-------------------|
| As at 31 December 2017 (audited) | – | – | – | 48,065 | 48,065 |
| Effect of adoption of HKFRS 9 | 2,797 | 236 | 61,212 | (48,065) | 16,180 |
| As at 1 January 2018 (restated) | 2,797 | 236 | 61,212 | – | 64,245 |
| 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 2018 (audited) and 1 January 2019 | – | 7,492 | 64,279 | – | 71,771 |
| Transfer to stage 3 | – | (7,490) | 7,490 | – | – |
| Impact on transfer between stages | – | 1,195 | 54,229 | – | 55,424 |
| Other remeasurement of loss allowance | – | (1) | 1,433 | – | 1,432 |
| Bad debt recovery | – | – | (4,754) | – | (4,754) |
| Repayment | – | – | (98) | – | (98) |
| As at 30 June 2019 (unaudited) | <u>–</u> | <u>1,196</u> | <u>122,579</u> | <u>–</u> | <u>123,775</u> |

The following significant changes in the gross carrying amounts of account receivables from securities margin clients contributed to the increase in the loss allowance during the period ended 30 June 2019:

- Transfer of account receivables from securities margin clients of HK\$230,481,000 (gross carrying amount) from stage 1 to stage 2 has resulted in an increase in loss allowance of HK\$1,195,000; and
- Transfer of account receivables from securities margin clients of HK\$167,544,000 (gross carrying amount) from stage 2 to stage 3 has resulted in an increase in loss allowance of HK\$54,229,000.

(b) Accounts receivable analysis other than securities margin clients

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

| | | Unaudited | Audited |
|--|-------------|------------------|-----------------|
| | | At | At |
| | | 30 June | 31 December |
| | | 2019 | 2018 |
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts: | | | |
| — securities cash clients | (1) | 3,251 | 1,002 |
| — securities subscription clients | (2) | — | 191 |
| — securities and options clearing houses and brokers | (2) | 4,080 | 57,228 |
| — futures clients | | 2 | 2 |
| — futures clearing house and brokers | (3) | 1,048 | 2,390 |
| Accounts receivable arising from the provision of corporate finance advisory services | (4) | 5,872 | 3,223 |
| Accounts receivable arising from the provision of asset management services | (5) | — | 98 |
| | | 14,253 | 64,134 |
| Less: impairment | (6) | (2,311) | (495) |
| | | 11,942 | 63,639 |

- (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 condensed consolidated financial information amounted to HK\$1,504,000 (at 31 December 2018: HK\$1,090,000).

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 30 June 2019, 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\$2,691,000 (at 31 December 2018: HK\$3,060,000), 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 11(c) to condensed consolidated financial information.

- (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\$1,050,000 (at 31 December 2018: HK\$4,568,000), which was not dealt with in the condensed consolidated financial information. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.
- (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:

| | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|----------------|---|---|
| Current | 2,044 | 1,423 |
| Overdue: | | |
| Within 30 days | 1,675 | – |
| 31–90 days | 73 | 1,750 |
| 91–180 days | 2,030 | – |
| Over 180 days | 50 | 50 |
| | <u>5,872</u> | <u>3,223</u> |

- (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:

| | 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 31 December 2017 (audited) | – | – | – | 80 | 80 |
| Effect of adoption of HKFRS 9 | <u>–</u> | <u>–</u> | <u>925</u> | <u>(80)</u> | <u>845</u> |
| As at 1 January 2018 (restated) | – | – | 925 | – | 925 |
| Charged/(credit) to profit or loss | 74 | 2 | (109) | – | (33) |
| Amount written off | <u>–</u> | <u>–</u> | <u>(397)</u> | <u>–</u> | <u>(397)</u> |
| As at 31 December 2018 (audited) and 1 January 2019 | 74 | 2 | 419 | – | 495 |
| Charged/(credit) to profit or loss | <u>(74)</u> | <u>1</u> | <u>1,889</u> | <u>–</u> | <u>1,816</u> |
| As at 30 June 2019 (unaudited) | <u>–</u> | <u>3</u> | <u>2,308</u> | <u>–</u> | <u>2,311</u> |

