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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 2023

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 2023 (the “**Review Period**”), together with the comparative figures for the six months ended 30 June 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	22,913	(109,624)
Other income and gains	5	9,877	1,030
		<u>32,790</u>	<u>(108,594)</u>
Fee and commission expenses		(104)	(3,179)
Finance costs	6(a)	(16,576)	(37,602)
Staff costs	6(b)	(14,008)	(23,741)
Depreciation of fixed assets and right-of-use assets		(516)	(8,284)
Expected credit losses on financial assets, net	6(c)	1,818	(1,802)
Other operating expenses		(8,965)	(18,825)
Fair value gains arising from investment fund		–	408
		<u>(38,351)</u>	<u>(93,025)</u>
Total expenses		(38,351)	(93,025)

* For identification purposes only

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	6	(5,561)	(201,619)
Income tax	7	—	—
Loss for the period attributable to equity shareholders of the Company		<u>(5,561)</u>	<u>(201,619)</u>
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		—	(55)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		—	(55)
Other comprehensive income for the period, net of tax		—	(55)
Total comprehensive income for the period attributable to equity shareholders of the Company		<u>(5,561)</u>	<u>(201,674)</u>
Loss per share			
— Basic (<i>HK cents</i>)	8	<u>(0.152)</u>	<u>(5.506)</u>
— Diluted (<i>HK cents</i>)	8	<u>(0.152)</u>	<u>(5.506)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		At	At
		30 June	31 December
		2023	2022
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets		901	1,267
Right-of-use assets		–	150
Financial assets at fair value through other comprehensive income	9	–	–
Other non-current assets		400	400
		<hr/> 1,301	<hr/> 1,817
Current assets			
Financial assets at fair value through profit or loss	10	317,306	372,713
Accounts receivable	11	12,108	47,726
Prepayments, other receivables and other assets		3,836	8,589
Cash and bank balances	12	387,423	378,104
		<hr/> 720,673	<hr/> 807,132
Current liabilities			
Bonds payable	13	723,841	–
Other payables and accrued charges		15,382	18,457
Provisions		9,446	13,185
Lease liabilities		–	941
		<hr/> 748,669	<hr/> 32,583

		Unaudited	Audited
		At	At
		30 June	31 December
		2023	2022
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net current (liabilities) assets		<u>(27,996)</u>	<u>774,549</u>
Total assets less current liabilities		<u>(26,695)</u>	<u>776,366</u>
Non-current liabilities			
Bonds payable	<i>13</i>	<u>–</u>	<u>797,500</u>
		<u>–</u>	<u>797,500</u>
		<u>(26,695)</u>	<u>(21,134)</u>
Capital and reserves			
Share capital		366,182	366,182
Reserves		(972,877)	(967,316)
Other equity instrument		<u>580,000</u>	<u>580,000</u>
		<u>(26,695)</u>	<u>(21,134)</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The interim condensed consolidated 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.

Going concern assumption

The Group incurred a consolidated loss of approximately HK\$5,561,000 for the six months ended 30 June 2023 and had net current liabilities of approximately HK\$27,996,000 and capital deficiency of approximately HK\$26,695,000 as at 30 June 2023, which was mainly attributable to bonds payable of approximately HK\$723,841,000 that would be due for repayment on 9 February 2024, while its cash and bank balances amounted to only approximately HK\$387,423,000 as at 30 June 2023. The above conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

In the preparation of the Group’s condensed consolidated financial information, the Directors have prepared a cash flow forecast covering a period of not less than twelve months from 30 June 2023 and have given careful consideration to the Group’s future liquidity and performance and its available sources of financing to continue as a going concern. After taking into account the following considerations in preparing the cash flow forecast, in the opinion of the Directors, the condensed consolidated financial information have been prepared on a going concern basis:

