



西證國際
SOUTHWEST SECURITIES

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

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號 : 812

2020

INTERIM REPORT

中期報告



* For identification purpose only 僅供識別

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. WU Jian (*Chairman*)

Mr. PU Rui (*Chief Executive Officer*)

Dr. ZHAO Mingxun

Ms. WANG Huiyun (*resigned on 18 March 2020*)

Mr. XIONG Xiaoqiang (*resigned on 26 March 2020*)

Independent Non-executive Directors

Professor WU Jun (*resigned on 14 July 2020*)

Mr. MENG Gaoyuan

Dr. GUAN Wenwei

Mr. LIANG Jilin (*appointed on 1 July 2020*)

Audit Committee

Mr. MENG Gaoyuan (*Chairman*)

Professor WU Jun (*resigned on 14 July 2020*)

Dr. GUAN Wenwei

Mr. LIANG Jilin (*appointed on 1 July 2020*)

Remuneration Committee

Dr. GUAN Wenwei (*Chairman*) (*appointed as Chairman on 14 July 2020*)

Professor WU Jun (*Chairman*) (*resigned on 14 July 2020*)

Mr. WU Jian

Mr. MENG Gaoyuan

Mr. LIANG Jilin (*appointed on 1 July 2020*)

Nomination Committee

Mr. WU Jian (*Chairman*)

Professor WU Jun (*resigned on 14 July 2020*)

Mr. MENG Gaoyuan

Dr. GUAN Wenwei

Mr. LIANG Jilin (*appointed on 1 July 2020*)

Authorised Representatives

Mr. PU Rui

Ms. TAM Kar Bo Carrie

Company Secretary

Ms. TAM Kar Bo Carrie

CORPORATE INFORMATION

Registered Office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head Office and Principal Place of Business in Hong Kong	40/F., Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Bermuda Principal Share Registrar	MUFG Fund Services (Bermuda) Limited 4th floor North Cedar House 41 Cedar Avenue Hamilton HM12 Bermuda
Branch Share Registrar in Hong Kong	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Auditor	Ernst & Young
Legal Adviser as to Hong Kong Law	Norton Rose Fulbright Hong Kong (<i>till 18 June 2020</i>) Eversheds Sutherland (<i>20 July 2020 onwards</i>)
Principal Banker	Standard Chartered Bank (Hong Kong) Limited
Listing Information	Equity security listed on The Stock Exchange of Hong Kong Limited Stock Code: 812.HK Debt security listed on The Stock Exchange of Hong Kong Limited (US\$200,000,000, 6.9% bonds due 2021) Stock Code: 5983.HK
Website	www.swsc.hk

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 2020 (the “Review Period”) together with the comparative figures for the six months ended 30 June 2019 as set out on pages 12 to 45 to this report.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (*six months ended 30 June 2019: HK\$ Nil*).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

As the COVID-19 pandemic broke out and spread quickly around the world at the beginning of 2020, mobility restrictions were being imposed in various countries, and the global economy contracted substantially as a result. There was a second wave of the pandemic in various countries in June and the number of confirmed cases of coronavirus infection increased rapidly in countries like the United States, Brazil and India, disrupting the pace of economic recovery. Given that the pandemic has not been under control, the global economic growth may continue to slow down this year and next year.

In other developments, the geopolitical situations were intensifying in June, characterized by the escalated tensions between South Korea and North Korea following North Korea’s demolishment of the Inter-Korean Liaison Office building, the border dispute between China and India, the increased friction between China and the United States over the technology sector and the Hong Kong issue, as well as China’s closure of the United States consulate in Chengdu and the shutdown by the United States of China’s consulate in Houston in July. The growing risk-averse sentiment as a result of geopolitical uncertainties is influencing the international financial markets.

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong Market

The Hang Seng Index began to fall in mid-January 2020, and fell nearly 10% in March to a low of 21,139 points. In June, as public focus was placed on the implementation of the National Security Law, the local situation became turbulent with growing social activities, complicated by the United States Department of Commerce's announcement regarding the revocation of Hong Kong's preferential treatment, sending the Sino-US relationship at swords' points. The market fell 6.8% in that month. After the National Security Law was unanimously passed at the Standing Committee of the National People's Congress on the last day of June, the Hang Seng Index eventually closed at 24,427 points at the end of June 2020, representing a 13.3% drop from the end of December last year. There has been a third wave of the pandemic in Hong Kong since early July, with more than 1,000 new cases of COVID-19 infection reported within just several weeks. It is expected that the market sentiment will continue to be dominated by development of the pandemic in the short and medium term. As the fight against the pandemic will last for a long period of time, the results from a number of vaccine trials will attract market attention.