(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:

As at 30 June 2019 (unaudited)

| | Gross amount of recognised financial liabilities set off in the consolidated statement of financial assets position HK\$'000 | Gross amount of recognised financial assets set off in the consolidated statement of financial liabilities position HK\$'000 | Net amount of financial assets presented in the consolidated statement of financial assets position HK\$'000 | Related amount not set off in the consolidated statement of financial liabilities position HK\$'000 | Net HK\$'000 |
|--------------------|--|---|---|---|-----------------|
| Amounts receivable | <u>14,870</u> | <u>(12,179)</u> | <u>2,691</u> | <u>–</u> | <u>2,691</u> |

| | Gross amount of recognised financial assets set off in the consolidated statement of financial liabilities position HK\$'000 | Gross amount of recognised financial liabilities set off in the consolidated statement of financial assets position HK\$'000 | Net amount of financial assets presented in the consolidated statement of financial liabilities position HK\$'000 | Related amount not set off in the consolidated statement of financial assets position HK\$'000 | Net HK\$'000 |
|-----------------|---|---|---|---|-----------------|
| Amounts payable | <u>20,119</u> | <u>(12,179)</u> | <u>7,940</u> | <u>–</u> | <u>7,940</u> |

As at 31 December 2018 (audited)

| | Gross amount of recognised financial liabilities set off in the consolidated statement of financial assets position HK\$'000 | Gross amount of recognised financial assets set off in the consolidated statement of financial liabilities position HK\$'000 | Net amount of financial assets presented in the consolidated statement of financial liabilities position HK\$'000 | Related amount not set off in the consolidated statement of financial assets position HK\$'000 | Net HK\$'000 |
|--------------------|--|---|--|--|-----------------|
| Amounts receivable | <u>7,069</u> | <u>(4,009)</u> | <u>3,060</u> | <u>–</u> | <u>3,060</u> |

| | Gross amount of recognised financial assets set off in the consolidated statement of financial liabilities position HK\$'000 | Gross amount of recognised financial liabilities set off in the consolidated statement of financial assets position HK\$'000 | Net amount of financial assets presented in the consolidated statement of financial liabilities position HK\$'000 | Related amount not set off in the consolidated statement of financial assets position HK\$'000 | Net HK\$'000 |
|-----------------|---|---|--|--|-----------------|
| Amounts payable | <u>5,251</u> | <u>(4,009)</u> | <u>1,242</u> | <u>–</u> | <u>1,242</u> |

12. 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 information amounted to approximately HK\$717,271,000 (at 31 December 2018: HK\$824,959,000).

13. ACCOUNTS PAYABLE

| | | Unaudited At 30 June 2019 HK\$'000 | Audited At 31 December 2018 HK\$'000 |
|---|-------|--|--|
| | Note | | |
| Accounts payable arising from the ordinary course of business of broking in securities and futures contracts: | | | |
| — securities margin clients | (i) | 629 | 267 |
| — securities clearing houses | (i) | 7,940 | 1,242 |
| — futures clients | (ii) | 1,035 | 2,383 |
| Accounts payable arising from the provision of insurance broking services | (iii) | 151 | 110 |
| | | <u>9,755</u> | <u>4,002</u> |

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.

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.

14. BONDS PAYABLE

| | 2019 USD Bonds (Note (i)) HK\$'000 | 2018 HKD Bonds (Note (ii)) HK\$'000 | 2018 USD Bonds (Note (iii)) HK\$'000 | 2015 RMB Bonds (Note (iv)) HK\$'000 | Total HK\$'000 |
|---|---|--|---|--|--------------------------|
| Carrying amount at 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 realignment | – | – | (2,194) | 58,758 | 56,564 |
| Principal repayment | – | – | – | (1,859,250) | (1,859,250) |
| Carrying amount at 31 December 2018 and 1 January 2019 | – | 773,547 | 1,171,928 | – | 1,945,475 |
| Carrying amount upon issuance | 1,558,540 | – | – | – | 1,558,540 |
| Imputed interest expenses for the period | 1,101 | 6,453 | 2,996 | – | 10,550 |
| Exchange realignment | (8,526) | – | 1,826 | – | (6,700) |
| Principal repayment | – | (780,000) | (1,176,750) | – | (1,956,750) |
| Carrying amount at 30 June 2019 | 1,551,115 | – | – | – | 1,551,115 |

Notes:

- (i) On 17 April 2019, the Company issued bonds with aggregate principal amount of US\$200,000,000 (the “2019 USD Bonds”). The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date.

