



**西南證券** (600369 SH)  
控股公司

**西證國際**

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

Stock Code 股份代號: 812

Interim Report  
中期報告 | **2016**



# CONTENTS

|  | Page |
|--|------|
| <b>CORPORATE INFORMATION</b>   | 2    |
| <b>INTERIM RESULTS</b>   | 4    |
| <b>INTERIM DIVIDEND</b>  | 4    |
| <b>MANAGEMENT DISCUSSION AND ANALYSIS</b>  | 4    |
| <b>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>                                   |      |
| Condensed Consolidated Statement of Profit or Loss and<br>Other Comprehensive Income | 14   |
| Condensed Consolidated Statement of Financial Position                               | 15   |
| Condensed Consolidated Statement of Cash Flows                                       | 16   |
| Condensed Consolidated Statement of Changes in Equity                                | 17   |
| Notes to Condensed Consolidated Financial Statements                                 | 19   |
| <b>OTHER INFORMATION</b>   | 48   |

## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Mr. PU Rui (*Chief Executive Officer*)

Mr. WU Jian

Mr. ZHANG Chunyong

Mr. XU Mingdi

Ms. LIANG Yiqing

#### *Independent Non-executive Directors*

Professor WU Jun

Mr. MENG Gaoyuan

Mr. LAM Kwok Cheong

### Audit Committee

Mr. MENG Gaoyuan (*Chairman*)

Professor WU Jun

Mr. LAM Kwok Cheong

### Remuneration Committee

Professor WU Jun (*Chairman*)

Ms. LIANG Yiqing

Mr. MENG Gaoyuan

Mr. LAM Kwok Cheong

### Nomination Committee

Professor WU Jun

Mr. MENG Gaoyuan

Mr. LAM Kwok Cheong

### Authorised Representatives

Mr. PU Rui

Mr. LUO Yi

### Joint Company Secretaries

Mr. LUO Yi

Miss FUNG Suk Han

### Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

## CORPORATE INFORMATION

|   |  |
|---|--|
| <b>Head Office and Principal Place of Business in Hong Kong</b> | Rooms 1601, 1606-08<br>16/F., Central Plaza<br>18 Harbour Road<br>Wanchai<br>Hong Kong   |
| <b>Bermuda Principal Share Registrar</b>                        | MUFG Fund Services (Bermuda) Limited<br>The Belvedere Building<br>69 Pitts Bay Road<br>Pembroke HM08<br>Bermuda                                      |
| <b>Branch Share Registrar in Hong Kong</b>                      | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| <b>Auditor</b>  | Pan-China (H.K.) CPA Limited<br><i>Certified Public Accountants</i><br>11/F, Hong Kong Trade Centre<br>161-167 Des Voeux Road Central<br>Hong Kong   |
| <b>Legal Adviser as to Hong Kong Law</b>                        | Loong & Yeung Solicitors<br>Room 1603, 16/F<br>China Building<br>29 Queen's Road Central<br>Hong Kong  |
| <b>Listing Information</b>                                      | The Stock Exchange of Hong Kong Limited<br>Stock Code: 812   |
| <b>Website</b>  | <a href="http://www.swsc.hk">www.swsc.hk</a>   |

## INTERIM RESULTS

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 2016 together with the comparative figures for the preceding six months ended 31 December 2015 as set out on pages 14 to 47 to this report.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016 *(for the six months ended 31 December 2015: Nil)*.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW

In the first half of 2016, China’s overall economic performance has been stable with gross domestic product (GDP) growth increased by 6.7% year-on-year. The growth rate within a reasonable range indicated that the various economic stimulus measures launched since 2015 have begun to bear fruit. The fixed asset investment rebounded as a result of a credit expansion of the financial system and this was critical in stabilizing the economy. Besides, the Chinese government continued to push forward the supply-side structural reform and announced its five major objectives, namely addressing overcapacity, reducing inventory, deleveraging, lowering costs, and bolstering areas of weakness. According to the data released by China’s Statistics Bureau, the overcapacity condition was improved in the first half of the year and positive changes were shown in the inventory of the industrial enterprises and stock of commercial properties. In May 2016, the official government newspaper, People’s Daily, set the tone for the “L-shaped” economic trend of China. This announcement reflected that the Chinese government has opted for a stable macroeconomic approach, indicating a shift in the direction of national macroeconomic policy.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW *(continued)*

In the first half of the year, China's economic performance was better than market expectations. However, China's stock market was still undergoing adjustment with a generally poor performance. On 30 June 2016, the Shanghai Stock Exchange Composite Index closed at 2,929.6, representing a year-on-year drop of 17.22%; the Shenzhen Stock Exchange Composite Index closed at 1,974.2, representing a year-on-year decline of 14.49%. At the beginning of 2016, the China Securities Regulatory Commission implemented a circuit-breaker mechanism, which led to a slump in the A-share market. The mechanism was suspended only three days after its implementation. This incident also dragged down the Hong Kong stock market at the beginning of this year. Later, the delayed launch of the registration-based regime for Initial Public Offerings ("IPOs"), the US Federal Reserve's speculation about possible rate hikes, inferences of China's "L-shaped" economic trend, the failure again of China's A-share market to be included in the MSCI Index and the "Brexit" referendum results all combined to exert great pressure on the Mainland China and Hong Kong stock markets. The Hong Kong stock market performed unsatisfactorily in the first half of the year with its benchmark Hang Seng Index recording an accumulated drop of 1,120 or 5.11%, closing at 20,794.37, the average daily turnover traded on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was just HK\$67.5 billion (*first half of 2015: HK\$125.3 billion*).

Despite the proceedings from IPOs in the Hong Kong stock market slipping sharply against the corresponding period in 2015, it is expected that Hong Kong's IPO market will still lead the world as the IPO activities in other major stock exchanges around the world were relatively quiet amidst the general slowdown in global economic growth. According to data released by Hong Kong Exchanges and Clearing Limited, a total of 40 companies have been listed in Hong Kong in the first half of this year (*first half of 2015: 51*). Proceeds raised from listings amounted to HK\$43.5 billion, representing a drop of 66% when compared to HK\$129.5 billion in the corresponding period last year. According to data released by Deloitte, the new IPO companies included 17 from the Mainland China which raised funds amounting to HK\$39.8 billion, accounting for approximately 92% of the total proceeds raised from IPO financing.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Year 2016 is the second year after the Group was officially acquired by its parent company Southwest Securities Co., Ltd. (“SWSC”). After the adaptation and adjustment to the new situation in the first year, the Group has further deepened its business relationship with the parent company and continued to enhance its business reform and innovation capability. Apart from promoting the brokerage and margin financing business and asset management business, the Group acted as sole sponsor of two Hong Kong companies listed on the main board of the Stock Exchange as of July 2016. Meanwhile, it is also preparing various newly-signed listing sponsor proposals, marking a critical step forward in the corporate financing business of the Group.

During the the six months ended 30 June 2016 (the “Review Period”), amidst a complicated external environment and persistently greater downward pressure on the economy under difficult global economic conditions, the Group’s business performance was worse than expected despite its careful assessment of conditions, exploration of potential new income streams, reducing costs and strict implementation of cost control measures. During the Review Period, the Group recorded a revenue of HK\$4.5 million (*for the six months ended 31 December 2015: HK\$14.5 million*) and a loss before tax of HK\$90.2 million (*for the six months ended 31 December 2015: profit before tax HK\$18.3 million*).

### *Brokerage and Margin Financing*

Revenue generated from the Group’s brokerage and margin financing business amounted to HK\$47.4 million during the Review Period (*for the six months ended 31 December 2015: HK\$42.6 million*).

Mainland China and Hong Kong stock markets have remained highly volatile since 2016 due to emerging economic uncertainties around the world and pressure from continuous RMB depreciation. Average daily turnover of the Hong Kong stock market in the first half of this year further shrank by 22% from the second half of 2015 to HK\$67.5 billion (*for the six months ended 31 December 2015: HK\$86.7 billion*). The Group’s average daily turnover decreased by 49% as a result of the continuous decline of Hong Kong stock market turnover and thus a decrease in commission income for the Review Period. However, the number of customers introduced by SWSC has still increased continuously. As for margin financing, interest income from the margin financing business increased notably by 112.4% to HK\$30.8 million in the first half of 2016 (*for the six months ended 31 December 2015: HK\$14.5 million*), mainly because the increased number of quality customers introduced by SWSC in China has brought high quality and reliable margin financing business to the Group. The outstanding borrowings from customers continued to rise since the end of 2014 and the Group had abundant cash on hand, enabling it to maintain the interest income from the margin financing business at a higher level in the first half of this year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW *(continued)*

#### *Brokerage and Margin Financing (continued)*

During the Review Period, the Group has made provisions for impairment of HK\$8.6 million for margin financing customers. This was mainly attributable to the decrease in market value of the stock collateral provided by customers. The Group continues to adopt a cautious and conservative approach to handle shortfall margin loans, strengthen credit risk management, tighten credit with potential high risk customers, pay close attention to the liquidity position and require frontline staff to better understand the needs of, and strengthen the relationship with, their customers.