- (i) as set out in the Company’s announcement on 30 December 2022, Southwest Securities International Investment Limited (“**SSII**”) had entered into a memorandum of understanding (the “**MOU**”) with a potential purchaser (the “**Potential Purchaser**”) on 30 December 2022 in relation to the potential sale and purchase of the shares of the Company (the “**Potential Transaction**”). On 30 June 2023, SSII, the Potential Purchaser and a potential individual purchaser (the “**Potential Individual Purchaser**”) had further entered into a supplemental memorandum of understanding (the “**Supplemental MOU**”) that all the rights and obligations of the Potential Purchaser under the MOU shall be transferred to the Potential Individual Purchaser and the exclusivity period shall be extended from 30 June 2023 to 30 September 2023, while other terms of the MOU and their respective effect shall remain unchanged under the Supplemental MOU. The Directors considered that neither the MOU itself, the Supplemental MOU itself nor the Group’s capital deficiency position as at 30 June 2023 would trigger any early redemption of the bonds payables before the maturity date, unless and until there is any subsequent completion of the Potential Transaction. As of the date on which these condensed consolidated financial statements are approved by the Directors, other than the MOU and the Supplemental MOU, no formal or legally binding agreement has been entered into between SSII and the Potential Purchaser and/or the Potential Individual Purchaser in relation to the Potential Transaction;

- (ii) as of the date on which these condensed consolidated financial statements are approved by the Directors, Southwest Securities Co., Ltd (“SWSC”), being the guarantor of the bonds payable and pursuant to the deed of guarantee, is obligated to guarantee payment of all sums payable from time to time by the Company in connection with the bonds payable, as and when required. The Directors considered SWSC have such financial ability to do so as of the date on which these condensed consolidated financial statements are approved by the Directors; and
- (iii) the Group is able to maintain sufficient working capital to realise its assets and discharge its liabilities in the normal course of businesses.

Notwithstanding the above, material uncertainties exist that may cast significant doubt on the Group’s ability to continue as going concern, which depends on (i) whether the Potential Transaction shall subsequently be completing; (ii) the availability of financial support from SWSC for any early redemption demanding by bondholders, if the Potential Transaction is subsequently completing; and (iii) the successful implementation of measures described above in the normal course of businesses.

Should the Group be unable to achieve the above-mentioned measures, it might not be able to continue in business as a going concern, and adjustments would have to be made to write down the carrying value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, where applicable. The effect of these adjustments has not been reflected in the condensed consolidated financial information.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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, which are measured at fair value.

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning 1 January 2023:

HKFRS 17 and related amendments	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statements 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

An analysis of revenue is as follows:

		Unaudited	
		Six months ended 30 June	
		2023	2022
	<i>Note</i>	HK\$'000	HK\$'000
Total revenue from contracts with customers within scope of HKFRS 15			
<i>Brokerage:</i>			
— commission income on securities dealing		49	860
— insurance brokerage fee income		—	440
		<u>49</u>	<u>1,300</u>
<i>Corporate finance:</i>			
— IPO sponsor fee income		3,700	1,850
— underwriting and placing commission income		1,262	1,086
— consultancy and financial advisory fee income		10	454
		<u>4,972</u>	<u>3,390</u>
Total revenue from contracts with customers	<i>(i)</i>	<u>5,021</u>	<u>4,690</u>
Revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		4	808
<i>Net gains (losses) from proprietary trading</i>		<u>17,888</u>	<u>(115,122)</u>
Total revenue from other sources		<u>17,892</u>	<u>(114,314)</u>
Total revenue		<u><u>22,913</u></u>	<u><u>(109,624)</u></u>

Note:

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
<i>Analyse by business segment:</i>		
<i>Brokerage</i>		
— services transferred at a point in time	<u>49</u>	<u>1,300</u>
<i>Corporate finance</i>		
— services transferred at a point in time	<u>1,262</u>	<u>1,086</u>
— services transferred over time	<u>3,710</u>	<u>2,304</u>
	<u>4,972</u>	<u>3,390</u>
	<u>5,021</u>	<u>4,690</u>
<i>Analyse by timing of revenue recognition:</i>		
— services transferred at a point in time	<u>1,311</u>	<u>2,386</u>
— services transferred over time	<u>3,710</u>	<u>2,304</u>
	<u>5,021</u>	<u>4,690</u>

4. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers (“CODM”) 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 CODM.