Due to the impact of the pandemic, only 64 new companies were listed (including 5 companies which transferred their listing from the GEM to the Main Board) in the first half of 2020, representing a decrease by 20 companies or 23.8% year-on-year. Consequently, the Hong Kong Stock Exchange's ranking in terms of IPOs has fallen from the first place last year to the third place in the first half of 2020, second only to the Nasdaq Stock Market and the Shanghai Stock Exchange.

BUSINESS REVIEW

The Group provides with businesses covering brokerage and margin financing, corporate finance, asset management and proprietary trading. During the Review Period, the Group recorded total revenue, other income and gains and reversal of allowance for doubtful debts of HK\$134.29 million (six months ended 30 June 2019: HK\$153.73 million) and a loss before tax of HK\$127.21 million (six months ended 30 June 2019: a loss before tax of HK\$60.25 million).

During the Review Period, the Group's total revenue amounted to HK\$128.88 million (six months ended 30 June 2019: HK\$131.48 million), representing a decrease of 2% as compared to the same period of last year, with the revenue from brokerage and margin financing decreasing significantly to HK\$16.88 million (six months ended 30 June 2019: a revenue of HK\$67.16 million). The revenue from proprietary trading increased significantly to HK\$102.64 million (six months ended 30 June 2019: a revenue of HK\$47.7 million) during the Review Period. There was a slight decline in the revenue from other principal business, including corporate finance and asset management.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, during the Review Period, the loss before tax increased by 111% over the same period of the previous year, mainly due to an expected credit loss on financial assets of HK\$133.88 million during the Review Period (six months ended 30 June 2019: HK\$58.47 million).

Brokerage and Margin Financing

The Group's brokerage and margin financing business mainly includes: agency trading of securities, futures and options trading, provision of insurance brokerage services, margin financing services, financial products business and offering one-stop integrated investment and financing services for high-net-worth customers. It recorded a revenue of HK\$16.88 million during the Review Period (six months ended 30 June 2019: HK\$67.16 million).

In terms of brokerage business, given the increased market volatility amid the escalating trade war and the brunt of fintech to retail business, commission revenue from retail customers saw a decline. During the Review Period, the Group recorded a brokerage commission revenue of HK\$6.34 million (six months ended 30 June 2019: HK\$10.24 million), representing a year-on-year decrease of HK\$3.90 million or 38%.

In terms of margin financing business, the Group's interest income for the Review Period amounted to HK\$10.54 million (six months ended 30 June 2019: HK\$56.93 million), representing a year-on-year decrease of HK\$46.39 million or 81%. During the Review Period, the Group held fast to measures to strictly monitor credit risks and equity concentration risks. While prudently managing risks, the Group aggressively expanded the scope of credit transaction products, including A-share financing business and credit derivatives business under Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect schemes, as well as credit transaction business related to fixed income products. With reduced risk exposure, the Group better served high-end customers by improving product capabilities.

Corporate Finance

The Group's corporate finance business includes sponsor services, underwriting & placement services, financial advisory services and financing arrangement services to corporate clients in Hong Kong. During the Review Period, the Group's corporate finance business recorded a revenue of HK\$9.37 million (six months ended 30 June 2019: HK\$16.11 million), representing a year-on-year decrease of HK\$6.74 million or 42%, mainly due to the substantial decrease in revenue from financing arrangement services and revenue from underwriting & placement services as a result of the Group's strategic adjustments to financing arrangements and the decreased volume of underwriting & placement services.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of sponsor services, Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Group, assisted clients in submitting applications of 2 sole sponsorship IPO projects to the Hong Kong Stock Exchange during the Review Period, and acted as the sole sponsor to assist Shandong Fengxiang Co., Ltd. in its successful listing on the Main Board of the Hong Kong Stock Exchange in July 2020. The revenue from financial advisory services projects also saw a slight growth. As at the end of June 2020, there were a total of 8 ongoing advisory services projects, bringing a stable source of income to the Group.

Given that the global economy remained heavily dragged down by the COVID-19 pandemic in the first half of 2020 and Hong Kong is currently witnessing the third wave of local outbreaks, it is expected that substantial uncertainties will remain in Hong Kong's economic outlook and IPO market in the second half of 2020. The Group will play its role as usual and further strengthen the cross-border collaboration with its parent company Southwest Securities Co., Ltd., in an effort to provide various types of financial advisory services and financial services for high-quality domestic enterprises when they enter the Hong Kong capital market.

Asset Management

During the Review Period, the Group's asset management business recorded no revenue (six months ended 30 June 2019: HK\$507,000).