In May 2015, the Group successfully issued 3-year offshore RMB-denominated bonds for an aggregate principal amount of RMB1.5 billion due in May 2018 at the rate of 6.45% per annum. Part of the proceeds from the bonds was still used as general working capital of the Group and for expanding our operations including margin financing business at the beginning of 2016.

#### *Corporate Finance*

Revenue generated from the Group's corporate finance business amounted to HK\$16.6 million during the Review Period *(for the six months ended 31 December 2015: HK\$6.9 million)*.

The Group has strived to provide corporate finance services for quality SMEs with high growth potential. During the Review Period, the Group signed several sponsor contracts which boosted the number of existing sponsor projects by multiples and considerably increased the revenue from our investment bank business. Since SWSC became our parent company at the beginning of 2015, our investment bank department has embarked on preparations for the corporate finance segment. As of July 2016, the Group, as the sole sponsor, completed the IPO projects of two companies listed on the main board of the Stock Exchange. These activities generated revenue from providing one-stop services including sponsor, placing and underwriting during the IPO exercises, while it also continued to provide corporate finance-related services such as compliance and financial advisory services for other listed companies.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW *(continued)*

#### *Wealth Management*

The Group's wealth management business recorded a revenue of HK\$1.6 million during the Review Period *(for the six months ended 31 December 2015: HK\$1.2 million)*.

This segment continued to develop steadily during the Review Period. With the dramatic increase of Mainland investors' demand of overseas asset allocation, the Group still focuses on providing financial products including overseas insurances and fund management services to high net worth clients in Mainland China. Several roadshows and seminars introducing financial products from Hong Kong and overseas were held in Mainland China with the aim to provide domestic customers with an in-depth and all-round understanding of wealth management and asset allocation, investment diversification and risk aversion. Through the Group's efforts in introducing new wealth management products and establishing sales channels, the Mainland China customers now have a greater trust in Hong Kong's financial products. The Group expects a strong growth in the wealth management business.

#### *Proprietary Trading*

The proprietary trading business recorded a loss of HK\$61.1 million for the Review Period *(for the six months ended 31 December 2015: loss of HK\$36.2 million)*.

During the first half of the year, Hong Kong market has further adjusted to the ongoing slowdown of the macroeconomic growth in China, and the highly volatile exchange rate of RMB and the Mainland stock market. The Company has implemented position control and hedging of derivatives within its proprietary portfolio. However, the overall proprietary investment has still recorded a loss for the Review Period.

Proprietary investment direction and profile are operated under the authorisation of the Company, among which investment portfolios are immediately brought under risk control and subject to strict risk exposure restrictions. Meanwhile, the investment mix has also used various derivatives to avoid systemic market risks.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW *(continued)*

#### *Proprietary Trading (continued)*

Proprietary investment in the second half of the year will basically be made in line with its ongoing investment strategies and direction. The Group is positive about the prospects of the stock market in Hong Kong after political instability in Europe increased, as equities in the city have a relatively low valuation compared to bourses around the world, and the stock market there should also benefit from the investment opportunities arising from the Shenzhen-Hong Kong Stock Connect. The proprietary investment portfolio is to be guided by a bottom-up investment strategy and will focus on China stocks based on their valuation.

#### *Other Revenue and Income*

During the Review Period, the Group's other revenue and income amounted to HK\$47.8 million *(for the six months ended 31 December 2015: HK\$208.4 million)*.

The Group disposed the available-for-sale financial assets in the second half of last year, thus other revenue and income was higher in the last year. Other revenue and income in the Review Period mainly included interest income from two held-to-maturity investments that the Group acquired in the second half of last year amounted to HK\$20.5 million *(for the six months ended 31 December 2015: HK\$7.4 million)*, exchange gain amounted to HK\$20.7 million *(for the six months ended 31 December 2015: HK\$97.4 million)* and dividend income from remaining financial assets held by the Group in HK\$4.7 million *(for the six months ended 31 December 2015: HK\$3.7 million)*.

#### *Staff Benefit Expenses*

During the Review Period, the Group's staff benefit expenses amounted to HK\$30.4 million *(for the six months ended 31 December 2015: HK\$39.1 million)*.

The number of staff and fixed costs remained stable during the Review Period. As part of the salaries of frontline staff was linked to their performance, their related salaries dropped along with the underperforming business, overall staff benefit expenses of the Group was reduced accordingly. Besides, the Group flexibly adjusted staff deployment according to business growth and resources allocation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW *(continued)*

#### *Commission Expenses*

The Group's commission expenses during the Review Period were HK\$5.3 million *(for the six months ended 31 December 2015: HK\$7.8 million)*.

Commission expenses mainly include commissions paid in the course of conducting the brokerage business and wealth management business. The drop in commission expenses during the Review Period was mainly attributable to the relative decrease in commissions payable as a result of the drop in revenue from the brokerage business. On the other hand, the proportion of commission expense in commission income was higher than the second half of 2015 because the Group needed to increase the commission rate to provide incentive for frontline staff and maintain steady growth of the brokerage business in light of intensifying market competition in this segment.

#### *Finance Costs*

The Group's finance costs during the Review Period amounted to HK\$60.2 million *(for the six months ended 31 December 2015: HK\$62.8 million)*.

The Group issued RMB-denominated bonds in May 2015, so the finance costs during the Review Period were mainly bond interest expenses.

#### *Future Prospects*

Looking into the second half of 2016, the Chinese macro-economy has shown signs of gradual stabilization but the downward pressure is still heavy. The focus of national policies should gradually switch from stabilization of the economy to economic reform, while the monetary policy will remain comparatively stable. Based on these trends, the Chinese economy looks bright in the long term so the structural adjustment and optimization of the economy will continue. After experiencing the highly fluctuating market at the beginning of this year, we remain prudent in our approach to the development of financial markets in China. The IPO market is expected to enjoy satisfactory development in the second half of the year, and Hong Kong is still likely to rank first in the world in terms of IPO funds raised. As such, the Group will actively proceed with the IPO projects on hand and continue to provide corporate finance-related services including compliance and financial advisory services for other listed companies, so as to bring it to the next level of business scope and performance in the international capital market.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW *(continued)*

#### *Future Prospects (continued)*

In the second half of the year a series of business development activities will be carried out. Firstly, an indirect wholly-owned subsidiary of the Group has set up its first fund in July 2016 which is to be operated as a hedge fund. The Company has injected US\$30 million as seed money to subscribe the fund, in order to diversify the investment risk and enhance the rate of return. The experience and performance can also create an investment track record which can be used for marketing by the Company's assets management department. The Group is also planning to establish a competent investment research team, expand the scale of assets management operation and lay an important foundation for the issue of more products. After the operation of this fund becomes mature and with good performance, we shall invite independent third parties as investors of the fund. In addition, the Group intends to set up a debt capital market department which will design foreign bond financing projects, set the price of bonds and arrange the issue and sale in the primary bond market for institutional investors. To boost our business growth and achieve sustainable development, the Group also plans to attract different customers through diversifying the operations. The Group will also set up a fixed income team which will provide transaction and investment advisory services targeted at primary markets and secondary international bond markets for investment clients. It also intends to monitor the prices of global fixed income products, and provide quotations and professional consultancy on investment transactions for Mainland and Hong Kong sales teams to increase transaction volume.

Against the backdrop of a persistently unstable economy, the Group will focus on maintaining its development strategies, as well as its long-term strategic objectives by leveraging its strengths such as market insights and abundant experience to maintain the existing growth momentum, thereby adjusting the pace of progress. The level and extent of risk management will also be enhanced to ensure all operations will develop rapidly but steadily, and ultimately advance the Group and SWSC to a new level of internationalization.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### *Liquidity, Financial Resources and Gearing Ratio*

As at 30 June 2016, the Group had total cash and bank balances including pledged deposits of HK\$522.3 million (*at 31 December 2015: HK\$476.3 million*), while net current assets amounted to HK\$1,607.8 million (*at 31 December 2015: HK\$1,728.4 million*). The current ratio as a ratio of current assets to current liabilities was 9.7 times (*at 31 December 2015: 8.0 times*).

