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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “Board”) of directors (the “Directors”) of Southwest Securities International Securities Limited (the “Company”) presents the consolidated final results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019 (the “Review Period”), together with comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Revenue	2	232,534	122,172
Other income and gains	4	30,466	8,479
Fair value change on derivative financial liabilities		–	77,413
		263,000	208,064
Fee and commission expenses		(16,913)	(24,668)
Finance costs	5a	(138,835)	(146,479)
Staff costs	5b	(75,200)	(96,360)
Depreciation	5c	(23,611)	(10,928)
Expected credit losses on financial assets, net	5c	(318,538)	(7,599)
Loss on non-substantial modification of financial assets measured at amortised cost	5c	(1,763)	–
Other operating expenses		(34,978)	(104,301)
Other losses arising from consolidation of investment fund		–	(14,477)
Total expenses		(609,838)	(404,812)
Loss before tax	5	(346,838)	(196,748)
Income tax credit/(expense)	6	2,243	(5,000)
Loss for the year attributable to equity shareholders of the Company		(344,595)	(201,748)

	<i>Notes</i>	2019 HK\$'000	2018 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>(339)</u>	<u>(160)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>(339)</u>	<u>(160)</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		<u>388</u>	<u>(168)</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 year, net of tax		<u>49</u>	<u>(328)</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>(344,546)</u>	<u>(202,076)</u>
Loss per share			
— Basic (HK cents)	7	<u>(10.025)</u>	<u>(7.765)</u>
— Diluted (HK cents)	7	<u>(10.025)</u>	<u>(7.765)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Fixed assets		7,758	13,744
Right-of-use assets	8	43,564	–
Financial assets at fair value through other comprehensive income		–	1,079
Other non-current assets		8,072	7,654
		59,394	22,477
Current assets			
Financial assets at fair value through profit or loss	9	739,506	451,854
Accounts receivable	10	532,164	1,099,683
Prepayments, other receivables and other assets		8,798	10,351
Tax recoverable		6,884	–
Cash and bank balances		789,090	441,812
		2,076,442	2,003,700
Current liabilities			
Bonds payable	11	–	1,945,475
Derivative financial liabilities	12	17,732	–
Accounts payable	13	48,228	4,002
Other payables and accrued charges		47,834	37,781
Contract liabilities		1,336	1,125
Lease liabilities	8	14,876	–
Tax payable		–	8,000
		130,006	1,996,383
Net current assets		1,946,436	7,317
Total assets less current liabilities		2,005,830	29,794

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Non-current liabilities			
Bonds payable	11	1,549,172	–
Other payables and accrued charges		2,034	–
Lease liabilities	8	32,476	–
		<u>1,583,682</u>	<u>–</u>
NET ASSETS		<u>422,148</u>	<u>29,794</u>
Capital and reserves			
Share capital		366,182	244,121
Reserves		(524,034)	(214,327)
Other equity instrument		580,000	–
TOTAL EQUITY		<u>422,148</u>	<u>29,794</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICY

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

The measurement basis used in the preparation of these consolidated final results is the historical cost basis except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, and derivative financial liabilities.

The consolidated final results are presented in the currency of Hong Kong dollars, which is also the Company’s functional currency.

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

Certain comparative figures have been reclassified to conform with the current year presentation.

Change in accounting policy and disclosures

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

Amendments to HKFRS 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>
<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, HKAS 28 and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group’s financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

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 and related interpretations.

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.

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). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities.

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:

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

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK\$'000
Assets	
Increase in right-of-use assets	58,574
Decrease in deposit	(306)
	<hr/>
Increase in total assets	<u>58,268</u>
Liabilities	
Increase in lease liabilities	59,073
Decrease in other payables	(805)
	<hr/>
Increase in total liabilities	<u>58,268</u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 December 2018	17,679
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(301)
Add: Payments for optional extension periods not recognised as at 31 December 2018	<hr/> 50,233
	67,611
Weighted average incremental borrowing rate as at 1 January 2019	<hr/> 6.9%
Lease liabilities as at 1 January 2019	<u>59,073</u>

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the Group’s consolidated final results.