During the Review Period, the investment portfolio of the Group's structured fund SP5 was fully redeemed by investors, while the investment portfolio of its structured fund SP6, targeting equity and futures investment on the secondary market, was put into operation. Based on the concept of value investment, the fund managers were committed to building a rational organisational structure and a scientific investment decision-making system. The Company also ensured the operation of funds on the premise of complying with laws and keeping risks under control through its internal control and authorisation system. Currently our business team is looking for high-quality investment opportunities and qualified high-quality investors. In an ongoing effort to expand its asset management business, the Group plans to scale up its assets under management in the second half of 2020. The Group hopes to attract more investors with its accumulated experience and solid track record in asset management in a drive to diversify the fund investors base.

MANAGEMENT DISCUSSION AND ANALYSIS

Proprietary Trading

The Group's proprietary trading business recorded a gain of HK\$102.64 million (six months ended 30 June 2019: a gain of HK\$47.70 million) during the Review Period.

The Group tuned its investment strategies in the second half of 2019. With accurate research and study and excellent investment personnel and on the premise of balancing risks and returns, it achieved satisfactory results in the fourth quarter of 2019. During the Review Period, the proprietary trading business continued to perform well and deliver decent returns to the Group.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to HK\$5.42 million (six months ended 30 June 2019: HK\$22.25 million). The decrease in other income and gains was mainly due to the year-on-year decrease in funds placed with banks during the Review Period, which led to a decrease in interest income from banks.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK\$32.98 million (six months ended 30 June 2019: HK\$39.30 million). The number of staff and fixed costs decreased during the Review Period. As part of the salaries of frontline staff was linked to their performance, their salaries decreased in tandem with the drop in their business performance, thus lowering the overall staff costs of the Group. The Group also made flexible adjustments to its staffing in response to business growth and resource allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK\$6.86 million (six months ended 30 June 2019: HK\$10.68 million). Fee and commission expenses mainly include commissions paid for brokerage business, proprietary trading business and corporate finance business transactions. The decrease in commission expenses during the Review Period was mainly attributable to the decrease in trading volume of brokerage business and corporate finance business.

Finance Costs

The Group's finance costs during the Review Period amounted to HK\$58.01 million (six months ended 30 June 2019: HK\$78.46 million). The finance costs were mainly interest expenses on bonds payable which decreased year on year by HK\$20.45 million or 26%, which was mainly due to the overlapping interest payments resulting from the issuance of bonds by the Group in April 2019 to repay bonds payable due in May 2019. No new bonds were issued during the Review Period.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

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

In addition, in 2020, the Group will strengthen its business competitiveness as well as operation and management construction from various aspects.

In respect of the brokerage and margin financing business, the Group will streamline and evaluate the business lines and strengthen domestic and overseas business linkage, leverage on the advantages of its parent company, Southwest Securities Co., Ltd., in customer resources. While exploring high-quality customer resources and enhancing service quality, it will strictly monitor risks in order to provide stable interest income for the Company. In respect of the corporate finance business, as the brand principal business of the Group, it completed a sole sponsorship for a fairly large IPO and several advisory service project in the first half of the year despite the pandemic and social events in Hong Kong. Going forward, the corporate finance business will continue to explore potential business needs in sponsorship, underwriting, placement, M&A, reorganization and advisory service. It will enhance the quantity and quality for the IPO deals, and expand the size of cross-border M&A, underwriting, placement and other business opportunities. It will also strengthen services consciousness and enhance investment banking services to create brand effect. As to proprietary trading business, the Group will gradually tune its investment strategy subject to controllable risks to generate robust income.

For operation and management construction, the Group will reinforce the three lines of defence, including the first line of defence, second line of defence, and third line of defense, to strengthen the construction of the risk management mechanism. Meanwhile, the Group will also strive to optimize talent cultivation, capital replenishment, and assessment mechanism to promote the sustainable and healthy development of the Company in order to achieve mutual growth of the Company and its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2020, the Group's total cash and bank balances were HK\$524.5 million (31 December 2019: HK\$789.1 million) and its net current assets amounted to HK\$271.7 million (31 December 2019: HK\$1,946.4 million), with a current ratio (ratio of current assets to current liabilities) of 1.2 times (31 December 2019: 16.0 time). The gearing ratio (ratio of bonds payable to total equity) was 524.2% (31 December 2019: 367.0%).

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

Banking Facilities and Charges on Assets

As at 30 June 2020, the Group had no bank loans outstanding (31 December 2019: Nil) and had an aggregate banking facilities of HK\$180 million (31 December 2019: HK\$270 million). As to certain banking facilities of HK\$175 million (31 December 2019: HK\$265 million), the drawdown of these facilities is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the cost of funds of the banks. As at 30 June 2020, the Group pledged no assets (31 December 2019: Nil) for the facilities.