Reportable operating segments

The CODM 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 2023 (Unaudited)					
	Brokerage and margin financing <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue from external customers	53	4,972	17,888	–	–	22,913
Other income and gains	2,465	1	–	–	7,411	9,877
Fee and commission expenses	(102)	(2)	–	–	–	(104)
Finance costs	(1,382)	(699)	(5,377)	(278)	–	(7,736)
Expected credit losses on financial assets, net	1,687	131	–	–	–	1,818
Other operating expenses	(6,504)	(5,758)	(295)	(2,436)	(3,921)	(18,914)
Segment results	(3,783)	(1,355)	12,216	(2,714)	3,490	7,854
Unallocated expenses, represented central administration costs						(4,209)
Unallocated depreciation of fixed assets						(366)
Unallocated finance costs						(8,840)
Loss before tax						(5,561)

For the six months ended 30 June 2022 (Unaudited)

	Brokerage and margin financing <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue from external customers	2,108	3,390	(115,122)	–	–	(109,624)
Other income and gains	405	72	25	–	528	1,030
Fee and commission expenses	(873)	–	(2,306)	–	–	(3,179)
Finance costs	(3,148)	–	(29,788)	–	(495)	(33,431)
Expected credit losses on financial assets, net	(19)	1,109	(2,892)	–	–	(1,802)
Other operating expenses	(12,432)	(10,096)	(1,825)	(6,341)	(11,246)	(41,940)
Fair value gains arising from investment fund	–	–	408	–	–	408
Segment results	(13,959)	(5,525)	(151,500)	(6,341)	(11,213)	(188,538)
Unallocated expenses, represented central administration costs						(8,002)
Unallocated depreciation of fixed assets						(908)
Unallocated finance costs						(4,171)
Loss before tax						<u>(201,619)</u>

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 2023 and 30 June 2022, the Group's revenue is mainly derived from customers in Hong Kong.

5. OTHER INCOME AND GAINS

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Other income		
Other interest income	9,831	696
Handling fee income	–	131
Recovery of bad debts	–	62
Sundry income	46	141
	<u>9,877</u>	<u>1,030</u>

6. LOSS BEFORE TAX

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Loss before tax is arrived at after charging/(crediting):		
(a) Finance costs		
Bank loan interest expenses	–	2
Bonds interest expenses	15,713	34,301
Imputed interest expenses on bonds payable	861	2,607
Other interest expenses	–	197
Interest on lease liabilities	2	495
	<u>16,576</u>	<u>37,602</u>
(b) Staff costs		
Salaries, commission and allowances	13,649	23,131
Contributions to retirement benefit schemes	359	610
	<u>14,008</u>	<u>23,741</u>
(c) Other items		
Expected credit losses on financial assets, net	(1,818)	1,802
Exchange loss, net	1,415	9,441
	<u>1,415</u>	<u>9,441</u>

7. INCOME TAX

Hong Kong Profits Tax has not been provided for entities within the Group for the six months ended 30 June 2023 and 30 June 2022 as they did not derive assessable profits arising in Hong Kong during the period.

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 for the period 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	
	2023	2022
	HK\$'000	HK\$'000
Loss for the period attributable to equity shareholders of the Company (<i>HK\$'000</i>)	<u><u>(5,561)</u></u>	<u><u>(201,619)</u></u>
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share (<i>In '000</i>)	<u><u>3,661,831</u></u>	<u><u>3,661,831</u></u>
Basic loss per share (<i>HK cents</i>)	<u><u>(0.152)</u></u>	<u><u>(5.506)</u></u>
Diluted loss per share (<i>HK cents</i>)	<u><u>(0.152)</u></u>	<u><u>(5.506)</u></u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The unlisted equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. As at 30 June 2023, the Group held one (at 31 December 2022: one) investment with no fair value.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Unaudited	Audited
		At	At
		30 June	31 December
		2023	2022
	<i>Note</i>	HK\$'000	HK\$'000
Debt securities			
— Listed in Hong Kong	<i>(i)</i>	213,908	266,513
— Listed outside Hong Kong	<i>(i)</i>	103,398	106,200
		317,306	372,713

Notes:

- (i) Fair values of the listed debt securities are determined with reference to quoted bid price provided by brokers/financial institutions at the end of each reporting period.
- (ii) The Group has not pledged any equity securities, debt securities and unlisted fund investments at 30 June 2023 to any bank as collateral for the banking facilities granted (at 31 December 2022: Nil).

11. ACCOUNTS RECEIVABLE

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

		Unaudited	Audited
		At	At
		30 June	31 December
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities:			
— securities margin clients	<i>(a)</i>	533,682	536,138
— securities cash clients	<i>(b)</i>	202	199
— securities brokers	<i>(b)</i>	309	306
Accounts receivable arising from proprietary trading	<i>(b)</i>	11,662	42,540
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)</i>	10	4,845
		545,865	584,028
Less: Impairment		(533,757)	(536,302)
		12,108	47,726

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	Audited
	At	At
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities:		
— Securities margin clients	533,682	536,138
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	—
— Stage 3	(533,597)	(536,014)
	85	124

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\$358,000 (at 31 December 2022: HK\$565,000).