2. REVENUE

An analysis of revenue is as follow:

	Note	2019 HK\$'000	2018 HK\$'000
Total revenue from contracts with customers	(i)		
<i>Brokerage:</i>			
— commission income on securities dealing		7,275	8,521
— commission income on futures and options dealing		6,675	6,186
— insurance brokerage fee income		4,108	4,390
		<u>18,058</u>	<u>19,097</u>
<i>Corporate finance:</i>			
— IPO sponsor fee income		22,411	18,715
— underwriting and placing commission income		8,456	3,584
— consultancy and financial advisory fee income		4,973	3,747
— corporate finance arrangement and commitment fee income		764	14,876
		<u>36,604</u>	<u>40,922</u>
<i>Asset management:</i>			
— asset management fee income		507	2,669
		<u>55,169</u>	<u>62,688</u>
Total revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		90,979	81,742
<i>Net gains/(losses) from proprietary trading</i>		<u>86,386</u>	<u>(22,258)</u>
		<u>177,365</u>	<u>59,484</u>
Total revenue		<u>232,534</u>	<u>122,172</u>

Note:

- (i) An analysis of total revenue from contracts with customers is as follows:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Analyse by business segment:		
Brokerage		
— services transferred at a point in time	<u>18,058</u>	<u>19,097</u>
Corporate finance		
— services transferred at a point in time	18,693	24,407
— services transferred over time	<u>17,911</u>	<u>16,515</u>
	<u>36,604</u>	<u>40,922</u>
Asset management		
— services transferred over time	<u>507</u>	<u>2,669</u>
	<u>55,169</u>	<u>62,688</u>
Analyse by timing of revenue recognition:		
— services transferred at a point in time	36,751	43,504
— services transferred over time	<u>18,418</u>	<u>19,184</u>
	<u>55,169</u>	<u>62,688</u>

3. SEGMENT INFORMATION

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

- Segment revenue represents revenue generated from external customers; and
- Segment results represent the profit or loss incurred by each segment without allocation of central administration costs, depreciation, central finance costs, and income tax expense.

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

Reportable operating segments

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

Brokerage and margin financing	Provision of brokerage services in securities, futures and options and insurance products; provision of margin financing services
Corporate finance	Provision of underwriting and placements and corporate finance advisory services
Asset management	Provision of asset management services
Proprietary trading	Proprietary trading in securities, futures and options, fund investments

In the Group's consolidated final results for the year ended 31 December 2018, the insurance broking business was included in the wealth management segment and the underwriting and placing business was included in brokerage and margin financing segment. In order to better align with the Group's internal segment report, the insurance broking business is included in brokerage and margin financing segment, and the underwriting and placing business is included in the corporate finance segment in the consolidated final results for the year ended 31 December 2019. The corresponding segment information for the year ended 31 December 2018 presented in these consolidated final results have been restated to reflect the change in structure.

	2019					
	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	109,037	36,604	507	86,386	–	232,534
Other income and gains	14,012	–	–	541	15,913	30,466
Fee and commission expenses	(12,327)	(2,141)	–	(2,445)	–	(16,913)
Finance costs	(76,448)	–	–	(36,098)	–	(112,546)
Expected credit losses on financial assets, net	(315,829)	(2,898)	–	–	189	(318,538)
Loss on non-substantial modification of financial assets measured at amortised cost	(1,763)	–	–	–	–	(1,763)
Other operating expenses and costs	(61,384)	(24,672)	(755)	(16,696)	(6,298)	(109,805)
Segment results	(344,702)	6,893	(248)	31,688	9,804	(296,565)
Unallocated expenses, represented central administration costs						(15,383)
Depreciation of fixed assets						(8,601)
Unallocated finance costs						(26,289)
Loss before tax						(346,838)

	2018					
	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	<u>100,839</u>	<u>40,922</u>	<u>2,669</u>	<u>(22,258)</u>	<u>–</u>	<u>122,172</u>
Other income and gains	<u>4,478</u>	<u>–</u>	<u>4</u>	<u>338</u>	<u>3,659</u>	<u>8,479</u>
Fee and commission expenses	<u>(11,477)</u>	<u>(2,427)</u>	<u>(2,368)</u>	<u>(8,396)</u>	<u>–</u>	<u>(24,668)</u>
Finance costs	<u>(59,726)</u>	<u>–</u>	<u>–</u>	<u>(44,071)</u>	<u>(42)</u>	<u>(103,839)</u>
Expected credit losses on financial assets, net	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,599)</u>	<u>(7,599)</u>
Other operating expenses and costs	<u>(63,428)</u>	<u>(34,085)</u>	<u>(1,593)</u>	<u>(14,211)</u>	<u>14,681</u>	<u>(98,636)</u>
Other losses arising from consolidation of investment fund	<u>–</u>	<u>–</u>	<u>–</u>	<u>(14,477)</u>	<u>–</u>	<u>(14,477)</u>
Segment results	<u>(29,314)</u>	<u>4,410</u>	<u>(1,288)</u>	<u>(103,075)</u>	<u>10,699</u>	<u>(118,568)</u>
Unallocated expenses, represented central administration costs						(24,612)
Depreciation of fixed assets						(10,928)
Unallocated finance costs						(42,640)
Loss before tax						<u>(196,748)</u>

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2019 and 31 December 2018, the Group's revenue is mainly derived from customers in Hong Kong.