At the end of the Review Period, the gearing ratio was 552.1% (*at 31 December 2015: 430.3%*). Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

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

#### *Banking Facilities and Charges on Assets*

As at 30 June 2016, the Group had no bank loans outstanding (*at 31 December 2015: Nil*) and had aggregate banking facilities of HK\$187.2 million (*at 31 December 2015: HK\$148.4 million*). The drawdown of certain banking facilities of HK\$177.2 million (*at 31 December 2015: HK\$142.9 million*) is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the Review Period, the Group pledged certain investments in listed securities of HK\$5.1 million (*at 31 December 2015: HK\$6.3 million*) and fixed deposits of HK\$1.2 million (*at 31 December 2015: HK\$2.0 million*) for the facilities.

#### *Material Acquisitions, Disposals and Significant Investments*

During the Review Period, there were no material acquisitions and disposals of investments (*for the six months ended 31 December 2015: the Group disposed certain listed equity investments and realised a long-term investment gain of HK\$95.2 million*). The Group maintained its investment in 1 listed and 3 non-listed companies as disclosed in the Group's annual consolidated financial statements for the six months ended 31 December 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW *(continued)*

#### *Contingencies*

The Group has no material contingent liabilities as at 30 June 2016 *(at 31 December 2015: Nil)*.

#### *Commitments*

In August 2015, the Group has entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Company agrees to convert RMB100.0 million to HK\$113.0 million.

In June 2015, the Group has entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1.5 billion and HK\$1.9 billion. Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank. The amount to be paid is calculated on the final exchange amount of HK\$1.9 billion with reference to the agreed annual rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1.5 billion at 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK\$1.9 billion to RMB1.5 billion. The cross-currency swap is settled on gross basis.

#### *Exposure to Fluctuations in Exchange Rates and Related Hedges*

As at 30 June 2016, the Group has RMB exposure arising from the issuance of bonds. Considered the major operating cash flow is in Hong Kong dollars and to mitigate the relevant currency risks, the Group had entered into a three-year cross-currency swap as mentioned in the paragraph of “Commitments” in this report. The Group will continuously monitor the mitigation effect and adjust if necessary.

### EMPLOYEES

As at 30 June 2016, the Group had a total of 98 employees. The Group operates different remuneration schemes for account executives and other supporting staff respectively. Account executives are remunerated on the basis of on-target-earning packages comprising base pay and allowances, commission and/or bonus. All supporting and general staff are also entitled to the year-end and the performance discretionary bonuses.

The Group provides training programs for the staff to enhance their skills and knowledge in products, regulations and compliance. Most of the in-house training are qualified for claiming Continuous Professional Training hours for the licensed persons.

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

|   |      | Unaudited               | Audited                  |
|---|------|-------------------------|--------------------------|
|   |      | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
|   | Note | HK\$'000                | HK\$'000                 |
| <b>Revenue</b>  | 2    | <b>4,507</b>            | 14,463                   |
| Other revenue and income  | 3    | 47,784                  | 208,438                  |
| Employee benefit expenses   | 4a   | (30,403)                | (39,091)                 |
| Depreciation  |      | (2,254)                 | (2,007)                  |
| Commission expenses   | 2    | (5,338)                 | (7,811)                  |
| Fair value change on derivative financial assets  |      | (9,405)                 | 601                      |
| Fair value change on derivative financial liabilities   |      | (6,442)                 | (73,619)                 |
| Other operating expenses  |      | (28,401)                | (19,909)                 |
| Finance costs   | 4b   | (60,210)                | (62,760)                 |
| (Loss) Profit before tax  | 4    | (90,162)                | 18,305                   |
| Income tax expense  | 5    | –                       | (4,680)                  |
| <b>(Loss) Profit for the period attributable to equity shareholders of the Company</b>                  |      | <b>(90,162)</b>         | 13,625                   |
| <b>Other comprehensive loss</b>   |      |                         |                          |
| Items that are or may be reclassified subsequently to profit or loss:                                   |      |                         |                          |
| Exchange difference on translation of financial statements of foreign subsidiaries                      |      | (119)                   | (580)                    |
| Change in fair value of available-for-sale financial assets   |      | (3,072)                 | (38,981)                 |
| Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets |      | –                       | (95,246)                 |
| <b>Other comprehensive loss for the period, net of tax</b>  |      | <b>(3,191)</b>          | (134,807)                |
| <b>Total comprehensive loss for the period attributable to equity shareholders of the Company</b>       |      | <b>(93,353)</b>         | (121,182)                |
| <b>(Loss) Earnings per share</b>  |      |                         |                          |
| – Basic ( <i>HK cents</i> )   | 6    | (3.693)                 | 0.558                    |
| – Diluted ( <i>HK cents</i> )   | 6    | (3.693)                 | 0.558                    |

## Condensed Consolidated Statement of Financial Position

At 30 June 2016

|   |      | Unaudited        | Audited          |
|---|------|------------------|------------------|
|   |      | At               | At               |
|   |      | 30/6/2016        | 31/12/2015       |
|   | Note | HK\$'000         | HK\$'000         |
| <b>Non-current assets</b>                             |      |                  |                  |
| Property, plant and equipment                         |      | 5,154            | 7,261            |
| Intangible assets                                     |      | –                | –                |
| Held-to-maturity investments                          | 7    | 345,459          | 350,486          |
| Available-for-sale financial assets                   | 8    | 86,581           | 70,455           |
| Other non-current assets                              |      | 4,498            | 5,124            |
|   |      | <b>441,692</b>   | <b>433,326</b>   |
| <b>Current assets</b>                                 |      |                  |                  |
| Loans and advances                                    |      | 57               | 70               |
| Financial assets at fair value through profit or loss | 9    | 455,845          | 447,088          |
| Derivative financial assets                           |      | –                | 601              |
| Accounts receivable                                   | 10   | 659,264          | 895,496          |
| Deposits, prepayments and other receivables           |      | 155,970          | 156,171          |
| Pledged deposits                                      |      | 1,247            | 2,028            |
| Cash and bank balances                                | 11   | 521,012          | 474,255          |
|   |      | <b>1,793,395</b> | <b>1,975,709</b> |
| <b>Current liabilities</b>                            |      |                  |                  |
| Derivative financial liabilities                      | 12   | 121,748          | 102,129          |
| Accounts payable                                      | 13   | 36,307           | 103,943          |
| Other payables and accrued charges                    |      | 22,201           | 35,864           |
| Tax payable   |      | 5,326            | 5,326            |
|   |      | <b>185,582</b>   | <b>247,262</b>   |
| <b>Net current assets</b>                             |      | <b>1,607,813</b> | <b>1,728,447</b> |
| <b>Total assets less current liabilities</b>          |      | <b>2,049,505</b> | <b>2,161,773</b> |
| <b>Non-current liabilities</b>                        |      |                  |                  |
| Bonds payable   | 14   | 1,735,207        | 1,754,122        |
| <b>NET ASSETS</b>                                     |      | <b>314,298</b>   | <b>407,651</b>   |
| <b>Capital and reserves</b>                           |      |                  |                  |
| Share capital   | 15   | 244,121          | 244,121          |
| Reserves  |      | 70,177           | 163,530          |
| <b>TOTAL EQUITY</b>                                   |      | <b>314,298</b>   | <b>407,651</b>   |

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

|   | Unaudited               | Audited                  |
|---|-------------------------|--------------------------|
|   | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
|   | HK\$'000                | HK\$'000                 |
| Net cash from (used in) operating activities                | 89,615                  | (1,063,321)              |
| Net cash from (used in) investing activities                | 14,171                  | (320,213)                |
| Net cash used in financing activities                       | (57,691)                | (60,390)                 |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>46,095</b>           | <b>(1,443,924)</b>       |
| Cash and cash equivalents at the beginning of the period    | 476,283                 | 1,920,787                |
| Effect on exchange rate changes                             | (119)                   | (580)                    |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>522,259</b>          | <b>476,283</b>           |
| <b>Analysis of balances of cash and cash equivalents</b>    |                         |                          |
| Pledged deposits  | 1,247                   | 2,028                    |
| Cash and bank balances                                      | 521,012                 | 474,255                  |
|   | <b>522,259</b>          | <b>476,283</b>           |