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-month 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 2022	–	–	536,389	536,389
Credited to profit or loss	–	–	(281)	(281)
Exchange alignment	–	–	(94)	(94)
As at 31 December 2022 (audited) and 1 January 2023	–	–	536,014	536,014
Amount written off	–	–	(705)	(705)
Credited to profit or loss	–	–	(1,690)	(1,690)
Exchange alignment	–	–	(22)	(22)
As at 30 June 2023 (unaudited)	–	–	533,597	533,597

(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:

	<i>Notes</i>	Unaudited At 30 June 2023 HK\$'000	Audited At 31 December 2022 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities:			
— securities cash clients	(1)	202	199
— securities brokers	(2)	309	306
Accounts receivable arising from proprietary trading	(3)	11,662	42,540
Accounts receivable arising from the provision of corporate finance advisory services	(4)	10	4,845
		12,183	47,890
Less: Impairment	(5)	(160)	(288)
		12,023	47,602

- (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. 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 brokers were not overdue.
- (3) Accounts receivable arising from proprietary trading were repayable on demand. The normal settlement terms are one to three days after trade date.
- (4) At the end of the reporting period, the ageing analysis of accounts receivable net of impairment arising from the provision of corporate finance advisory services, based on the invoice date which approximates the respective revenue recognition dates, was as follows:

	Unaudited	Audited
	At	At
	30 June	31 December
	2023	2022
	HK\$'000	HK\$'000
Current	10	3,064
Overdue:		
Within 30 days	–	870
31–90 days	–	780
	<u> </u>	<u> </u>
	10	4,714
	<u> </u>	<u> </u>

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

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Lifetime ECL simplified approach <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2022	-	-	164	3,364	3,528
Credited to profit or loss	-	-	(7)	(1,224)	(1,231)
Amount written off	-	-	-	(2,009)	(2,009)
As at 31 December 2022 (audited) and 1 January 2023	-	-	157	131	288
Charged/(credited) to profit or loss	-	-	3	(131)	(128)
As at 30 June 2023 (unaudited)	-	-	160	-	160

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 interim condensed consolidated financial information amounted to approximately HK\$115,803,000 (at 31 December 2022: HK\$118,418,000).

13. BONDS PAYABLE

	2021
	USD Bonds
	<i>HK\$'000</i>
Carrying amount at 1 January 2022	1,382,512
Imputed interest expenses for the year	3,856
Exchange alignment	3,513
Principal repayment	<u>(592,381)</u>
Carrying amount at 31 December 2022 (audited) and 1 January 2023	797,500
Imputed interest expenses for the period	862
Exchange alignment	3,977
Principal repayment	<u>(78,498)</u>
Carrying amount at 30 June 2023 (unaudited)	<u><u>723,841</u></u>

On 9 February 2021, the Company issued bonds with aggregate principal amount of US\$178,000,000 (the “**2021 USD Bonds**”). The 2021 USD Bonds bear interest from 9 February 2021 (inclusive) at the fixed rate of 4.00% per annum and guaranteed by SWSC, the ultimate holding company of the Company incorporated in the People’s Republic of China with limited liability and its shares are listed on the Shanghai Stock Exchange. Interest on 2021 USD Bonds is payable semi-annually in arrears. The 2021 USD Bonds are listed on the Stock Exchange. The remaining portions of US\$92,500,000 will mature on 9 February 2024 with the outstanding principal and interest payable at the maturity date. During the Reporting Period, the Company repurchased and cancelled US\$10,000,000 of the 2021 USD Bonds.

The 2021 USD Bonds are carried at amortised cost using an effective interest rate of 4.2% per annum.

The fair value of 2021 USD Bonds determined with reference to the quoted price provided by brokers/ financial institutions as at 30 June 2023 was approximately HK\$712,149,000.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Review Period (six months ended 30 June 2022: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2023, the global economy enters a period of returning to normalcy with both opportunities and challenges. With Mainland China's economy in full swing, prices of energy, food and raw materials have gone down, supply chain bottlenecks have been apparently relieved, the global economic downturn has eased, and inflation in major economies has fallen, but the recovery in manufacturing and merchandise trade was weak. Central banks in the US and Europe continued to raise interest rates, the US dollar index rose, and stock markets across the globe showed obvious regional divergence. Meanwhile, the tight global financial environment and sluggish external demand weighed on the growth of emerging markets and developing economies. The tightening of the global liquidity has also increased the uncertainty of economic growth. Global financial markets inevitably faced more volatility and were affected by uncontrollable factors, such as interest rates and economic growth prospects, banking woes and further tightening of monetary policies, stagflation risks, asset price fluctuations and geopolitical conflicts.