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

Major customers

During the years ended 31 December 2019 and 31 December 2018, the following respective external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net gains/(losses) from proprietary trading.

	2019 HK\$'000	2018 HK\$'000
Customer A from brokerage and margin financing and corporate finance segments	29,648	28,497
Customer B from brokerage and margin financing and corporate finance segments	<u>25,703</u>	<u>18,543</u>

4. OTHER INCOME AND GAINS

	2019 HK\$'000	2018 HK\$'000
Other income		
Dividend income from financial assets at fair value through other comprehensive income	7	7
Handling income	3,442	1,098
Other interest income	17,389	7,236
Sundry income	<u>22</u>	<u>138</u>
	<u>20,860</u>	<u>8,479</u>
Other gains		
Gain on disposal of fixed assets	154	–
Exchange gains, net	<u>9,452</u>	<u>–</u>
	<u>9,606</u>	<u>–</u>
	<u>30,466</u>	<u>8,479</u>

5. LOSS BEFORE TAX

	2019 HK\$'000	2018 HK\$'000
Loss before tax is arrived at after charging:		
(a) Finance costs		
Bank loan interest expenses	43	155
Bond interest expenses	121,731	127,333
Imputed interest expenses on bonds payable	13,292	18,800
Interest on lease liabilities	3,714	–
Other interest expenses	55	191
	<u>138,835</u>	<u>146,479</u>
(b) Staff costs		
Contributions to retirement benefit schemes	1,782	2,009
Salaries, commission and allowances	73,418	94,351
	<u>75,200</u>	<u>96,360</u>
(c) Other items		
Auditor's remuneration		
— Audit-related assurance services	2,400	2,180
— Other services	387	1,667
Depreciation of fixed assets	8,601	10,928
Depreciation of right-of-use assets	15,010	–
Exchange losses, net	–	59,237
Expected credit losses on financial assets, net	318,538	7,599
Loss on non-substantial modification of financial assets measured at amortised cost	1,763	–

Note:

- (i) There was no net exchange loss for the year ended 31 December 2019. For the year ended 31 December 2018, included in net exchange loss was HK\$58,758,000 exchange loss arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in RMB.

6. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2019 HK\$'000	2018 HK\$'000
Current — Hong Kong		
Charge for the year	–	5,076
Overprovision in prior years	(2,243)	(76)
Total tax (credit)/charge for the year	<u>(2,243)</u>	<u>5,000</u>

7. LOSS PER SHARE

During the year ended 31 December 2019, the Company raised approximately HK\$159.9 million before expenses by issuing 1,220,610,204 rights shares, on the basis of 1 rights share for every 2 existing shares held by the shareholders of the Company, at the subscription price of HK\$0.131 per rights share, which represents a discount of 18.1% to fair value at the close of the last day on which the shares are traded together with the rights shares.

The calculation of the basic loss per share is based on the loss for the year attributable to equity shareholders of the Company, and the weighted average number of ordinary shares of 3,437,447,000 (2018: 2,598,194,000) in issue during the year, as adjusted to reflect the rights issue during the year.

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:

	2019 HK\$'000	2018 <i>HK\$'000</i>
Loss for the year attributable to equity shareholders of the Company	<u>(344,595)</u>	<u>(201,748)</u>
Number of shares	'000	<i>'000</i>
Weighted average number of ordinary shares in issue for the purpose of diluted loss per share	<u>3,437,447</u>	<u>2,598,194</u>
Basic loss per share (<i>HK cents</i>)	<u>(10.025)</u>	<u>(7.765)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(10.025)</u>	<u>(7.765)</u>

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2019 and 31 December 2018. Accordingly, the diluted loss per share for the respective years are the same as basic loss per share.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group has lease contracts for properties used in its operations. Leases of properties generally have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