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

| Attributable to equity shareholders of the Company  |                  |                                      |                  |                     |                                |                       |                  |                 |
|---|------------------|--------------------------------------|------------------|---------------------|--------------------------------|-----------------------|------------------|-----------------|
|   | Share<br>capital | Investment<br>revaluation<br>reserve | Share<br>premium | *Capital<br>reserve | Foreign<br>exchange<br>reserve | Accumulated<br>losses | Total<br>reserve | Total<br>equity |
|   | HK\$'000         | HK\$'000                             | HK\$'000         | HK\$'000            | HK\$'000                       | HK\$'000              | HK\$'000         | HK\$'000        |
| <b>At 1 July 2015</b>   | 244,121          | 127,275                              | 214,319          | 40,836              | 886                            | (98,604)              | 284,712          | 528,833         |
| Profit for the period   | -                | -                                    | -                | -                   | -                              | 13,625                | 13,625           | 13,625          |
| Exchange difference on translation of financial statements of foreign subsidiaries                      | -                | -                                    | -                | -                   | (580)                          | -                     | (580)            | (580)           |
| Change in fair value of available-for-sale financial assets   | -                | (38,981)                             | -                | -                   | -                              | -                     | (38,981)         | (38,981)        |
| Reclassification of investment revaluation reserve upon disposal of available-for-sale financial assets | -                | (95,246)                             | -                | -                   | -                              | -                     | (95,246)         | (95,246)        |
| <b>Other comprehensive loss for the period, net of tax</b>  | -                | (134,227)                            | -                | -                   | (580)                          | -                     | (134,807)        | (134,807)       |
| <b>Total comprehensive loss for the period</b>  | -                | (134,227)                            | -                | -                   | (580)                          | 13,625                | (121,182)        | (121,182)       |
| <b>At 31 December 2015 (Audited)</b>  | 244,121          | (6,952)                              | 214,319          | 40,836              | 306                            | (84,979)              | 163,530          | 407,651         |

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

| Attributable to equity shareholders of the Company                                 |                              |  |                              |                                 |  |                                   |                              |                             |
|--|------------------------------|--|------------------------------|---------------------------------|--|-----------------------------------|------------------------------|-----------------------------|
|  | Share<br>capital<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 | Share<br>premium<br>HK\$'000 | *Capital<br>reserve<br>HK\$'000 | Foreign<br>exchange<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>reserve<br>HK\$'000 | Total<br>equity<br>HK\$'000 |
| <b>At 1 January 2016</b>   | 244,121                      | (6,952)  | 214,319                      | 40,836                          | 306  | (84,979)                          | 163,530                      | 407,651                     |
| Loss for the period  | -                            | -  | -                            | -                               | -  | (90,162)                          | (90,162)                     | (90,162)                    |
| Exchange difference on translation of financial statements of foreign subsidiaries | -                            | -  | -                            | -                               | (119)                                      | -                                 | (119)                        | (119)                       |
| Change in fair value of available-for-sale financial assets                        | -                            | (3,072)  | -                            | -                               | -  | -                                 | (3,072)                      | (3,072)                     |
| <b>Other comprehensive loss for the period, net of tax</b>                         | -                            | (3,072)  | -                            | -                               | (119)                                      | -                                 | (3,191)                      | (3,191)                     |
| <b>Total comprehensive loss for the period</b>                                     | -                            | (3,072)  | -                            | -                               | (119)                                      | (90,162)                          | (93,353)                     | (93,353)                    |
| <b>At 30 June 2016 (Unaudited)</b>   | 244,121                      | (10,024)   | 214,319                      | 40,836                          | 187  | (175,141)                         | 70,177                       | 314,298                     |

- \* The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

# Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

During the six months ended 31 December 2015, the financial year end date of the Group was changed from 30 June to 31 December. The reason for the change is to coincide with the financial year end date of Southwest Securities Co., Ltd. (“SWSC”), the ultimate holding company of the Company, and thereby facilitating the preparation of SWSC’s consolidated financial statements. Accordingly, the condensed consolidated financial statements for the current financial period cover the six months period from 1 January 2016 to 30 June 2016 and for the last financial year cover the six months period from 1 July 2015 to 31 December 2015. The corresponding comparative amounts shown for the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and notes to condensed consolidated financial statements are not entirely comparable.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the six months ended 31 December 2015. These condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

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

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The accounting policies applied in preparing these condensed consolidated financial statements are consistent with those applied in preparing the Group's annual consolidated financial statements for the six months ended 31 December 2015. The adoption of the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs") that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

#### *Amendments to HKFRS: Annual Improvements to HKFRSs 2012 – 2014 Cycle*

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, "*Interim Financial Reporting*", has been amended to clarify that if an entity discloses the information required by the standard outside the condensed consolidated financial statements by a cross-reference to the information in another statement of the condensed consolidated financial statements, then users of the condensed consolidated financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's condensed consolidated financial statements as the Group does not present the relevant required disclosure outside the condensed consolidated financial statements.

#### *Amendments to HKAS 1, Presentation of Financial Statements: Disclosure Initiative*

The amendments do not have a material impact on the presentation and disclosure of the Group's condensed consolidated financial statements.

### Future changes in HKFRSs

The Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to reasonably estimate their impact on its results of operations and financial position.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 2. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments based on the Group's internal reporting in respect of these segments. Segment assets and liabilities are not disclosed as they are not considered as crucial for resources allocation and thereby not being regularly provided to the Directors.

#### Reportable operating segments

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

| For the six months ended 30 June 2016 (Unaudited)                    |                                      |                      |                      |                        |                     |                 |
|--|--------------------------------------|----------------------|----------------------|------------------------|---------------------|-----------------|
|  | Brokerage<br>and margin<br>financing | Wealth<br>management | Corporate<br>finance | Proprietary<br>trading | Other<br>operations | Consolidated    |
|  | HK\$'000                             | HK\$'000             | HK\$'000             | HK\$'000               | HK\$'000            | HK\$'000        |
| <b>Revenue</b>   | 47,364                               | 1,617                | 16,586               | (61,061)               | 1                   | 4,507           |
| Commission expenses  | (2,213)                              | (967)                | (1,255)              | (1,051)                | 148                 | (5,338)         |
| <b>Results</b>   | 5,677                                | (4,305)              | 3,336                | (79,851)               | 11,034              | (64,109)        |
| Unallocated expenses,<br>represented central<br>administration costs |                                      |                      |                      |                        |                     | (11,939)        |
| Depreciation   |                                      |                      |                      |                        |                     | (2,254)         |
| Unallocated finance costs  |                                      |                      |                      |                        |                     | (11,860)        |
| <b>Loss for the period</b>   |                                      |                      |                      |                        |                     | <b>(90,162)</b> |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 2. SEGMENT INFORMATION *(continued)*

#### Reportable operating segments *(continued)*

| For the six months ended 31 December 2015 (Audited)                  |                                      |                      |                      |                        |                     |               |
|--|--------------------------------------|----------------------|----------------------|------------------------|---------------------|---------------|
|  | Brokerage<br>and margin<br>financing | Wealth<br>management | Corporate<br>finance | Proprietary<br>trading | Other<br>operations | Consolidated  |
|  | HK\$'000                             | HK\$'000             | HK\$'000             | HK\$'000               | HK\$'000            | HK\$'000      |
| <b>Revenue</b>   | 42,574                               | 1,227                | 6,883                | (36,223)               | 2                   | 14,463        |
| Commission expenses  | (5,577)                              | (902)                | –                    | (1,191)                | (141)               | (7,811)       |
| <b>Results</b>   | 5,428                                | (5,102)              | (1,611)              | (53,938)               | 24,388              | (30,835)      |
| Unallocated expenses,<br>represented central<br>administration costs |                                      |                      |                      |                        |                     | (15,052)      |
| Depreciation   |                                      |                      |                      |                        |                     | (2,007)       |
| Unallocated finance costs  |                                      |                      |                      |                        |                     | (29,047)      |
| Gain on disposal of available-<br>for-sale financial assets          |                                      |                      |                      |                        |                     | 95,246        |
| Income tax expense   |                                      |                      |                      |                        |                     | (4,680)       |
| <b>Profit for the period</b>   |                                      |                      |                      |                        |                     | <b>13,625</b> |

The accounting policies of the operating segments are consistent with those applied in preparing the Group's annual consolidated financial statements for the six months ended 31 December 2015. Segment profit and loss represents the profit earned by or loss incurred from each segment without allocation of central administration costs and finance costs, directors' salaries, depreciation, gain on disposal of available-for-sale financial assets and income tax expense. This is the measure reported to the Directors for the purpose of resources allocation and performance assessment.

#### Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the six months ended 30 June 2016 and the six months ended 31 December 2015, the Group's revenue is mainly derived from customers in Hong Kong.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 3. OTHER REVENUE AND INCOME

|  | Unaudited               | Audited                  |
|--|-------------------------|--------------------------|
|  | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
| <i>Note</i>  | HK\$'000                | HK\$'000                 |
| <b>Other revenue</b>                                       |                         |                          |
| Dividend income from listed investments                    | 4,668                   | 3,736                    |
| Dividend income from unlisted investments                  | 13                      | 6                        |
| Handling income  | 648                     | 999                      |
| Interest income  | 21,647                  | 10,586                   |
| Sundry income  | 64                      | 494                      |
|  | <b>27,040</b>           | 15,821                   |
| <b>Other income</b>  |                         |                          |
| Exchange gain  | 20,744                  | 97,371                   |
| Gain on disposal of available-for-sale<br>financial assets | –                       | 95,246                   |
|  | <b>20,744</b>           | 192,617                  |
|  | <b>47,784</b>           | 208,438                  |

*Note:*

- (i) Included an amount of HK\$21,910,000 (*for the six months ended 31 December 2015: HK\$103,195,000*) representing an exchange gain arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in Renminbi ("RMB"). Detailed information is set out in note 14.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 4. (LOSS) PROFIT BEFORE TAX

|   | Unaudited               | Audited                  |
|---|-------------------------|--------------------------|
|   | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
|   | HK\$'000                | HK\$'000                 |
| <b>(Loss) Profit before tax is arrived at after charging:</b> |                         |                          |
| <b>(a) Employee benefit expenses</b>                          |                         |                          |
| Salaries, commission and allowances                           | 29,709                  | 38,358                   |
| Contributions to retirement benefit schemes                   | 694                     | 733                      |
|   | <b>30,403</b>           | <b>39,091</b>            |
| <b>(b) Finance costs</b>                                      |                         |                          |
| Bond interest expenses  | 60,209                  | 62,757                   |
| Other interest expenses                                       | 1                       | 3                        |
|   | <b>60,210</b>           | <b>62,760</b>            |

### 5. INCOME TAX EXPENSE

Hong Kong Profits Tax has not been provided as the Group incurred losses for taxation purpose for the period from 1 January 2016 to 30 June 2016 (*for the six months ended 31 December 2015: 16.5% on a subsidiary's estimated assessable profits arising from Hong Kong*). No tax provided on other entities within the Group as they either incurred losses for taxation purpose or their estimated assessable profits for the period are wholly absorbed by unrelieved tax losses brought forward from previous years.

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

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 6. (LOSS) EARNINGS PER SHARE

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

|  | Unaudited               | Audited                  |
|--|-------------------------|--------------------------|
|  | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
|  | HK\$'000                | HK\$'000                 |
| (Loss) Profit attributable to equity shareholders of the Company   | (90,162)                | 13,625                   |
| <b>Number of shares</b>  | '000                    | '000                     |
| Weighted average number of ordinary shares in issue for the purpose of basic (loss) earnings per share   | 2,441,220               | 2,441,220                |
| Effect of dilutive potential shares:   |                         |                          |
| Share options issued by the Company (Note)   | –                       | 2                        |
| Weighted average number of ordinary shares in issue for the purpose of diluted (loss) earnings per share | 2,441,220               | 2,441,222                |
| Basic (loss) earnings per share (HK cents)   | (3.693)                 | 0.558                    |
| Diluted (loss) earnings per share (HK cents)   | (3.693)                 | 0.558                    |

Note:

There were no dilutive potential ordinary shares outstanding during the six months ended 30 June 2016. Accordingly, the diluted loss per share is the same as basic loss per share.

Diluted earnings per share for the six months ended 31 December 2015 assumed the effect of exercise of share options outstanding during the period since they would have a dilutive effect.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 7. HELD-TO-MATURITY INVESTMENTS

|                        | Note  | Unaudited                   | Audited                      |
|------------------------|-------|-----------------------------|------------------------------|
|                        |       | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| Convertible bonds      |       |                             |                              |
| – Debt component       | (i)   | <b>228,979</b>              | 223,141                      |
| – Derivative component | (ii)  | –                           | 9,395                        |
|                        |       | <b>228,979</b>              | 232,536                      |
| Guaranteed notes       | (iii) | <b>116,480</b>              | 117,950                      |
|                        |       | <b>345,459</b>              | 350,486                      |

Notes:

- (i) On 2 October 2015, the Group entered into a subscription agreement with XinRen Aluminum Holdings Limited (“XinRen”), a company incorporated in Singapore whose shares were then listed on the Main Board of the Singapore Exchange Securities Trading Limited, in relation to the subscription of convertible bond in the principal amount of United States dollars (“US\$”) 30,000,000, carries interest of 8% per annum and has a maturity date of 27 August 2020 (the “Convertible Bonds”). The Convertible Bonds are secured by a security package including a charge over certain assets and undertaking of the guarantors, share mortgages over each of the guarantors and equity pledges over four subsidiaries of XinRen in the People’s Republic of China (“PRC”), certain bank accounts and security accounts and equipment mortgages.

The Group shall have the right exercisable to convert the whole or part of the outstanding principal amount of the Convertible Bonds held by the Group into such number of shares of XinRen as at the conversion price Singapore dollars (“SG\$”)1.01 per share (using a fixed US\$ to SG\$ conversion rate of US\$1=SG\$1.326).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 7. HELD-TO-MATURITY INVESTMENTS *(continued)*

*Notes: (continued)*

- (ii) On 24 May 2016, all the issued and paid-up ordinary shares of XinRen were acquired by an offeror through a voluntary conditional cash offer (the "Acquisition"). Subsequent to the completion of Acquisition, XinRen was delisted from the Main Board of the Singapore Exchange Securities Trading Limited on the same day (the "Delisting").

Since the Delisting of XinRen, the management of the Company considered that there is no observable market data to assess the fair value of the Convertible Bonds, consequently, the fair value of the conversion options embedded in the Convertible Bonds became nil balance from the date of Delisting and as at 30 June 2016. The change in fair value (including exchange difference) of conversion options embedded in the Convertible Bonds of HK\$9,405,000 for the six months ended 30 June 2016 (*for the six months ended 31 December 2015: Nil*) is recognised in the profit or loss.

- (iii) On 5 August 2015, the Group entered into a subscription agreement with HNA Tourism Finance Limited ("HNA"), a company incorporated in the PRC, in relation to the subscription of guaranteed bond in the principal amount of RMB100,000,000, carries interest of 9.25% per annum and has a maturity date of 12 August 2017 (the "Guaranteed Notes"). Interest on the Guaranteed Notes is receivable semi-annually in arrears. The effective interest is 9.25% per annum. The Guarantor of the Guaranteed Notes is HNA Tourism Group Co., Ltd., a company incorporated in the PRC.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                      | Note | Unaudited                   | Audited                      |
|--------------------------------------|------|-----------------------------|------------------------------|
|                                      |      | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| Unlisted equity securities, at cost  | (i)  | <b>14,268</b>               | 14,268                       |
| Impairment losses                    |      | <b>(13,021)</b>             | (13,021)                     |
|                                      |      | <b>1,247</b>                | 1,247                        |
| Equity securities                    |      |                             |                              |
| – listed in Hong Kong, at fair value | (ii) | <b>85,334</b>               | 69,208                       |
|                                      |      | <b>86,581</b>               | 70,455                       |

Notes:

- (i) The unlisted equity securities represent the Group's investments in three (at 31 December 2015: three) private entities.

Given the equity securities are unlisted, the range of fair value estimated is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed, the Directors are of the opinion that their fair values cannot be reliably measured and hence they are measured at cost less impairment at the end of each reporting period.

- (ii) Fair values are determined with reference to quoted active market bid prices at the end of each reporting period.

At the end of the reporting period, the Group has not pledged any listed equity securities to banks as collateral for the banking facilities granted to the Group (at 31 December 2015: Nil).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                            | Note          | Unaudited                   | Audited                      |
|----------------------------|---------------|-----------------------------|------------------------------|
|                            |               | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| <b>Held for trading</b>    |               |                             |                              |
| Equity securities          |               |                             |                              |
| – Listed in Hong Kong      | (i) and (iii) | 308,819                     | 286,482                      |
| – Listed outside Hong Kong | (i)           | 96,251                      | 106,106                      |
|                            |               | <b>405,070</b>              | 392,588                      |
| Unlisted fund investments  | (ii)          | 50,775                      | 54,500                       |
|                            |               | <b>455,845</b>              | 447,088                      |

Notes:

- (i) Fair values of the listed equity securities are determined with reference to quoted active market bid price at the end of each reporting period.
- (ii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investments trusts with reference to the underlying assets (mainly listed securities) of the funds at the end of each reporting period.
- (iii) At the end of the reporting period, the Group has pledged certain listed equity securities of aggregate carrying amount of HK\$5,057,000 (at 31 December 2015: HK\$6,301,000) to a bank as collateral for the banking facilities granted.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 10. ACCOUNTS RECEIVABLE

|  |          | Unaudited      | Audited        |
|--|----------|----------------|----------------|
|  |          | At             | At             |
|  |          | 30/6/2016      | 31/12/2015     |
|  | Note     | HK\$'000       | HK\$'000       |
| Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts: |          |                |                |
| – securities cash clients  | (b)(i)   | 8,464          | 6,223          |
| – securities margin clients  | (b)(ii)  | 589,949        | 833,747        |
| – securities subscription clients  | (b)(iii) | 11,251         | 11,824         |
| – securities and options clearing houses and brokers   | (b)(iii) | 39,018         | 36,540         |
| – futures clients  | (b)(iv)  | 407            | –              |
| – futures clearing house and brokers   | (b)(iv)  | 3,461          | 5,393          |
| Accounts receivable arising from the provision of corporate finance advisory services                            | (b)(v)   | 6,276          | 1,384          |
| Accounts receivable arising from the provision of investment-linked and insurance products broking services      | (b)(vi)  | 438            | 385            |
|  |          | <b>659,264</b> | <b>895,496</b> |

Notes:

#### (a) Settlement terms

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

Accounts receivable arising from the subscription of Initial Public Offer ("IPO") of listed companies in Hong Kong on behalf of clients are settled upon the share allotments of such listed companies.

# Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

## 10. ACCOUNTS RECEIVABLE *(continued)*

*Notes: (continued)*

### (a) Settlement terms *(continued)*

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

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

### (b) Ageing analysis

- (i) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand subsequent to settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates.

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

At the end of the reporting period, no provision for impairment loss of accounts receivable from securities cash clients had been made *(at 31 December 2015: Nil)*.

# Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

## 10. ACCOUNTS RECEIVABLE *(continued)*

*Notes: (continued)*

### (b) Ageing analysis *(continued)*

- (ii) 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\$959,620,000 *(at 31 December 2015: HK\$2,936,491,000)*.

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.

At the end of the reporting period, provision for impairment loss of accounts receivable from securities margin clients had been made for HK\$8,550,000 *(at 31 December 2015: Nil)*.

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

The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, deposits not otherwise dealt with in the condensed consolidated financial statements amounted to HK\$6,456,000 *(at 31 December 2015: HK\$3,529,000)*.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 10. ACCOUNTS RECEIVABLE (continued)

Notes: (continued)

#### (b) Ageing analysis (continued)

- (iv) Accounts receivable from futures clients, futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounted to HK\$1,795,000 (at 31 December 2015: HK\$3,681,000), which was not dealt with in the condensed consolidated financial statements. At the end of the reporting period, accounts receivable from futures clients, futures clearing house and brokers were all overdue within 30 days and repayable on demand.

The gross carrying amount of accounts receivable and the movements in the provision for impairment loss of accounts receivable from futures clients, futures clearing house and brokers were as follows:

|  | Unaudited    | Audited       |
|--|--------------|---------------|
|  | At 30/6/2016 | At 31/12/2015 |
|  | HK\$'000     | HK\$'000      |
| Gross amount of accounts receivable:       |              |               |
| At the end of the reporting period         | 4,022        | 5,547         |
| Provision for impairment loss:             |              |               |
| At the beginning of the reporting period   | 154          | 154           |
| Impairment                                 | –            | –             |
| At the end of the reporting period         | 154          | 154           |
| Net carrying amount of accounts receivable | 3,868        | 5,393         |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 10. ACCOUNTS RECEIVABLE (continued)

Notes: (continued)

(b) Ageing analysis (continued)

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

|                | Unaudited<br>At 30/6/2016<br>HK\$'000 | Audited<br>At 31/12/2015<br>HK\$'000 |
|----------------|---------------------------------------|--------------------------------------|
| Current        | 6,055                                 | 824                                  |
| Overdue:       |                                       |                                      |
| Within 30 days | 40                                    | –                                    |
| 31 – 90 days   | –                                     | –                                    |
| 91 – 180 days  | –                                     | 60                                   |
| Over 180 days  | 881                                   | 500                                  |
|                | <b>6,976</b>                          | <b>1,384</b>                         |

The gross carrying amount of accounts receivable and the movements in the provision for impairment loss of accounts receivable from customers in respect of corporate finance advisory services were as follows:

|  | Unaudited<br>At 30/6/2016<br>HK\$'000 | Audited<br>At 31/12/2015<br>HK\$'000 |
|--|---------------------------------------|--------------------------------------|
| Gross amount of accounts receivable:       |                                       |                                      |
| At the end of the reporting period         | 6,976                                 | 1,384                                |
| Provision for impairment loss:             |                                       |                                      |
| At the beginning of the reporting period   | –                                     | –                                    |
| Impairment                                 | 700                                   | –                                    |
| At the end of the reporting period         | 700                                   | –                                    |
| Net carrying amount of accounts receivable | <b>6,276</b>                          | <b>1,384</b>                         |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 10. ACCOUNTS RECEIVABLE *(continued)*

Notes: *(continued)*

**(b) Ageing analysis *(continued)***

- (vi) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of investment-linked and insurance products broking services was as follows:

|                | Unaudited    | Audited       |
|----------------|--------------|---------------|
|                | At 30/6/2016 | At 31/12/2015 |
|                | HK\$'000     | HK\$'000      |
| Current        | 196          | 204           |
| Overdue:       |              |               |
| Within 30 days | –            | 33            |
| 31 – 90 days   | 93           | 34            |
| 91 – 180 days  | 19           | 56            |
| Over 180 days  | 130          | 58            |
|                | <b>438</b>   | <b>385</b>    |

At the end of the reporting period, no provision for impairment loss of accounts receivable arising from the provision of investment-linked and insurance products broking services had been made *(at 31 December 2015: Nil)*.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 10. ACCOUNTS RECEIVABLE *(continued)*

*Notes: (continued)*

#### (c) Accounts receivable that are not impaired

At the end of the reporting period, accounts receivable with carrying amount of HK\$4,331,000 (*at 31 December 2015: HK\$6,134,000*) are past due but not impaired. The management of the Group is of the opinion that no provision for impairment is necessary in respect of the overdue amount as all the balances have been fully settled subsequently or were being settled according to the agreed repayment schedules. The Group does not hold any collateral or other credit enhancements over these balances other than accounts receivable from securities margin clients.

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

### 11. CASH AND BANK BALANCES

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the condensed consolidated financial statements amounted to HK\$291,027,000 (*at 31 December 2015: HK\$385,737,000*).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 12. DERIVATIVE FINANCIAL LIABILITIES

|  | Note | Unaudited      | Audited    |
|--|------|----------------|------------|
|  |      | At             | At         |
|  |      | 30/6/2016      | 31/12/2015 |
|  |      | HK\$'000       | HK\$'000   |
| Cross-currency swap (note 17(c))               | (i)  | 121,000        | 102,129    |
| Foreign currency forward contract (note 17(b)) | (ii) | 748            | –          |
|  |      | <b>121,748</b> | 102,129    |

Notes:

- (i) In June 2015, the Group entered into a three-year cross-currency swap agreement with a bank in the United Kingdom to swap the Renminbi Bonds principal and the relevant interest payments, as detailed in note 14 to the condensed consolidated financial statements, into Hong Kong dollars to manage the interest rate risks and currency risks.

During the reporting period, the loss on change in fair value of the cross-currency swap of HK\$5,094,000 (for the six months ended 31 December 2015: HK\$73,619,000) are recognised in the profit or loss.

- (ii) In August 2015, the Group entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to convert RMB100,000,000 to HK\$112,994,000.

During the reporting period, the loss on change in fair value of the foreign currency forward contract of HK\$1,348,000 (for the six months ended 31 December 2015: gain of HK\$601,000) are recognised in the profit or loss. Forward contract revaluation rate at the reporting date was used to convert value in foreign currency to local currency.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 13. ACCOUNTS PAYABLE

|   | Note  | Unaudited                   | Audited                      |
|---|-------|-----------------------------|------------------------------|
|   |       | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| Accounts payable arising from<br>the ordinary course of business of<br>broking in securities and futures contracts: |       |                             |                              |
| – securities cash clients   | (i)   | 1,805                       | 8,079                        |
| – securities margin clients   | (i)   | –                           | 19,117                       |
| – securities clearing houses  | (i)   | 23,677                      | 64,363                       |
| – futures clients   | (ii)  | 3,455                       | 5,387                        |
| Accounts payable to brokers   | (i)   | 7,000                       | 6,561                        |
| Accounts payable arising from<br>the provision of investment-linked and<br>insurance products broking services      | (iii) | 370                         | 436                          |
|   |       | <b>36,307</b>               | <b>103,943</b>               |

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 houses and brokers are two or three trading days after the transaction dates.
- (ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.
- (iii) Accounts payable arising from the provision of investment-linked and insurance products broking services are payable within 30 days.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 13. ACCOUNTS PAYABLE (*continued*)

At the end of the reporting period, accounts payable are stated net of clients' segregated assets of HK\$299,278,000 (*at 31 December 2015: HK\$392,947,000*).