In the first half of 2023, China's macroeconomy recovered from the three-year pandemic and achieved resilient growth. With the release of pent-up demand, policy support and low-base effect at early stage, China's macroeconomy has seen obvious restorative growth, and the triple pressure of demand contraction, supply shock and weakening expectations have been relieved to varying degrees, but the overall volatility still exceeded market expectations. There were still obvious time lags and obstacles in the transmission of the macroeconomic recovery to the employment and income of residents, to the performance of enterprises, and to the market confidence and expectations. The economy was "hot" at the macro level but "cold" at the micro level in the first half of 2023. Looking ahead to the second half of this year, China's economy is expected to see accelerated recovery of its microfoundations based on the restorative growth in the first half of this year and market expectations will continuously improve.

Hong Kong, as a global financial centre and China's window to the world, is gradually returning to normal after the impact of the pandemic and the volatility of the global markets over the past few years. Hong Kong's economy improved markedly in the first quarter of 2023, driven by a strong recovery in its tourism and local demand. On the occasion of economic recovery, the HKSAR Government has introduced a number of measures to ease the pressure on citizens and enterprises, and to strengthen the momentum of recovery. Insisting on scientific and technological innovation-driven development, it created new impetus through system optimisation and policy innovation, supporting the economy to move towards high-quality development.

Hong Kong's stock market continued its uptrend into 2023, with trading remaining brisk, but concerns about the global economic outlook and pressure on the banking sector in Europe and the US weighed on market sentiment. The Hang Seng Index showed a downtrend after an uptrend in the first half of 2023. The Hang Seng Index recorded a first-half high of 22,700 points during the trading hours in late January, but fell to a low of 18,044 points in the late May session. The Hang Seng Index closed at 18,916 points at the end of June 2023, representing a decrease of 4.4% from the end of 2022; the HSCEI closed at 6,424 points at the end of June 2023, representing a decrease of 4.2% from the end of 2022; and the Hang Seng TECH Index closed at 3,911 points at the end of June 2023, representing a decrease of 5.3% from the end of 2022. Meanwhile, investment and fundraising were pretty quiet due to the prudent global markets and uncertainties over the outlook for interest rates. Looking forward to the future, Hong Kong, leveraging on its unique advantage of its proximity to the motherland and strong international connections, will actively integrate itself into the overall national development, proactively play its roles and important functions in the overall national development as set out in the 14th Five-Year Plan, further deepen the interconnectivity mechanism, strengthen its advantages as an international financial centre and enhance the competitiveness of its financial services.

BUSINESS REVIEW

The Group is engaged in businesses covering brokerage and margin financing, corporate finance, asset management and proprietary trading. During the Review Period, the Group recorded revenue and other income and gains of HK\$32.8 million (six months ended 30 June 2022: negative revenue and other income and gains of HK\$108.6 million) and a loss before tax of HK\$5.6 million (six months ended 30 June 2022: a loss before tax of HK\$201.6 million).

During the Review Period, the Group's revenue amounted to gain of HK\$22.9 million (six months ended 30 June 2022: loss of HK\$109.6 million), representing an increase of 120.9% as compared to the same period of last year. It was mainly due to net revenue of HK\$17.9 million recorded for proprietary trading business (six months ended 30 June 2022: net negative revenue of HK\$115.1 million), representing an increase of net revenue from proprietary trading by HK\$133.0 million during the Review Period as compared to the same period of last year.

Brokerage and Margin Financing

The Group's brokerage and margin financing business includes agency trading of securities, futures and options, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth clients.

In order to enhance cost efficiency, the Group has ceased the direct operation of futures and options business since December 2021 and has suspended the direct operation of brokerage business of "Securities Brokerage and Margin Business Segment" since 20 May 2022. Besides, its insurance brokerage and related wealth management services were discontinued on 20 July 2022, with a view to focusing existing resources on business strengths. It recorded a revenue of HK\$0.1 million during the Review Period, representing a significant decrease of HK\$2.0 million or approximately 95.2% as compared to the corresponding period in 2022.