Right-of-use assets:

	Properties <i>HK\$'000</i>
Cost:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	58,574
Restated opening balance under HKFRS 16 as at 1 January 2019	58,574
As at 31 December 2019	58,574
Accumulated depreciation and impairment:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	–
Restated opening balance under HKFRS 16 as at 1 January 2019	–
Depreciation provided during the year	(15,010)
As at 31 December 2019	(15,010)
Net carrying amount:	
As at 31 December 2019	43,564

Set out below are the carrying amounts of lease liabilities and the movements during the year:

Lease liabilities:

	Properties <i>HK\$'000</i>
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	59,073
Restated opening balance under HKFRS 16 as at 1 January 2019	59,073
Interest expense	3,714
Payments	(15,435)
As at 31 December 2019	47,352
Non-current portion	32,476
Current portion	14,876
	47,352

The following are the amounts recognised in profit or loss:

	2019 HK\$'000
Depreciation expense of right-of-use assets	15,010
Interest expense on lease liabilities	3,714
Expense relating to short-term leases	136
Expense relating to leases of low-value assets	228
	<hr/>
Total amount recognised in profit or loss	19,088
	<hr/> <hr/>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Held for trading			
Equity securities			
— Listed in Hong Kong	<i>(i)</i>	340,405	246,860
— Listed outside Hong Kong	<i>(i)</i>	202,919	—
		<hr/> 543,324	<hr/> 246,860
Debt securities			
— Listed outside Hong Kong	<i>(ii)</i>	—	159,474
— Unlisted	<i>(ii)</i>	164,669	—
		<hr/> 164,669	<hr/> 159,474
Unlisted fund investments	<i>(iii)</i>	31,513	45,520
		<hr/> 739,506	<hr/> 451,854
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) Fair values of the listed equity securities are determined with reference to quoted active market bid price on the respective stock exchanges at the end of each reporting period.
- (ii) For the debt securities, the fair values are determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.
- (iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds.
- (iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2019 to any bank as collateral for the facilities granted (31 December 2018: Nil).

10. ACCOUNTS RECEIVABLE

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	(a)	855,780	1,107,815
— securities cash clients	(b)	2,103	1,002
— securities subscription clients	(b)	13,841	191
— securities and options clearing houses and brokers	(b)	20,830	57,228
— futures clients	(b)	3	2
— futures clearing house and brokers	(b)	23,252	2,390
Accounts receivable arising from the provision of corporate finance advisory services	(b)	7,262	3,223
Accounts receivable arising from the provision of asset management services	(b)	—	98
		923,071	1,171,949
Less: Impairment		(390,907)	(72,266)
		532,164	1,099,683

Notes:

(a) Analysis on accounts receivable from securities margin clients

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

	2019 HK\$'000	2018 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of broking in securities:		
— securities margin clients	855,780	1,107,815
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	(7,492)
— Stage 3	(387,498)	(64,279)
	468,282	1,036,044

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the reporting period, fair value of marketable securities pledged by securities margin clients was HK\$1,098,632,000 (2018: HK\$2,935,601,000).

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

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

Excellent	: Margin obligations are expected to be met and exposures are fully secured by collaterals, which demonstrate good loan-to-collaterals' value ratios ("LTVs"). Repayment of interest and principal is not in doubt.
Good	: Margin obligations are expected to be met and exposures are fully secured by collaterals, but LTVs are higher than the excellent grade exposures. Repayment of interest and principal is not in doubt.
Non-performing	: Exposures where some losses of principal or interest may be possible after taking into account of the realisable value of the underlying collaterals.
Individually impaired	: Exposures where default events have occurred and individual impairment assessments are made to determine the impairment allowances.

The following is the analysis of the gross carrying amount of the accounts receivable from securities margin clients as at 31 December 2019 and 2018 by the Group's internal credit rating and year end classification:

2019

	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
Internal rating grade				
Excellent	194,221	–	–	194,221
Good	129,634	–	–	129,634
Non-performing	–	190	–	190
Individually impaired	–	–	531,735	531,735
	<u>323,855</u>	<u>190</u>	<u>531,735</u>	<u>855,780</u>

For the gross receivables of Stage 3 securities margin clients, fair value of marketable securities pledged was HK\$144,237,000.

During the year ended 31 December 2019, the Group has renegotiated the contractual terms with two securities margin clients. Based on the assessment performed by the Group, both are regarded as non-substantial modification.