The 2019 USD Bonds are carried at amortized cost using an effective interest rate of 7.29% per annum.

- (ii) On 18 May 2018, the Company issued bonds with aggregate principal amount of HK\$780,000,000 (the “2018 HKD Bonds”). The 2018 HKD Bonds bear interest from 18 May 2018 (inclusive) at the rate of 6.00% per annum. Interest on the 2018 HKD Bonds is payable semi-annually in arrears. The 2018 HKD Bonds are listed on the Stock Exchange and are matured and fully settled on 10 May 2019.

The 2018 HKD Bonds are carried at amortized cost using an effective interest rate of 8.37% per annum.

- (iii) On 15 May 2018, the Company issued bonds with aggregate principal amount of US\$150,000,000 (the “2018 USD Bonds”). The 2018 USD Bonds bear interest from 15 May 2018 (inclusive) at the rate of 6.75% per annum. Interest on the 2018 USD Bonds is payable semi-annually in arrears. The 2018 USD Bonds are listed on the Stock Exchange and are matured and fully settled on 13 May 2019.

The 2018 USD Bonds are carried at amortized cost using an effective interest rate of 7.45% per annum.

- (iv) On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the “2015 RMB Bonds”). The 2015 RMB Bonds bear interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the 2015 RMB Bonds is payable semi-annually in arrears. The 2015 RMB Bonds are listed on the Stock Exchange and are matured and fully settled on 28 May 2018.

The 2015 RMB Bonds are carried at amortized cost using an effective interest rate of 6.84% per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

In the first half of 2019, the major events that lingered through 2018 had not been fully resolved, and it remained uncertain whether they will be settled in the second half of the year.

To start with, the Sino-U.S. trade talks suddenly took a turn for the worse again in May. The leaders met at the G20 summit and later the two sides resumed a new round of trade talks, but there is still a long way to go before the two countries can finally reach a trade agreement to end the trade war. The European Parliament election was held in May. The traditional major parties suffered a setback, while the number of far-right and Eurosceptic seats increased, albeit insignificantly. The former German defense minister was elected as the president of the European Commission with a low vote count, reflecting a hidden concern about her ability to unite the EU in the future given her low popularity. Theresa May announced her resignation due to Brexit mess, and the Brexit deadline was further postponed to the end of October, leaving the hot potato to the new Prime Minister Johnson. Although the Brexit plan may be finalised in the second half of the year, the risk of no-deal Brexit is still mounting. Italian Prime Minister's resignation which leads to political instability might reignite the debt crisis. In Japan, Emperor Akihito abdicated and Naruhito took the throne with the new Reiwa era beginning. In early July, Japan imposed strict restrictions on semiconductor exports to South Korea, worsening the diplomatic ties between the two countries. The relationship between North Korea and the U.S. is also very delicate. At the end of February, Trump-Kim summit concluded without reaching any agreement, though the two leaders met again in Panmunjom at the end of June. The crisis of two presidents in Venezuela has remained unresolved for more than half a year and has evolved into a struggle between the West (Europe and the U.S.) and the East (China and Russia). In terms of crude oil, though Russia reportedly opposed the extension of the oil-cut agreement, OPEC ultimately agreed to extend the deal until the end of next March to stabilise oil prices.