Material Acquisitions, Disposals and Significant Investments

During the Review Period, there were no material acquisitions and disposals of investments (six months ended 30 June 2019: Nil).

Contingencies

The Group had no material contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

Commitments

The Group had no material capital commitments as at 30 June 2020 (31 December 2019: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group had no material exposure to fluctuations in exchange rates as at 30 June 2020 (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, the Group had a total of 84 employees (as at 30 June 2019: 96 employees). The Group regards employees as an important asset. We continue to improve our human resources management system. We aim to create a good work environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policy, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policy on its employee's remuneration and a comprehensive performance appraisal system. Discretionary performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The group regularly reviews of policies, benchmarking of employee benefits against the market, to ensure they are fit for purpose and support employee well-being. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

The Group regards commitment to staff development. Employees engage and deploy personnel with sufficient skills, knowledge, professional qualifications, experience and soundness of judgment for the responsible discharge of their duties. In order to promote mutual development of our employees and the Group, we implement the sustainable development strategy and facilitate employees' on-the-job training and development. Provision of training according to role, enhances employees' technical knowledge and transferable skills. The Group provides various kind of on-the-job training, external and internal training programs, including financial and business knowledge, product and operational management, compliance and risk management. The training programs enrich employees' professional knowledge and help employees to have the latest information and technical skills to perform their duties, sustain and enhance its competitiveness.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
Revenue	3	128,878	131,483
Other income and gains	5	5,416	17,495
Reversal of allowance for doubtful debts		–	4,754
		134,294	153,732
Fee and commission expenses		(6,855)	(10,677)
Finance costs	6(a)	(58,008)	(78,459)
Staff costs	6(b)	(32,984)	(39,301)
Depreciation		(9,534)	(13,279)
Expected credit losses on financial assets, net	6(c)	(133,884)	(58,472)
Other operating expenses		(20,239)	(13,796)
Total expenses		(261,504)	(213,984)
Loss before tax	6	(127,210)	(60,252)
Income tax credit	7	–	76
Loss for the period attributable to equity shareholders of the Company		(127,210)	(60,176)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		(119)	(61)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(119)	(61)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		–	388
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		–	388
Other comprehensive income for the period, net of tax		(119)	327
Total comprehensive income for the period attributable to equity shareholders of the Company		(127,329)	(59,849)
			(Restated)
Loss per share			
— Basic (HK cents)	8	(3.474)	(1.872)
— Diluted (HK cents)	8	(3.474)	(1.872)

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Non-current assets			
Fixed assets		5,932	7,758
Right-of-use assets		36,060	43,564
Other non-current assets		8,010	8,072
Financial assets at fair value through other comprehensive income	9	–	–
		50,002	59,394
Current assets			
Financial assets at fair value through profit or loss	10	1,159,709	739,506
Accounts receivable	11	267,347	532,164
Prepayments, other receivables and other assets		15,238	8,798
Tax recoverable		2,661	6,884
Cash and bank balances	12	524,533	789,090
		1,969,488	2,076,442
Current liabilities			
Bonds payable	14	1,545,378	–
Derivative financial liabilities		–	17,732
Accounts payable	13	93,519	48,228
Other payables and accrued charges		40,317	34,661
Provisions		3,381	13,173
Contract liabilities		–	1,336
Lease liabilities		15,209	14,876
		1,697,804	130,006
Net current assets		271,684	1,946,436
Total assets less current liabilities		321,686	2,005,830

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 30 June 2020 Note	Audited At 31 December 2019 HK\$'000
Non-current liabilities			
Bonds payable	14	–	1,549,172
Provisions		2,034	2,034
Lease liabilities		24,833	32,476
		26,867	1,583,682
NET ASSETS		294,819	422,148
Capital and reserves			
Share capital	15	366,182	366,182
Reserves		(651,363)	(524,034)
Other equity instrument	16	580,000	580,000
TOTAL EQUITY		294,819	422,148