The amortised cost before the modification of a receivable was \$236,938,000 and the modification loss amounting to \$1,111,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of \$129,634,000 was classified under 12-month ECL (Stage 1) since the borrower has fulfilled the repayment obligations after the modification.

The amortised cost before the modification of the receivable was \$289,085,000 and the modification loss amounting to \$652,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of \$285,179,000 was classified under lifetime ECL — credit-impaired (Stage 3) since the borrower did not fulfil the repayment obligations after the modification.

2018

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

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

- (iii) The movements in the impairment allowance of accounts receivable from securities margin clients are 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	Total HK\$'000
As at 1 January 2018	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	<u>(1,336)</u>	<u>(233)</u>	<u>1,657</u>	<u>88</u>
As at 31 December 2018 and 1 January 2019	–	7,492	64,279	71,771
Transfer to stage 3	–	(7,490)	7,490	–
Impact on transfer between stages	–	–	300,997	300,997
New assets originated (<i>Note</i>)	–	(2)	19,503	19,501
Bad debt recovery	–	–	(4,754)	(4,754)
Amount written off	<u>–</u>	<u>–</u>	<u>(17)</u>	<u>(17)</u>
As at 31 December 2019	<u>–</u>	<u>–</u>	<u>387,498</u>	<u>387,498</u>

Note: During the year ended 31 December 2019, new origination of securities margin clients with gross amount of HK\$19,503,000 were transferred and classified under stage 3. This results in an increase in loss allowance of HK\$19,503,000 as at year end.

(b) Analysis on accounts receivable from other than securities margin clients

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

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(1)	2,103	1,002
— securities subscription clients	(2)	13,841	191
— securities and options clearing houses and brokers	(3)	20,830	57,228
— futures clients		3	2
— futures clearing house and brokers	(4)	23,252	2,390
Accounts receivable arising from the provision of corporate finance advisory services	(5)	7,262	3,223
Accounts receivable arising from the provision of asset management services	(6)	<u>—</u>	<u>98</u>
		67,291	64,134
Less: Impairment	(7)	<u>(3,409)</u>	<u>(495)</u>
		<u>63,882</u>	<u>63,639</u>

- (1) Accounts receivable from securities cash clients arising from the business of dealing in securities are repayable on demand after settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are one to three days after trade date. 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.
- (3) At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2019, included in accounts receivable from securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited (“HKSCC”) of HK\$17,925,000 (2018: HK\$3,060,000), with legally enforceable right to set off the corresponding receivable and payable balances.

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 Options Clearing House Limited not otherwise dealt with in the consolidated final results amounted to HK\$595,000 (2018: HK\$1,090,000).

- (4) 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\$9,486,000 (2018: HK\$4,568,000), which was not dealt with in the consolidated final results. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.
- (5) 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, is as follows:

	2019 HK\$’000	2018 HK\$’000
Current	2,799	1,423
Overdue:		
Within 30 days	93	–
31–90 days	1,497	1,750
91–180 days	–	–
Over 180 days	2,873	50
	<u>7,262</u>	<u>3,223</u>

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

- (7) The movements in the impairment allowance of accounts receivable from other than securities margin clients are 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	Lifetime ECL simplified approach HK\$'000	Total HK\$'000
As at 1 January 2018	–	–	–	925	925
Charged/(credit) to profit or loss	74	2	–	(109)	(33)
Amount written off	–	–	–	(397)	(397)
As at 31 December 2018 and 1 January 2019	74	2	–	419	495
Charged/(credit) to profit or loss (<i>Note</i>)	(74)	(2)	89	2,901	2,914
As at 31 December 2019	–	–	89	3,320	3,409

Note: During the year ended 31 December 2019, new origination of account receivables arising from the provision of corporate finance advisory services with gross amount of HK\$5,001,000 resulted in an increase in loss allowance of HK\$1,045,000.

11. BONDS PAYABLE

	2019 USD Bonds HK\$'000 (note (i))	2018 HKD Bonds HK\$'000 (note (ii))	2018 USD Bonds HK\$'000 (note (iii))	2015 RMB Bonds HK\$'000 (note (iv))	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 difference	–	–	(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 year	3,842	6,453	2,997	–	13,292
Exchange difference	(13,210)	–	1,825	–	(11,385)
Principal repayment	–	(780,000)	(1,176,750)	–	(1,956,750)
Carrying amount at 31 December 2019	1,549,172	–	–	–	1,549,172

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 (“HKEX”) and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The fair value determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market as at 31 December 2019 was approximately HK\$1,590,013,000.