As to the economic front, as the world is faced with the concern of slowing growth, many countries, including the U.S., Australia, New Zealand, India, Malaysia, the Philippines and Thailand, are shifting from the rate hike cycle to rate cuts. The U.S. government shutdown ended at the end of January, and the Fed announced to the end of its balance sheet shrinking. China's GDP growth, despite a slowdown in the second quarter, basically met expectations for the first half of the year. But due to the impact of the Sino-U.S. trade war, its manufacturing PMI fell below the threshold that separates contraction from expansion. China's VAT reform caused its second-quarter economic data to fluctuate, with the overall data far worse than expected for April but better than expected for June. However, the overall data for July slightly deteriorated.

Hong Kong Market

The Hang Seng Index surged in the first quarter of 2019 and rose above 30,000 again in April, but fell nearly 10% in May due to the sudden deterioration of Sino-U.S. trade talks. Given the rising expectations of U.S. rate cuts and the meeting between the heads of state of China and the U.S. at the G20 summit, the Index rebounded more than 5% in June and closed at 28,543 at the end of June, up 10.4% compared with the end of December 2018. The Hang Seng China Enterprises Index closed at 10,882 at the end of June, up 7.5% from the end of December 2018. In the first half of 2019, the average daily turnover of the Hong Kong stock market was HK\$97.9 billion, representing a year-on-year decrease of 22.7% and a period-on-period increase of 10.3%. In the first half of 2019, the average daily turnover of Southbound Trading under Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect was HK\$11.2 billion, a decrease of 31.6% year on year. Southbound Trading accounted for 5.7% of the total turnover of the Hong Kong market, a year-on-year decrease of 0.75 percentage point and a period-on-period increase of 0.54 percentage point. At the end of June 2019, the number of listed companies on the Main Board and GEM reached 2,382 (including 1,996 listed companies on the Main Board, a period-on-period increase of 70 or 3.6%), a period-on-period increase of 67 or 2.9%, while the total market capitalization of the stock market increased by 9.4% to HK\$32.7 trillion on a period-on-period basis. In the first half of 2019, there were a total of 84 newly listed companies (including 8 companies transferred from the GEM to the Main Board), a year-on-year decrease of 24 or 22.2%, mainly due to the fact that the number of companies newly listed on the GEM during the period was only 6, a significant year-on-year decrease of 44 or 88.0%. As a result, in the first half of 2019, though the number of newly listed companies declined, total proceeds raised from IPOs on the Hong Kong stock market increased by 34.7% year on year to HK\$69.5 billion due to the higher number of companies newly listed on the Main Board. Nevertheless, as new economy giants prefer to be listed on the New York Stock Exchange or the NASDAQ, the Hong Kong Stock Exchange slipped in global IPO rankings from first place last year to third place in the first half of 2019. Given that Budweiser Asia Pacific suspended its IPO plan last month, it is difficult for the Hong Kong Stock Exchange to defend its first place in global IPO rankings this year, though Alibaba is expected to go public in Hong Kong in the second half of the year. In the first half of 2019, the market share of Category A participants (Position 1 to 14) on the Stock Exchange rose more than 1.5 percentage points year on year, while the market share of Category B (Position 15 to 65) decreased slightly by 0.5 percentage points and that of Category C (Position ranking after 65) slipped by about 1 percentage point year on year.

BUSINESS REVIEW

The Group's principal business includes brokerage and margin financing, corporate finance, asset management and proprietary trading. During the period under review, the Group recorded total revenue and other income and gains and reversal of allowance for doubtful debts of HK\$153.732 million (six months ended 30 June 2018: HK\$77.208 million) and a loss before tax of HK\$60.252 million (six months ended 30 June 2018: a loss before tax of HK\$80.916 million).

During the period under review, the Group's total revenue and other income and gains increased by 99%, with the revenue from proprietary trading growing significantly to HK\$47.699 million (six months ended 30 June 2018: a revenue of HK\$2.171 million). Other principal business, including margin financing and corporate finance, also enjoyed steady growth.

In addition, the loss before tax narrowed by 26% over the same period of the previous year. Despite the substantial growth in revenue, there was an expected credit loss of financial assets of HK\$58.472 million during the period under review (six months ended 30 June 2018: HK\$3.452 million).