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							Total HK\$'000
	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Share premium HK\$'000	*Capital reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated losses HK\$'000	Total reserve HK\$'000	
At 1 January 2019	244,121	(13,189)	214,319	40,836	284	(456,577)	(214,327)	29,794
Loss for the period	-	-	-	-	-	(60,176)	(60,176)	(60,176)
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(61)	-	(61)	(61)
Change in fair value of financial assets at fair value through other comprehensive income	-	388	-	-	-	-	388	388
Other comprehensive income for the period, net of tax	-	388	-	-	(61)	-	327	327
Total comprehensive income for the period	-	388	-	-	(61)	(60,176)	(59,849)	(59,849)
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income	-	2,780	-	-	-	(2,780)	-	-
<i>Contributions and distributions</i>								
Issue of shares under rights issue (note 15)	122,061	-	34,839	-	-	-	34,839	156,900
At 30 June 2019 (Unaudited)	366,182	(10,021)	249,158	40,836	223	(519,533)	(239,337)	126,845

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company								Total HK\$'000
	Investment		Share premium	*Capital reserve	Foreign		Total reserve	Other equity instrument	
	Share capital	revaluation reserve			exchange reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2020	366,182	(10,021)	249,158	40,836	(55)	(803,952)	(524,034)	580,000	422,148
Loss for the period	-	-	-	-	-	(127,210)	(127,210)	-	(127,210)
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(119)	-	(119)	-	(119)
Other comprehensive income for the period, net of tax	-	-	-	-	(119)	-	(119)	-	(119)
Total comprehensive income for the period	-	-	-	-	(119)	(127,210)	(127,329)	-	(127,329)
At 30 June 2020 (Unaudited)	366,182	(10,021)	249,158	40,836	(174)	(931,162)	(651,363)	580,000	294,819

* 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.

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(127,210)	(60,252)
Adjustments for non-cash items		
included in profit and loss	182,847	122,374
Change in operating assets and liabilities	(254,649)	223,186
Net cash (used in)/generated from operating activities	(199,012)	285,308
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from other non-current assets	62	–
Proceeds from disposal of financial assets		
as fair value through other comprehensive income	–	1,467
Proceeds from disposal of fixed assets	–	2
Payment for purchase of fixed assets	(204)	(2,695)
Net cash used in investing activities	(142)	(1,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	–	159,900
Payment of transaction costs are issuance of shares	–	(3,000)
Proceeds from issuance of bonds	–	1,569,960
Payment of transaction costs on issuance of bonds	–	(11,420)
Repayment of bonds issuance	–	(1,956,750)
Proceeds from short-term bank loans	157,730	–
Repayment of short-term bank loans	(157,730)	–
Bank loan interest paid	(58)	–
Interest paid on bonds issued	(53,496)	(61,334)
Principal portion of lease payments	(7,310)	(7,562)
Net cash used in financing activities	(60,864)	(310,206)
Net decrease in cash and cash equivalents	(260,018)	(26,124)
Cash and cash equivalents at the beginning of the period	789,090	441,812
Effect on exchange rate changes	(4,539)	(3,392)
Cash and cash equivalents at the end of the period	524,533	412,296

The accompanying notes form an integral part of these interim condensed consolidated financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The measurement basis used in the preparation of these interim condensed consolidated financial information is the historical cost basis except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value.

The interim condensed consolidated financial information is presented in the currency of Hong Kong dollars, which is also the Company’s functional currency.

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised HKFRSs for the first time for the current period’s financial information.

Amendments to HKFRS 3

Definition of a Business

Amendments to HKAS 1 and HKAS 8

Definition of Material

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The nature and the impact of the revised HKFRSs are described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. REVENUE

An analysis of revenue is as follows:

	Note	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
<i>Brokerage:</i>			
— commission income on securities dealing		3,829	3,585
— commission income on futures and options dealing		1,023	4,474
— insurance brokerage fee income		1,483	2,178
		6,335	10,237
<i>Corporate finance:</i>			
— IPO sponsor fee income		7,012	9,988
— underwriting and placing commission income		—	3,991
— consultancy and financial advisory fee income		2,353	1,630
— corporate financial arrangement and commitment fee income		—	504
		9,365	16,113
<i>Asset management:</i>			
— asset management fee income		—	507
Total revenue from contracts with customers	(i)	15,700	26,857
Revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		10,541	56,927
<i>Net gains from proprietary trading</i>		102,637	47,699
Total revenue from other sources		113,178	104,626
Total revenue		128,878	131,483

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. REVENUE (CONTINUED)

Note:

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
<i>Analyse by business segment:</i>		
<i>Brokerage</i>		
— services transferred at a point in time	6,335	10,237
<i>Corporate finance</i>		
— services transferred at a point in time	2,353	6,125
— services transferred over time	7,012	9,988
	9,365	16,113
<i>Asset management</i>		
— services transferred over time	–	507
	15,700	26,857
<i>Analyse by timing of revenue recognition:</i>		
— services transferred at a point in time	8,688	16,362
— services transferred over time	7,012	10,495
	15,700	26,857