During the Review Period, the Hong Kong's Hang Seng Index fell from 19,781 points at the close of 2022 to 18,916 points at the close of 30 June 2023, representing a decline of 4.4%, as the investment market continued to face the multiple impacts of rising global interest rates, high inflation and slowing economic growth. Although the market volatility was gradually impaired, the continued downturn in the market discouraged investors from entering the market, and the industry as a whole saw a decrease in commissions from retail investors. Together with the change of the Group's business strategy, all these conditions caused a significant decrease in the revenue from brokerage and margin financing during the Review Period as compared to the corresponding period in 2022.

Corporate Finance

The Group's corporate finance business recorded a revenue of HK\$5.0 million during the Review Period (six months ended 30 June 2022: HK\$3.4 million), representing an increase of HK\$1.6 million or approximately 47.1%, mainly due to the increase in revenue in sponsor services and underwriting and placement services in Hong Kong during the Review Period.

In terms of sponsor services, Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, acted as the sole sponsor of Sanergy Group Limited and completed its listing and offering project in January 2023.

Revenue from underwriting and placement services is derived from the Group's offshore bond issuance business. For the first half of 2023, the Group's revenue from underwriting and placement services reached HK\$1.3 million, representing a slight increase of HK\$0.2 million or 18.2% year-on-year from HK\$1.1 million last year, mainly because the total issuance of US dollar-denominated bonds decreased sharply in 2023 as the Federal Reserve raised interest rates to the highest point. As a result, the market was mainly filled with Renminbi-denominated Pearl/Dim Sum bonds instead of US dollar-denominated offshore bonds. During the Review Period, the Debt Capital Markets department has participated in and completed two projects which were RMB-denominated Pearl Bonds, and both of which had Southwest Securities (HK) Brokerage Limited, a wholly-owned subsidiary of the Company, acted as the joint global coordinator (lead underwriter). As of 30 June 2023, the Debt Capital Markets department has a number of bond issues in progress that are expected to be completed in the second half of the year.

Asset Management

During the Review Period, the Group's asset management business recorded no revenue (six months ended 30 June 2022: HK\$nil).

The Group's asset management business mainly provides services including actively managed private equity funds, investment advisory and discretionary account management services. At the same time, it provides the design of cross-border asset management products.

Following a review of the funds under its management in the first half of 2022, the Group's asset management business team completed work in the second half of 2022 in relation to the write-off of the portfolio of SP6 and SP7 funds in order to redeploy resources to develop new investment funds.

During the Review Period, the Group's asset management business line actively explored differentiation and development with characteristics, promoted the optimisation of strategies and the transformation of business model, and changed its business positioning. The Group will actively recruit talents to strengthen its management capabilities, expand its distribution channels, invest resources to expand its business coverage and enrich its product range. As the unfavorable macro market factors gradually settle, the business team expects that quality investment opportunities will resurface.

Proprietary Trading

The Group's proprietary trading business recorded a net gain of HK\$17.9 million (six months ended 30 June 2022: net loss of HK\$115.1 million) during the Review Period as the Group continued its investment strategy since last year, strengthened its risk control management and focused on high-level fixed income investments, still achieving the expected investment results against the macro backdrop of the continuous interest rate hike by the Federal Reserve.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to HK\$9.9 million (six months ended 30 June 2022: HK\$1.0 million). The increase in other income and gains was mainly due to the increase in funds placed with banks during the Review Period, which led to an increase in interest income from banks during the Review Period.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK\$14.0 million (six months ended 30 June 2022: HK\$23.7 million).

Staff costs decreased as a result of the adjustments to the Group's strategic development plans. The Group will make flexible adjustments to its staffing among the strategic planning, business operations and resources allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK\$0.1 million (six months ended 30 June 2022: HK\$3.2 million). Fee and commission expenses mainly include commissions paid for brokerage business and proprietary trading business. The decrease in commission expenses during the Review Period 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 Review Period amounted to HK\$16.6 million (six months ended 30 June 2022: HK\$37.6 million), decreased by approximately HK\$21.0 million or 55.9%. The finance costs were mainly interest expenses on 2021 USD Bonds payable. During the Review Period, the Group completed repurchase of USD\$10 million bonds in aggregate principal amount of the US\$178 million, the details of the repurchase of 2021 USD Bonds were set out in the announcement of the Company dated 20 April 2023.