The 2019 USD Bonds are carried at amortised 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 HKEX and fully settled on maturity date 10 May 2019.

The 2018 HKD Bonds are carried at amortised 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 HKEX and fully settled on maturity date 13 May 2019.

The 2018 USD Bonds are carried at amortised 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 bore 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 HKEX and fully settled on maturity date 28 May 2018.

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

12. DERIVATIVE FINANCIAL LIABILITIES

	<i>Note</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Futures contracts held for trading	(i)	17,732	–
		17,732	–

Note:

- (i) The futures contracts are classified as held for trading. As at 31 December 2019, the fair value of the futures contracts were amounted to HK\$17,732,000 (2018: Nil). Fair value was determined with reference to quoted market prices in active markets. During the year, the loss on change in fair value of futures contracts amounting to HK\$38,102,000 (2018: Nil) was recognised in profit or loss.

13. ACCOUNTS PAYABLE

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(i)	14,742	–
— securities margin clients	(i)	3,086	267
— securities clearing house	(i)	7,038	1,242
— futures clients	(ii)	23,239	2,383
Accounts payable arising from the provision of insurance broking services	(iii)	102	110
Accounts payable to brokers	(i)	21	–
		48,228	4,002

Notes:

Settlement terms

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

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

Interest with reference to savings rate of financial institutions is payable to accounts payable arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Macro Environment

2019 is definitely unusual for both Hong Kong and the world. With the signing of the Phase One Trade Agreement between China and the United States in January 2020, the trade war between China and the United States, which has lasted for nearly two years, has finally come to an end. But the United States has not completely lifted the tariffs imposed on all imports from China, and the two countries will continue negotiations on a Phase Two Trade Agreement. In the UK, a general election was held in advance to solve the Brexit issue. Eventually, UK successfully departed the EU, ending a three-and-a-half year political storm, but it still needs to negotiate with the EU and other countries on follow-up issue within the year. In terms of commodities, benefiting from OPEC's extension of the output reduction agreement to March this year, oil prices rose by approximately 25% in 2019. However, due to the outbreak of COVID-19, oil prices fell by approximately 15% in the first two months of this year; geopolitical risks seldom left the market, Sino-U.S. trade talk experienced twists and turns.

Hong Kong Stock Market

The Hang Seng Index surged in the first quarter of 2019, and rose above 30,000 points again in April, and fell suddenly due to the unexpected progress of Sino-U.S. trade talks in May. However, the Hang Seng Index closed with a drop of more than 7% in August due to the drastic turn in the relationship between China and the United States and the inverted the U.S. Treasury yield curve. Starting from October, China and the United States began to hint that they have a chance to reach a trade agreement, leading to positive sentiment in the market. The Hang Seng Index finally closed the December at 28,190 points, a 1.2% drop from the end of June, but an increase of 9.1% from the end of December 2018. The Hang Seng China Enterprise Index closed the December at 11,168 points, up by 10.3% and 2.6% as compared with that at the end of December 2018 and June 2019, respectively.

The average daily turnover of the Hong Kong equity market in 2019 was HK\$87.2 billion, representing a year-on-year decrease of 18.9%. The average daily turnover (buys + sells) of Southbound Trading under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect schemes was HK\$10.8 billion in 2019, representing a decrease of 15.1% year-on-year, but Southbound Trading in the total turnover of the Hong Kong market rose by 0.27% to 6.2%. At the end of 2019, 2,449 companies listed on the Main Board and the GEM (including 2,071 companies listed on the Main Board, up by 145 or 7.5% year-on-year), representing a year-on-year increase of 134 or 5.8%, and the total market value of the stock market increased by 27.6% to HK\$38.2 trillion. In 2019, 183 new companies were listed (including 20 companies which switched from the GEM to the Main Board), down by 35 or 16.1% year-on-year. Although the number of newly listed companies declined, total proceeds raised from IPOs on the Hong Kong stock market amounted to HK\$312.9 billion, up 8.6% year-on-year, benefiting from Alibaba's secondary listing in Hong Kong and Budweiser Asia Pacific's IPO following the suspension of its listing plan, putting Hong Kong Stock Exchange in the first place in global IPO rankings.

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 of HK\$263.0 million (2018: HK\$208.1 million) and a loss before tax of HK\$346.8 million (2018: a loss before tax of HK\$196.7 million).