Brokerage and Margin Financing

The Group's brokerage and margin financing business recorded a revenue of HK\$67.164 million during the period under review (six months ended 30 June 2018: HK\$44.901 million). The Group's brokerage and margin financing business mainly includes: agency trading of securities, futures and options trading, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth customers.

In terms of brokerage business, given the increased market volatility amid the escalating trade war and the brunt of Fintech to retail business, commission revenue from retail customers saw a decline. During the period under review, the Group recorded a brokerage commission revenue of HK\$10.237 million (six months ended 30 June 2018: HK\$12.017 million), a year-on-year decrease of HK\$1.78 million or 15%.

In terms of margin financing business, the Group's interest income for the period under review amounted to HK\$56.927 million (six months ended 30 June 2018: HK\$32.884 million), a year-on-year increase of HK\$24.043 million or 73%. During the period under review, the general margin financing business grew steadily. The Group will continue to expand institutional trading customers and high-net-worth customers and combine credit business and financial products business to boost trading commission revenue from institutional customers while increasing interest income. In terms of project financing, the Group made further impairment provision for a project loan during the period under review. Southwest Securities (HK) Brokerage Limited, a wholly-owned subsidiary of the Company, commenced proceedings at the High Court of the Hong Kong Special Administrative Region against the borrower and guarantors of a defaulted project loan on 8 July 2019 (for details, please refer to the announcement of the Company dated 8 July 2019). The Group will continue to find ways to recover the loan as much as possible.

The Group will continue its development strategy for 2019 to acquire high-quality institutional customers and high-net-worth individual customers, and to make credit business and financial products business bigger and stronger based on securities trading business. In addition, in an ongoing effort to consolidate margin financing business, the Group will strive to satisfy the needs of existing customers, actively develop more high-quality institutional customers and high-net-worth individual customers, improve the quality of assets pledged as collateral for margin financing, strengthen and refine risk management practices, and optimise the credit asset structure. In the future, the Group will strengthen the synergic development of business lines by, for example, supporting its corporate finance business with bond sales and underwriting business. We will also focus on beefing up the business coordination with the parent company's branches at home and abroad, in an effort to integrate into the parent company's development strategy and further consolidate the Group's advantages and role as an offshore platform for financial institutions in Chongqing.

Corporate Finance

The Group's corporate finance business includes providing sponsor services, underwriting & placement services, financial advisory services and financing arrangement services to corporate clients in Hong Kong. During the period under review, the Group's corporate finance business recorded a revenue of HK\$16.113 million (six months ended 30 June 2018: HK\$24.874 million), a year-on-year decrease of HK\$8.761 million or 35%, mainly due to the decrease in revenue from financing arrangement services. The Group recorded a total of HK\$11.403 million in revenue from financing arrangements for two projects during the same period of last year, but saw no new project financing during the period under review. Except that, other business lines all witnessed a growth.

The Group completed two exclusive IPO projects in the first half of 2019. Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, completed two sponsorship projects as the sole sponsor for Design Capital Limited and Universal Star (Holdings) Limited in April and May, respectively. Another exclusive IPO sponsorship project was completed in July 2019. In addition, the Company completed two bond underwriting projects in the first half of 2019, successfully increasing its activity in the market and improving its ability to undertake projects of various types in the future. The number of financial advisory services projects also saw a significant growth. As at the end of June 2019, there were a total of 10 ongoing advisory services projects, bringing the Group a stable source of income.

As the first half of 2019 saw the cancellation of some large IPOs amid, among other things, the intensifying global trade war and Hong Kong's uncertain economic outlook, it is expected that uncertainties will remain in Hong Kong's IPO market in the second half of 2019. The Group will play its role as usual and further strengthen the cross-border collaboration with its parent company Southwest Securities, in an effort to provide various types of financial advisory services for high-quality domestic enterprises when they enter the Hong Kong capital market.

Asset Management

During the period under review, the Group's asset management business recorded a revenue of HK\$507,000 (six months ended 30 June 2018: HK\$1,100,000).