FUTURE PROSPECTS

In recent years, China has been steadfastly promoting the two-way openness of the capital market, and has been pushing forward the deepening of the systematic two-way openness. The Shanghai-Shenzhen-Hong Kong Stock Connect further expanded the subject scope of interconnected stocks. The mechanism of the Shanghai-London Stock Connect was further optimized, which expanded to the domestic market in the Shenzhen Stock Exchange and the overseas markets, such as Switzerland, Germany, and other European markets. As the rules governing the overseas listing of domestic enterprises were formally announced and implemented, the cross-border supervisory cooperation has yielded positive results, thus ushering in a wider scope and a higher level of openness of the capital market. Under the new development landscape, the high-level opening up of China's capital market is accelerating, and the linkage effect between the international and domestic markets is becoming more and more obvious. As a Hong Kong-listed brokerage firm with Sino-investment, the Company will face both opportunities and challenges in the future. Currently, the Company is focusing on controlling risks and reducing costs, actively promoting strategic restructuring, and adopting various measures to optimize its business structure, so as to prevent and mitigate the risks of operating on a going concern.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2023, the Group's total cash and bank balances were HK\$387.4 million (31 December 2022: HK\$378.1 million) and its net current liabilities amounted to HK\$28.0 million (31 December 2022: net current assets HK\$774.5 million), with a current ratio (ratio of current assets to current liabilities) of 1.0 time (31 December 2022: 24.8 times). The gearing ratio (ratio of total bonds payable to total equity) was (2,711.5%) (31 December 2022: (3,773.5%)).

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 Review Period and as at the date of this announcement.

Banking Facilities and Charges over Assets

As at 30 June 2023, the Group had no outstanding bank loans (31 December 2022: Nil) and had an aggregate banking facilities of HK\$nil (31 December 2022: HK\$80 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 cost of funds of the banks. As at 30 June 2023, the Group pledged no assets (31 December 2022: Nil) for the facilities.

Material Acquisitions, Disposals and Significant Investments

During the Review Period, there were no material acquisitions and disposals of investments (six months ended 30 June 2022: Nil).

Contingencies

The Group had no material contingent liabilities as at 30 June 2023 (31 December 2022: Nil).

Commitments

The Group had no material capital commitments as at 30 June 2023 (31 December 2022: 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 2023 (31 December 2022: Nil).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, the Group had a total of 36 employees (as at 30 June 2022: 65 employees).

The Group is committed to implement sustainable strategy on staff development so as to create a good working environment that continuously attracts, identifies and nurtures talent. Based on the required job competencies, the Group provides diversified on-the-job training, including internal and external training programs, such training programs not only enhances employees' competence and professional knowledge, but also continuously improves their competitiveness and enables sustainable development with the Group.

The Group reviews human resources policies and procedures constantly, including but not limited to Recruitment and Selection Policy, Performance Management Policy, Training Policy, etc. The Group reviews its remuneration policy on an annual basis and based on the management needs to implement a comprehensive performance management program. The Group pays discretionary bonuses to employees based on their overall job performance, market circumstances, overall company performance and the performance of business units aiming to retain and reward competent and valued employees. Meanwhile, the Group provides comprehensive benefits to its employees, including medical insurance, life insurance, retirement scheme, training and various paid leaves.

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 of Hong Kong Limited (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 has confirmed that all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the Review Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

On 20 April 2023, the Company had completed an on-market repurchase of US\$10,000,000 in aggregate principal amount of the US\$178,000,000 4.00% Guaranteed Bonds due 2024, which were listed on the Stock Exchange (Bond Stock Code: 40594) (the “**2021 USD Bonds**”), representing approximately 5.62% of the initial aggregate principal amount of the 2021 USD Bonds, and the cancellation has been completed.

Except as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the Review Period.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial information for the six months ended 30 June 2023 and this interim announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.swsc.hk and the HKEXnews website at www.hkexnews.hk. The interim report will be published on the aforesaid websites and despatched to the shareholders of the Company in September 2023.

By order of the Board
Southwest Securities International Securities Limited
Zhang Hongwei
Chairman

Hong Kong, 25 August 2023

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Hongwei (Chairman) and Mr. Huang Changsheng; and the independent non-executive directors of the Company are Mr. Meng Gaoyuan, Mr. Liang Jilin and Mr. Cao Ping.