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

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

### 14. BONDS PAYABLE

|   | Unaudited        | Audited    |
|---|------------------|------------|
|   | At               | At         |
|   | 30/6/2016        | 31/12/2015 |
|   | HK\$'000         | HK\$'000   |
| <b>Carrying amount:</b>                   |                  |            |
| At the beginning of the reporting period  | <b>1,754,122</b> | 1,854,306  |
| Imputed interest expenses for the period  | <b>2,995</b>     | 3,011      |
| Exchange realignment                      | <b>(21,910)</b>  | (103,195)  |
| <b>At the end of the reporting period</b> | <b>1,735,207</b> | 1,754,122  |

On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "Bonds"). The Bonds bear interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the Bonds is payable semi-annually in arrears. The Bonds are listed on the Stock Exchange and mature on 28 May 2018 at their principal amount. At 30 June 2016, the fair value of the Bonds was RMB1,532,055,000 (*at 31 December 2015: RMB1,504,050,000*).

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 14. BONDS PAYABLE (continued)

On the issue date, the Bonds were recognised based on the residual principal amounts, net of issuance costs of approximately RMB15,932,000. The Bonds are subsequently carried at amortised cost using an average effective interest rate of 6.84% per annum.

At the end of the reporting period, the bonds were repayable as follows:

|                                  | Unaudited                   | Audited                      |
|----------------------------------|-----------------------------|------------------------------|
|                                  | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| Within 1 year or on demand       | –                           | –                            |
| After 1 year but within 2 years  | 1,735,207                   | –                            |
| After 2 years but within 5 years | –                           | 1,754,122                    |
| After 5 years                    | –                           | –                            |
|                                  | 1,735,207                   | 1,754,122                    |
|                                  | 1,735,207                   | 1,754,122                    |

### 15. SHARE CAPITAL

|   | At 30/6/2016 (Unaudited)    |                    | At 31/12/2015 (Audited)     |                    |
|---|-----------------------------|--------------------|-----------------------------|--------------------|
|   | Number of<br>shares<br>'000 | Amount<br>HK\$'000 | Number of<br>shares<br>'000 | Amount<br>HK\$'000 |
| <b>Authorised:</b>                                  |                             |                    |                             |                    |
| Ordinary shares of HK\$0.1 each                     |                             |                    |                             |                    |
| At the beginning and end of<br>the reporting period | 4,000,000                   | 400,000            | 4,000,000                   | 400,000            |
| <b>Issued and fully paid:</b>                       |                             |                    |                             |                    |
| At the beginning and end of<br>the reporting period | 2,441,220                   | 244,121            | 2,441,220                   | 244,121            |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 16. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these condensed consolidated financial statements, there were related party transactions entered into by the Group during the reporting period, details of which are set out below:

| Related party relationship                       | Nature of transaction                          | Unaudited                           | Audited                              |
|--|--|-------------------------------------|--------------------------------------|
|  |  | 1/1/2016 –<br>30/6/2016<br>HK\$'000 | 1/7/2015 –<br>31/12/2015<br>HK\$'000 |
| Key management personnel,<br>including Directors | Salaries, commission<br>and allowances         | 3,305                               | 8,256                                |
|  | Contributions to retirement<br>benefit schemes | 62                                  | 62                                   |

### 17. COMMITMENT

#### (a) Commitments under operating leases

The Group leases a number of properties and other items under operating leases, which typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

|                                       | Unaudited                   | Audited                      |
|---------------------------------------|-----------------------------|------------------------------|
|                                       | At<br>30/6/2016<br>HK\$'000 | At<br>31/12/2015<br>HK\$'000 |
| Within one year                       | 11,487                      | 13,893                       |
| In the second to fifth year inclusive | 31                          | 4,572                        |
|                                       | <b>11,518</b>               | 18,465                       |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 17. COMMITMENT *(continued)*

#### (b) Commitments under foreign currency forward contract

In August 2015, the Group entered into a two-year foreign currency forward contract with a bank in the United Kingdom to manage the currency risks. Upon maturity of the foreign currency forward contract, the Group agrees to convert RMB100,000,000 to HK\$112,994,000.

The foreign currency forward contract is accounted for by the Group in accordance with HKAS 39 accordingly and included in derivative financial liabilities set out in note 12 (*at 31 December 2015: included in derivative financial assets*) to the condensed consolidated financial statements.

#### (c) Commitments under cross-currency swap agreement

In June 2015, the Group entered into a three-year cross-currency swap agreement with a bank in the United Kingdom with initial exchange amounts of RMB1,484,279,000 and HK\$1,853,032,000.

Pursuant to the cross-currency swap agreement, the Group is obliged to make semi-annual interest payments to the bank. The amount to be paid is calculated on the final exchange amount of HK\$1,872,659,000 with reference to the agreed annual interest rate of 4.7%. The Group in return is entitled to receive semi-annual interest on the final exchange amount of RMB1,500,000,000 at the rate of 6.45% per annum. Upon maturity of the cross-currency swap, the Group agrees to convert the final exchange amount of HK\$1,872,659,000 to RMB1,500,000,000. The cross-currency swap is settled on gross basis.

The cross-currency swap is accounted for by the Group in accordance with HKAS 39 accordingly and included in derivative financial liabilities set out in note 12 to the condensed consolidated financial statements.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 18. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these condensed consolidated financial statements on a recurring basis at 30 June 2016 and 31 December 2015 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

|   | Total    | Level 1  | Level 2  | Level 3  |
|---|----------|----------|----------|----------|
| At 30 June 2016 (Unaudited)                                       | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Assets measured at fair value</b>                              |          |          |          |          |
| Available-for-sale financial assets                               |          |          |          |          |
| – Equity securities listed in Hong Kong                           | 85,334   | 85,334   | –        | –        |
| Financial assets at fair value through profit or loss             |          |          |          |          |
| – Equity securities listed in Hong Kong                           | 308,819  | 308,819  | –        | –        |
| – Equity securities listed outside Hong Kong                      | 96,251   | 87,595   | 8,656    | –        |
| – Unlisted fund investments                                       | 50,775   | –        | 50,775   | –        |
| Derivative financial assets                                       |          |          |          |          |
| – Conversion options embedded in investments in Convertible Bonds | –        | –        | –        | –        |
| <b>Liabilities measured at fair value</b>                         |          |          |          |          |
| Derivative financial liabilities                                  |          |          |          |          |
| – Cross-currency swap   | 121,000  | –        | 121,000  | –        |
| – Foreign currency forward contract                               | 748      | –        | 748      | –        |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 18. FAIR VALUE MEASUREMENTS *(continued)*

|   | Total    | Level 1  | Level 2  | Level 3  |
|---|----------|----------|----------|----------|
| At 31 December 2015 (Audited)                                     | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <b>Assets measured at fair value</b>                              |          |          |          |          |
| Available-for-sale financial assets                               |          |          |          |          |
| – Equity securities listed in Hong Kong                           | 69,208   | 69,208   | –        | –        |
| Financial assets at fair value through profit or loss             |          |          |          |          |
| – Equity securities listed in Hong Kong                           | 286,482  | 286,482  | –        | –        |
| – Equity securities listed outside Hong Kong                      | 106,106  | 73,475   | 639      | 31,992   |
| – Unlisted fund investments                                       | 54,500   | –        | 54,500   | –        |
| Derivative financial assets                                       |          |          |          |          |
| – Foreign currency forward contract                               | 601      | –        | 601      | –        |
| – Conversion options embedded in investments in Convertible Bonds | 9,395    | –        | –        | 9,395    |
| <b>Liabilities measured at fair value</b>                         |          |          |          |          |
| Derivative financial liabilities                                  |          |          |          |          |
| – Cross-currency swap   | 102,129  | –        | 102,129  | –        |

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 18. FAIR VALUE MEASUREMENTS *(continued)*

#### Movements in Level 3 fair value measurements of financial assets

|  | Unaudited               | Audited                  |
|--|-------------------------|--------------------------|
|  | 1/1/2016 –<br>30/6/2016 | 1/7/2015 –<br>31/12/2015 |
|  | HK\$'000                | HK\$'000                 |
| <b>Financial assets at fair value through profit or loss</b>   |                         |                          |
| At the beginning of the reporting period   | 31,992                  | 5,246                    |
| Transfer into Level 1  | (31,992)                | (4,607)                  |
| Transfer into Level 2  | –                       | (639)                    |
| Transfer into Level 3  | –                       | 31,992                   |
| <b>At the end of the reporting period</b>  | <b>–</b>                | <b>31,992</b>            |
| Change in unrealised gain for the period<br>included in profit or loss for assets held<br>at the end of the reporting period | –                       | 1,549                    |

Certain listed equity securities had been suspended for trading since October 2015. In the absence of active market, these investments' fair values of HK\$31,992,000 are estimated on the basis of the quoted price before trading suspension, an analysis of the investees' prospects and other factors. These investments were transferred to Level 3 on the dates when the trading suspended. During the six months ended 30 June 2016, these listed equity securities were resumed from suspension and transferred into Level 1 in March 2016.