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. SEGMENT INFORMATION

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

Reportable operating segments

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

	For the six months ended 30 June 2020 (Unaudited)					
	Brokerage and margin financing	Corporate finance	Proprietary trading	Asset management	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue from						
external customers	16,876	9,365	102,637	-	-	128,878
Other income and gains	2,355	-	-	-	3,061	5,416
Fee and commission expenses	(3,895)	-	(2,960)	-	-	(6,855)
Finance costs	(18,962)	-	(27,229)	-	-	(46,191)
Expected credit losses on financial assets, net	(131,820)	(2,064)	-	-	-	(133,884)
Other operating expenses and costs	(31,691)	(12,261)	(8,161)	(286)	(2,509)	(54,908)
Segment results	(167,137)	(4,960)	64,287	(286)	552	(107,544)
Unallocated expenses, represented central administration costs						(5,820)
Depreciation of fixed assets						(2,029)
Unallocated finance cost						(11,817)
Loss before tax						(127,210)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. SEGMENT INFORMATION (CONTINUED) Reportable operating segments (Continued)

	For the six months ended 30 June 2019 (Unaudited)					
	Brokerage and margin financing	Corporate finance	Proprietary trading	Asset management	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue from external customers	67,164	16,113	47,699	507	-	131,483
Other income and gains	10,100	-	327	-	7,068	17,495
Reversal of allowance for doubtful debts	4,754	-	-	-	-	4,754
Fee and commission expenses	(7,741)	(1,344)	(1,592)	-	-	(10,677)
Finance costs	(39,241)	-	(14,181)	-	-	(53,422)
Expected credit losses on financial assets, net	(56,758)	(1,889)	-	-	175	(58,472)
Other operating expenses and costs	(27,121)	(11,764)	(9,239)	(406)	(3,489)	(52,019)
Segment results	(48,843)	1,116	23,014	101	3,754	(20,858)
Unallocated expenses, represented						
central administration costs						(8,423)
Unallocated finance costs						(25,037)
Depreciation of fixed assets						(5,934)
Loss before tax						(60,252)

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 2020 and 30 June 2019, the Group's revenue is mainly derived from customers in Hong Kong.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. OTHER INCOME AND GAINS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Other income		
Handling income	569	2,871
Other interest income	2,465	11,144
Sundry income	-	20
	3,034	14,035
Other gains		
Exchange gains, net	2,382	3,460
	2,382	3,460
	5,416	17,495

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. LOSS BEFORE TAX

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss before tax is arrived at after charging:		
(a) Finance costs		
Bank loan interest expenses	58	–
Bonds interest expenses	53,593	67,704
Imputed interest expenses on bonds payable	2,819	10,550
Other interest expenses	7	50
Interest on lease liabilities	1,531	155
	58,008	78,459
(b) Staff costs		
Salaries, commission and allowances	32,146	38,339
Contributions to retirement benefit schemes	838	962
	32,984	39,301
(c) Other items		
Depreciation of fixed assets	2,029	5,934
Depreciation of right-of-use assets	7,505	7,345
Expected credit losses on financial assets, net	133,884	58,472

7. INCOME TAX CREDIT

Hong Kong Profits Tax has not been provided for entities within the Group for the six months ended 30 June 2020 (Income tax credit for the six months ended 30 June 2019: HK\$76,000) as they have either incurred losses for taxation purpose or their estimated assessable profits for the period are wholly absorbed by unutilized tax losses brought forward from previous years.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. LOSS PER SHARE

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

	Unaudited		
	Six months ended 30 June		
	2020	2019	2019
	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(As previously stated)
		(Note 1)	
Loss attributable to equity shareholders of the Company	(127,210)	(60,176)	(60,176)
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share <i>(In '000) (Note 2)</i>	3,661,831	3,214,290	2,598,194
Basic loss per share <i>(HK cents)</i>	(3.474)	(1.872)	(2.465)
Diluted loss per share <i>(HK cents)</i>	(3.474)	(1.872)	(2.316)

Note 1: As disclosed in note 15 to the interim condensed consolidated financial information, the Company had a rights issue during the period ended 30 June 2019. The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the period ended 30 June 2019 has been retrospectively adjusted to correctly reflect the weighted average number of ordinary shares in issue during the period ended 30 June 2019.

Note 2: There were no dilutive potential ordinary shares outstanding during the periods ended 30 June 2020 and 30 June 2019. Accordingly, the diluted loss per share for the respective periods are the same as basic loss per share.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
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Financial assets at fair value through other comprehensive income

Unlisted equity investments, at fair value	-	-
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The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. As at 30 June 2020, the Group held two (at 31 December 2019: two) investments with fair value of nil (at 31 December 2019: nil).