The Group's total revenue and other income and gains increased by 26.4%, it was mainly due to the revenue from proprietary trading growing significantly to net gains of HK\$86.4 million (2018: net losses of HK\$22.3 million).

In addition, the loss before tax increased by 76.3% over the previous year. Despite the substantial growth in revenue, there was an expected credit loss of financial assets of HK\$318.5 million (2018: HK\$7.6 million).

Brokerage and Margin Financing

Revenue generated from the Group's brokerage and margin financing business during the period under review amounted to HK\$109.0 million (2018: HK\$100.8 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.

The revenue increase mainly came from margin financing business, increased by 11.3% to HK\$91.0 million in 2019 (2018: HK\$81.7 million). The margin financing business is mainly targeted for high-net-worth customers with large principal amount with an aim to further improve the Company's capital utilization rate and return on the premise of monitoring credit risk and stocks concentration risk strictly.

The Group's commission income from brokerage business decreased by 5.4% to HK\$18.1 million (2018: HK\$19.1 million) for 2019. The income from brokerage business mainly included commission income from providing brokerage services in securities, futures and options and insurance products on the primary and secondary markets. As Hong Kong stock market's overall negative sentiment due to global trade war during the period under review, the Group's overall performance in brokerage business decreased as compared with that in last year.

The transformation of brokerage business is imperative under ongoing pressure on customer acquisition costs and service rates arising from the homogeneity of traditional services, the development of Fintech, and the intensifying market competition. The Group will continue its development strategy in 2019 to expand service capabilities of its trading platforms and integrate trading, credit financial instruments, investment strategies and other comprehensive trading services, so as to provide a full range of investment products and capital market solutions for mid-to-high-end customers and promote the transformation of wealth management business. The Group will strengthen the synergic development of business lines by, for example, supporting its corporate finance business with underwriting and placing 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

Revenue generated from the Group's corporate finance business during the period under review amounted to HK\$36.6 million (2018: HK\$40.9 million).

The Group's corporate finance business includes providing Hong Kong sponsor services, underwriting & placement services, financial advisory services and financing arrangement services to corporate clients.

In 2019, the Group achieved great results in the sponsor business for Hong Kong IPOs. Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, successfully completed four main board IPO projects as the sole sponsor, namely, Design Capital Limited (1545.HK), Universal Star (Holdings) Limited (2346.HK), Hevol Services Group Co., Ltd. (6093.HK) and Hong Kong Johnson Holdings Co., Ltd. (1955.HK). In addition, the Group completed two bond underwriting projects in 2019, 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 December 2019, there were a total of 11 ongoing advisory services projects, bringing the Group a stable source of income.

2020 will be a year of uncertainties and challenges for Hong Kong's IPO market, the Group will hold fast to our position and further strengthen the cross-border collaboration with its parent company Southwest Securities Co., Ltd., 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

Revenue generated from the Group's asset management business during the period under review amounted to HK\$0.5 million (2018: HK\$2.7 million).

The Group's first hedge fund commenced operation at the end of 2016 with a total investment of HK\$230 million. The hedge fund was closed in 2019, with its overall returns outperforming the market. The Group also established a structured fund at the end of 2017, whose four investment portfolios commenced operation at the end of 2017, in 2018 and 2019 respectively. As at the end of 2019, the fourth investment portfolio was still in operation, bringing stable asset management fee income to the Group.

The business team continues to look for high-quality investment opportunities. The Group plans to set up an investment fund focusing on the secondary market in 2020; attempts to establish and issue special asset management products for asset securitization; and appoints the asset management business team as the fund manager. The business team will pursue excellent management performance to attract more potential investors and increase collaboration with the parent company to explore business opportunities. In addition, the business team is seeking to market the units of the fourth fund (as an asset management product for asset securitization) to investors, in a drive to diversify its fund investors and further scale up the assets under management.

Proprietary Trading

The proprietary trading business of the Group recorded net trading gains of HK\$86.4 million during the period under review (2018: net trading losses of HK\$22.3 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. In 2019, the Group explored 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. In the fourth quarter of 2019, the Group resumed the proprietary trading and achieved satisfactory results.

Other Income and Gains

During the period under review, the Group's other income and gains amounted to HK\$30.5 million (2018: HK\$8.5 million).

The increase in other income and gains was mainly due to increase in bank interest income and net exchange gain.