During the period under review, the Group terminated the operation of its first hedge fund and the third investment portfolio of its structured fund, while the fifth investment portfolio of its structured fund, targeting asset-backed securities, was put into operation with a total investment of US\$25 million. Our business team is looking for high-quality investment opportunities. In an ongoing effort to expand its asset management business, the Group plans to expand its pipeline of high-quality asset securitization projects and scale up its asset under management in the second half of 2019.

The Group hopes to attract more investors with accumulated experience and past management achievements. The business team is seeking to distribute the fund units of asset management products for asset securitization, in a drive to make the fund investors more diversified. As a fund manager, Southwest Securities (HK) Asset Management Limited, a wholly-owned subsidiary of the Company, receives stable income from asset management fees. In addition, the Group has yielded certain returns on the fifth investment portfolio of its structured fund as the only investor therein, which is reflected in the results of its proprietary trading business.

Proprietary Trading

The Group's proprietary trading business recorded a gain of HK\$47.699 million for the period under review (six months ended 30 June 2018: a gain of HK\$2.171 million).

As the proprietary trading results in 2018 were adversely affected by market turbulence, the Group closed its major stock positions by the end of 2018. During the period under review, the Group closed the portfolio held by its hedge fund and redeemed all the units of the hedge fund. Presently, the Group only maintains an appropriate amount of financial investments in funds and fixed income products. In the future, the Group will start all over again to explore investment strategies and directions with accurate research and study and excellent investment personnel on the premise of balancing risks and returns, in hope of generating decent returns from its proprietary trading business.

Other Income and Gains and Reversal of Allowance for Doubtful Debts

During the period under review, the Group's other income and gains and reversal of allowance for doubtful debts amounted to HK\$22.249 million (six months ended 30 June 2018: HK\$4.162 million). The increase in other income and gains was mainly due to the year-on-year increase in bank funds during the period under review, which led to an increase in interest income from banks. In addition, a bad debt provision made before the year was recovered during the period under review.

Staff Costs

During the period under review, the Group's staff costs amounted to HK\$39.301 million (six months ended 30 June 2018: HK\$48.816 million). The number of staff and fixed costs decreased during the period under review. As part of the salaries of frontline staff was linked to their performance, their salaries decreased in tandem with the drop in business performance, thus lowering the overall staff costs of the Group. The Group also made flexible adjustments to its staffing in response to business growth and resource allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the period under review were HK\$10.677 million (six months ended 30 June 2018: HK\$13.212 million). Fee and commission expenses mainly include commissions paid for brokerage business, proprietary trading business and corporate finance business transactions. The slight decrease in commission expenses during the period under review was mainly attributable to the decrease in trading volume of brokerage business and proprietary trading business.

Finance Costs

The Group's finance costs during the period under review amounted to HK\$78.459 million (six months ended 30 June 2018: HK\$70.201 million). The finance costs were mainly interest expenses on bonds payable which increased year on year by HK\$8.258 million or 12%, mainly due to the overlapping interest payments resulting from the issuance of bonds by the Group in April 2019 to repay bonds payable due in May 2019. For discussion on the issuance of bonds in April 2019, please refer to the section headed "FINANCIAL REVIEW: Liquidity, Financial Resources and Gearing Ratio" in this announcement.

FUTURE PROSPECTS

Starting from 2019, Chinese-funded securities firms in Hong Kong have responded to the securities industry's call to actively take part in the Belt and Road construction, deepen the supply-side structural reform of the industry, and enhance the ability to serve the national strategies and the real economy, presenting both opportunities and challenges. In the second half of 2019, upholding the philosophy of finance serving entities and channeling resources to the real economy, the Group will continue to utilise corporate finance services, asset management plans, cross-border business linkages and other services, leverage its professional advantages in the capital market, and facilitate innovation of products and services to effectively play its role in providing financial services, improve resource allocation efficiency and further support the development of the real economy.

In the second half of 2019, the Group will integrate various resources from several aspects, vigorously make innovations in business and management, and further advance the Group's key reform tasks including capital development, characteristic development, professional development, cross-border coordinated development and integrated development, so as to continuously promote its high-quality development.