During the year ended 31 December 2019, the Group sold its equity interest in an unlisted equity investment as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was HK\$1,467,000 and the loss recognised in investment revaluation reserve of HK\$2,780,000 was transferred to accumulated losses.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Equity securities			
— Listed in Hong Kong	(i)	709,364	340,405
— Listed outside Hong Kong	(i)	362,231	202,919
		1,071,595	543,324
Debt securities			
— Listed in Hong Kong	(ii)	41,626	–
— Unlisted	(ii)	–	164,669
		41,626	164,669
Unlisted fund investments	(iii)	31,488	31,513
Unlisted equity-linked notes	(iv)	15,000	–
		1,159,709	739,506

Notes:

- (i) Fair values of the listed equity securities are determined with quoted active market bid price on the respective stock exchange at the end of each reporting period.
- (ii) Fair value of the listed debt securities is determined with quoted active market bid price on the respective stock exchange at the end of each reporting period. For the unlisted debt securities, the fair values are determined using with the quoted price provided by brokers/financial institutions.
- (iii) For the unlisted fund investments, the fair values were determined by their net assets values quoted by the relevant investments trusts with the underlying assets (mainly are listed securities) of the funds.
- (iv) The Group acquired unlisted equity-linked notes during the period. The unlisted equity-linked notes contain embedded derivative, the return of which is determined with reference to the closing price of underlying equity securities listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The fair values are determined using with the quoted price provided by brokers/financial institutions.
- (v) The Group has not pledged any equity securities, debt securities and fund investment at 30 June 2020 to any bank as collateral for the banking facilities granted (at 31 December 2019: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE

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

		Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	(a)	630,432	855,780
— securities cash clients	(b)	52,370	2,103
— securities subscription clients	(b)	41,842	13,841
— securities and options clearing houses and brokers	(b)	26,561	20,830
— futures clients	(b)	3	3
— futures clearing house and brokers	(b)	31,478	23,252
Accounts receivable arising from the provision of corporate finance advisory services	(b)	9,434	7,262
Accounts receivable arising from the provision of insurance broking services	(b)	16	–
		792,136	923,071
Less: Impairment		(524,789)	(390,907)
		267,347	532,164

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes:

(a) Accounts receivable analysis on securities margin clients

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

	Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— Securities margin clients	630,432	855,780
Less: Impairment		
— Stage 1	—	—
— Stage 2	(1)	—
— Stage 3	(519,398)	(387,498)
	111,033	468,282

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\$595,523,000 (at 31 December 2019: HK\$1,098,632,000).

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

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

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
As at 1 January 2019	–	7,492	64,279	71,771
Transfer to stage 3	–	(7,490)	7,490	–
Impact on transfer between stages	–	–	300,997	300,997
New assets originated	–	(2)	19,503	19,501
Bad debt recovery	–	–	(4,754)	(4,754)
Amount written off	–	–	(17)	(17)
As at 31 December 2019 (audited) and 1 January 2020	–	–	387,498	387,498
Other remeasurement of loss allowance	–	1	131,900	131,901
As at 30 June 2020 (unaudited)	–	1	519,398	519,399

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients

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

		Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(1)	52,370	2,103
— securities subscription clients	(2)	41,842	13,841
— securities and options clearing houses and brokers	(3)	26,561	20,830
— futures clients		3	3
— futures clearing house and brokers	(4)	31,478	23,252
Accounts receivable arising from the provision of corporate finance advisory services	(5)	9,434	7,262
Accounts receivable arising from the provision of insurance broking services	(6)	16	–
		161,704	67,291
Less: Impairment	(7)	(5,390)	(3,409)
		156,314	63,882

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

- (1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand on settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.
- (2) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.
- (3) The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits maintained in The SEHK Option Clearing House Limited not otherwise dealt with in the interim condensed consolidated financial information amounted to HK\$1,597,000 (at 31 December 2019: HK\$595,000).

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 30 June 2020, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net payable to Hong Kong Securities Clearing Company Limited ("HKSCC") of HK\$58,215,000 (at 31 December 2019: net receivable of HK\$17,925,000), with legally enforceable right to set off the corresponding receivable and payable balances. Details of the offsetting of these balances are set out in note 11(c) to interim condensed consolidated financial information.