Staff Costs

During the period under review, the Group's staff costs amounted to HK\$75.2 million (2018: HK\$96.4 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 necessary resource allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the period under review were HK\$16.9 million (2018: HK\$24.7 million).

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

Finance Costs

The Group's finance costs during the period under review amounted to HK\$138.8 million (2018: HK\$146.5 million).

Finance costs were mainly interest payments on bonds payable, which decreased by HK\$7.7 million or 5% year on year, mainly because the amount of bonds issued by the Group in April 2019 was lower than that of bonds payable due in May 2019, which resulted in a drop in interest payments. For the details of the issuance of bonds in April 2019, please refer to the section of "Financial Review: Liquidity, Financial Resources and Gearing Ratio" in this announcement.

Future Prospects

In 2020, the Group will reinforce the building of a corporate culture in the following three aspects: firstly, the customer-focused approach which follows the concept that the Company grows together with its customers; secondly, the team mutual assistance culture which encourages employees to participate, contribute and share; and thirdly, the culture of compliance and risk control which requires the Company to carry out innovative business that focuses on customer needs and the Company's own needs, provided that the risks associated with such business are under control and complies with the law.

Meanwhile, the Group will carry out business transformation further in 2020, stringently abide by compliance and risk control, and take compliance and risk control as the cornerstone of the Company's long-term development. In line with the Group's comparative advantages in Hong Kong, investment and corporate finance business will work as two wings to boost the development of the Group for the launch of the brokerage, asset management and other businesses. By keeping a foothold in the PRC and eyeing on the global market, our goal is to build the Group into a boutique global financial institution featuring "investment" + "corporate finance". By leveraging the interconnection with the domestic and overseas businesses of our parent company Southwest Securities Co., Ltd., the Group will push the brokerage and corporate finance businesses to another new level, and create a service philosophy that gives top priority to pursuing long-term goals and customer interests, with a commitment to brand building.

Financial Review

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2019, the Group had total cash and bank balances of HK\$789.1 million (2018: HK\$441.8 million), while net current assets amounted to HK\$1,946.4 million (2018: HK\$7.3 million). The current ratio as a ratio of current assets to current liabilities was 16.0 times (2018: 1.0 times). The gearing ratio was 367.0% (2018: 6,529.8%). Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

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 Group's 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 Group's current ratio and the gearing ratio.

In October 2019, the Company (as issuer) entered into a subscription agreement with Southwest Securities International Investment Limited (as subscriber), the immediate holding company of the Company, to issue perpetual securities in the aggregate principal amount of HK\$580 million. The perpetual securities recorded as other equity instruments in the consolidated final results according to applicable accounting standards. The issuance of the perpetual securities enhances the Group's working capital positions; strengthens its capital base and improves its financial position to support the Group's ongoing operations and further business development.

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

Banking Facilities and Charges on Assets

As at 31 December 2019, the Group had no outstanding bank loans (2018: Nil) and had an aggregate banking facilities of HK\$270.0 million (2018: HK\$290.0 million). In the case of certain banking facilities of HK\$265.0 million (2018: HK\$220.0 million), the drawdown of which is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group did not have any assets pledged for the facilities (2018: Nil).

Material Acquisitions, Disposals and Significant Investments

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

Contingencies

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

Commitments

During the period under review, the Group has no material capital commitment (2018: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2019, the Group had no material exposure to fluctuations in exchange rates (2018: Nil).

EMPLOYEES

As at 31 December 2019, the Group had a total of 88 employees (at 31 December 2018: 117 employees). The Group regards employees as important asset. We continue to improve our human resources management system. We aim to create a good work environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policy, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policy on its employee's remuneration 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.

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, risk management and etc.. 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 its competitiveness.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code 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 the Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with each Director and was confirmed that all the Directors have complied with the required standard set out in the Model Code during the Review Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Company, comprising Mr. Meng Gaoyuan as chairman as well as Professor Wu Jun and Dr. Guan Wenwei as members, has reviewed the results for the year ended 31 December 2019.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated final results for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.swsc.hk and the HKEXnews website at www.hkexnews.hk. The 2019 annual report will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 27 March 2020

As at the date of this announcement, the executive directors of the Company are Mr. Wu Jian (Chairman), Mr. Pu Rui (Chief Executive Officer) and Dr. Zhao Mingxun and the independent non-executive directors of the Company are Professor Wu Jun, Mr. Meng Gaoyuan and Dr. Guan Wenwei.

* *For identification purpose only*