#### Description of the valuation techniques and inputs used in Level 3 fair value measurement

At 30 June 2016, there are no financial assets at Level 3. At 31 December 2015, fair value of conversion options embedded in investments in convertible bonds is determined by using valuation techniques and inputs using the underlying share price and expected volatility.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 18. FAIR VALUE MEASUREMENTS *(continued)*

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

The fair values of certain equity securities listed outside Hong Kong, unlisted fund investments, derivative financial assets and derivative financial liabilities are determined by using valuation techniques and inputs using third-party pricing information without adjustment from the fund managers and the bank.

##### *(a) Certain equity securities listed outside Hong Kong*

Certain equity securities listed outside Hong Kong amounting to HK\$8,656,000 (*at 31 December 2015: HK\$639,000*) purchased during the period was classified in Level 2 upon purchase. These listed equity securities temporarily suspended trading at the end of the reporting period and resumed from suspension before the date of authorisation of the condensed consolidated financial statements. In the absence of quoted price in an active market, the Group applied market approach in which the last traded prices before their trading suspension were used without adjustment as there has been no expected material gap-down between the date of suspension and resumption. To the extent that the significant inputs are observable, the Group categories these investments as Level 2.

##### *(b) Unlisted fund investments*

Note 9 to the condensed consolidated financial statements provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments.

##### *(c) Derivative financial assets*

Derivative financial assets, representing foreign currency forward contract, are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. To the extent that these significant inputs are observable, the Group categories these investments as Level 2.

## Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

### 18. FAIR VALUE MEASUREMENTS *(continued)*

#### Description of the valuation techniques and inputs used in Level 2 fair value measurement *(continued)*

##### *(d) Derivative financial liabilities*

- (i) Derivative financial liabilities, representing cross-currency swap, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs, which are major inputs without any adjustment, including the credit quality of counterparties, currency and interest rate curves.
- (ii) Derivative financial liabilities, representing foreign currency forward contract, are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. To the extent that these significant inputs are observable, the Group categories these investments as Level 2.

#### Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

## OTHER INFORMATION

### Directors' Interests in Shares

As at 30 June 2016, none of the Directors, the chief executive of the Company and their respective associates had any interests and short positions in the shares, underlying shares and/or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules.

### Share Option Schemes

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the "2013 Share Option Scheme") and the termination of the share option scheme which was adopted by the Company on 30 January 2004 (the "2004 Share Option Scheme"). The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2004 Share Option Scheme.

During the Review Period, no share option was granted under the 2013 Share Option Scheme.

Details of the share options during the six months ended 30 June 2016 under the 2004 Share Option Scheme are as follows:

|                                 | Number of shares issuable under the options |                                    |                         |                        | Grant date | Exercise Period       | Closing price per share immediately before the grant date<br>HK\$ |
|---------------------------------|---|------------------------------------|-------------------------|------------------------|------------|-----------------------|---|
|                                 | At 01/01/2016<br>('000)                     | Lapsed during the period<br>('000) | At 30/06/2016<br>('000) | Exercise price<br>HK\$ |            |                       |   |
| Continuous contract employee(s) | 200   | (200)                              | -                       | 0.8880                 | 04/01/2011 | 04/01/2012-03/01/2021 | 0.840   |
| <b>Total</b>                    | <b>200</b>                                  | <b>(200)</b>                       | <b>-</b>                |                        |            |                       |   |

Note: No share options were granted, exercised or cancelled during the Review Period.

## OTHER INFORMATION

### Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed in the "Share Option Schemes" above, at no time during the Review Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under the age of 18 to acquire such rights in any other body corporate.

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2016, the persons (other than Directors and chief executive of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO are as follows:

#### *Interests in Long Positions in the Shares of the Company*

| Name of Shareholders   | Note | Capacity and nature of interest    | Number of ordinary shares held | Approximate % of holding |
|--|------|------------------------------------|--------------------------------|--------------------------|
| Southwest Securities International Investment Limited ("SSI")  | 1    | Beneficial owner                   | 1,811,796,822                  | 74.22%                   |
| Southwest Securities Co. Ltd. ("SWSC")   | 1    | Interest of controlled corporation | 1,811,796,822                  | 74.22%                   |
| 重慶渝富資產經營管理集團有限公司<br>Chongqing Yu Fu Assets Operation Management Group Company Limited<br>("Chongqing Yu Fu") | 2    | Interest of controlled corporation | 1,811,796,822                  | 74.22%                   |

## OTHER INFORMATION

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares *(continued)*

#### *Interests in Long Positions in the Shares of the Company (continued)*

Notes:

1. SSII is wholly-owned by SWSC. SWSC is therefore deemed, or taken to be, interested in all shares which SSII is interested for the purpose of the SFO.
2. Chongqing Yu Fu is interested in approximately 26.99% of the issued shares of SWSC. According to an announcement issued by SWSC dated 25 September 2015, Chongqing Yu Fu, through a fund management company, established a special asset management plan in August 2015. In September 2015, this special asset management plan acquired a total of 6,009,102 shares in SWSC, representing approximately 0.21% of the issued shares of SWSC. Chongqing Yu Fu is deemed, or taken to be, interested in all shares which SWSC is interested (or deemed or taken to be interested) for the purpose of the SFO.

Save as disclosed above, as at 30 June 2016, the Company has not been notified of any substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under Section 336 of the SFO.

### Updates on Directors' Information under Rule 13.51B(1) of the Listing Rules

Change of information of the Directors, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:-

- Mr. YU Weijia resigned as the chairman of the Board, an executive Director and the chairman of nomination committee of the Company with effect from 29 August 2016.
- Mr. LAM Kwok Cheong resigned as a non-executive director of Mega Medical Technology Limited (HKSE stock code: 876) with effect from 1 July 2016.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## OTHER INFORMATION

### Corporate Governance

The Company has complied with all the provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the interim period.

### Social Responsibility

Upholding the principle of “taking from society, and repaying society”, the Group concentrated on incorporating Corporate Social Responsibility (“CSR”) into business operations.

The Group recruited the representatives from different departments in the first half of 2016, to design and execute CSR program, so as to raise environmental awareness among employees and benefit the most vulnerable groups. To create a green enterprise, the representatives were committed to economizing on the consumption of paper, electricity and water resources by improving processes for efficiency and implementing additional measures, and minimizing the adverse impact of its businesses on the environment through enhancing operational efficiencies.

The Group has been supporting environmental protection with persistent effort and was appraised by the society. It has been awarded the prize of “Hong Kong Awards for Environmental Excellence” by Environmental Campaign Committee since 2011, which manifested the achievement and commitment in the role of CSR and environmental protection.

CSR program also focused on helping the most vulnerable groups and encouraging employees to do volunteer work in their communities. In January 2016, the Group participated in “Walk for Millions”, the fund raising event of The Community Chest, for the eleventh consecutive year. Most of the employees and their relatives enthusiastically supported this meaningful event by contributing their money and time. In addition, the Group took part in “Earth Hour”, World Wildlife Fund’s annual global campaign, which encouraged its employees to turn off the non-essential lights at a specific time for the sake of low energy consumption and low carbonlife.

The Group was granted with the Caring Company award for 9 consecutive years from The Hong Kong Council of Social Service (HKCSS) in recognition of its support to public welfare. Furthermore, as the Corporate Volunteer, the Group received certificate about “Corporate Volunteer Matching Scheme” from The Community Chest as a compliment.

## OTHER INFORMATION

### Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry with each Director and was confirmed that all Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

### Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any shares of the Company during the six months ended 30 June 2016.

### Review of Interim Financial Statements

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the condensed consolidated financial statements for the six months ended 30 June 2016 ("Interim Financial Statements"). The Audit Committee is satisfied that the Interim Financial Statements have been prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2016.

By order of the Board

**PU Rui**

*Chief Executive Officer*

Hong Kong, 29 August 2016

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