1. Capital development: we will explore multi-channel and low-cost financing methods to replenish capital of the Group, with a view to enhancing the Group's capital strength, reducing financial costs and optimising capital structure.
2. Characteristic development: we will leverage our advantageous resources to develop the Group's characteristic business of "capital plus intermediary" revolving around industrial chains and systematically build a platform integrating industrial resources.
3. Professional development: for the operations of the Group's major business lines, we will highlight and deepen the professional services of these business lines and line up resources to develop expertise and specialties in their professional fields, so as to provide high-quality investment and financing services for all types of customers.
4. Cross-border coordinated development: we will give full play to our advantages as a Chinese-funded securities firm in Hong Kong, integrate domestic and overseas capital, talents, customer, products and services, and seize opportunities from national initiatives such as the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area plan to strengthen domestic and overseas integration and coordination and promote cross-border business, in an active effort to serve the needs of China's opening up and the "bring-in" and "go-global" strategies of the real economy.

5. Integrated development: on the basis of compliance, we will improve the Group's integrated financial business system and institutional arrangements to form effective linkage and coordination among business units, between domestic and overseas businesses, between the parent and subsidiaries, and among front, middle and back office departments, so as to jointly provide customers with a full range of one-stop and integrated financial services.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2019, the Group's total cash and bank balances were HK\$412.3 million (31 December 2018: HK\$441.8 million) and its net current assets amounted to HK\$1,652.3 million (31 December 2018: HK\$7.3 million), with a current ratio (ratio of current assets to current liabilities) of 28.9 times (31 December 2018: 1.0 time). The gearing ratio (ratio of total borrowings to total equity) was 1,222.8% (31 December 2018: 6,529.8%).

In mid-April 2019, the Group issued bonds of US\$200 million for a term of two years to repay the bonds payable of HK\$780 million and US\$150 million due in mid-May 2019 and recognised them as non-current liabilities to improve the current ratio and the gearing ratio.

In addition, the Group completed a rights issue at a price of HK\$0.131 per rights share on the basis of one rights share for every two shares held in late April 2019. The net proceeds from the rights shares totaled approximately HK\$156.9 million and were capitalised to improve the current ratio and the gearing ratio.

The Group monitored its capital structure to ensure the compliance of its licensed subsidiaries with the capital requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) and to support the development of new business. All licensed corporations within the Group complied with their respective liquidity requirements during the period under review and up to the date of this announcement.

Banking Facilities and Charges on Assets

As at 30 June 2019, the Group had no bank loans outstanding (31 December 2018: Nil) and had an aggregate banking facilities of HK\$270 million (31 December 2018: HK\$290 million). As to certain banking facilities of HK\$265 million (31 December 2018: HK\$220 million), the drawdown of these facilities 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 cost of funds of the banks. As at 30 June 2019, the Group pledged no assets (31 December 2018: Nil) for the facilities.

Material Acquisitions, Disposals and Significant Investments

During the period under review, there were no material acquisitions and disposals of investments (six months ended 30 June 2018: Nil).

Contingencies

The Group had no material contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

Commitments

The Group had no material capital commitments as at 30 June 2019 (31 December 2018: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group had no material exposure to fluctuations in exchange rates as at 30 June 2019 (31 December 2018: Nil).

EMPLOYEES

As at 30 June 2019, the Group had a total of 96 employees. The Group regards employees as important asset. We aim to create a good work environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policy, covering 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. 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 employees to have the latest information and technical skills to perform their duties, sustain and enhance their competitiveness.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period under review.

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 period under review.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the period under review.

AUDIT COMMITTEE

An Audit Committee was established by the Board on 27 February 2012. All members of the Audit Committee are independent non-executive Directors. The Audit Committee has met with the external auditors of the Group to review the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of this announcement of interim results of the Group for the six months ended 30 June 2019.

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 2019 will be published on the aforesaid websites and despatched to the shareholders of the Company in September 2019.

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

Hong Kong, 23 August 2019

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

* *For identification purpose only*