- (4) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK\$1,949,000 (at 31 December 2019: HK\$9,486,000), which was not dealt with in the interim condensed consolidated financial information. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

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

	Unaudited	Audited
	At	At
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Current	2,231	2,799
Overdue:		
Within 30 days	193	93
31–90 days	2,649	1,497
91–180 days	390	–
Over 180 days	3,971	2,873
	9,434	7,262

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

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

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit-impaired (Stage 2) HK\$'000	Lifetime ECL credit-impaired (Stage 3) HK\$'000	Lifetime ECL simplified approach HK\$'000	Total HK\$'000
As at 1 January 2019	74	2	-	419	495
Charged/(credit) to profit or loss	(74)	(2)	89	2,901	2,914
As at 31 December 2019 (audited) and 1 January 2020	-	-	89	3,320	3,409
Charged/(credit) to profit or loss	-	8	(89)	2,062	1,981
As at 30 June 2020 (unaudited)	-	8	-	5,382	5,390

(c) Offsetting

The Group has netted off the amounts receivable and amounts payable with the securities and options clearing house. An analysis of amounts receivable/(payable) subject to offsetting is set out as follows:

As at 30 June 2020 (unaudited)

	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the condensed consolidated statement of financial position HK\$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK\$'000	Related amount not set off in the condensed consolidated statement of financial position HK\$'000	Net HK\$'000
Amounts receivable	11,742	(11,742)	-	-	-

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(c) Offsetting (Continued)

	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the condensed consolidated statement of financial position HK\$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK\$'000	Related amount not set off in the condensed consolidated statement of financial position HK\$'000	Net HK\$'000
Amounts payable	69,957	(11,742)	58,215	-	58,215

As at 31 December 2019 (audited)

	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the condensed consolidated statement of financial position HK\$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK\$'000	Related amount not set off in the condensed consolidated statement of financial position HK\$'000	Net HK\$'000
Amounts receivable	40,135	(22,210)	17,925	(7,037)	10,888

	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the condensed consolidated statement of financial position HK\$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK\$'000	Related amount not set off in the condensed consolidated statement of financial position HK\$'000	Net HK\$'000
Amounts payable	29,247	(22,210)	7,037	(7,037)	-

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12. CASH AND BANK BALANCES

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the interim condensed consolidated financial information amounted to approximately HK\$352,804,000 (at 31 December 2019: HK\$113,954,000).

13. ACCOUNTS PAYABLE

		Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
	<i>Note</i>		
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	<i>(i)</i>	–	14,742
— securities margin clients	<i>(i)</i>	–	3,086
— securities clearing house	<i>(i)</i>	58,215	7,038
— brokers	<i>(i)</i>	3,727	21
— futures clients	<i>(ii)</i>	31,451	23,239
Accounts payable arising from the provision of insurance broking services	<i>(iii)</i>	126	102
		93,519	48,228

Notes:

Settlement terms

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. ACCOUNTS PAYABLE (CONTINUED)

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 securities cash clients and securities margin clients arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

14. BONDS PAYABLE

	2019		2018	
	USD Bonds (Note (i)) HK\$'000	HKD Bonds (Note (ii)) HK\$'000	USD Bonds (Note (iii)) HK\$'000	Total HK\$'000
Carrying amount at 1 January 2019	–	773,547	1,171,928	1,945,475
Carrying amount upon issuance	1,558,540	–	–	1,558,540
Imputed interest expenses for the year	3,842	6,453	2,997	13,292
Exchange difference	(13,210)	–	1,825	(11,385)
Principal repayment	–	(780,000)	(1,176,750)	(1,956,750)
Carrying amount at 31 December 2019 (audited)				
and 1 January 2020	1,549,172	–	–	1,549,172
Imputed interest expenses for the period	2,819	–	–	2,819
Exchange difference	(6,613)	–	–	(6,613)
Carrying amount at 30 June 2020 (unaudited)	1,545,378	–	–	1,545,378

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. BONDS PAYABLE (CONTINUED)

Notes:

- (i) On 17 April 2019, the Company issued bonds with aggregate principal amount of US\$200,000,000 (the "2019 USD Bonds"). The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds are listed on the Stock Exchange and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The fair value determined with the quoted price provided by brokers/financial institutions as at 30 June 2020 was approximately HK\$1,560,399,000 (at 31 December 2019: HK\$1,590,013,000).

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

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. SHARE CAPITAL

	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)	
	Number of	Amount	Number of	Amount
	shares		shares	
	'000	HK\$'000	'000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each				
At beginning and end of the reporting period	4,000,000	400,000	4,000,000	400,000
Issued and fully paid:				
At the end of the reporting period	3,661,830	366,182	3,661,830	366,182

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
	'000	HK\$'000
At 1 January 2019	2,441,220	244,121
Rights issue (<i>note</i>)	1,220,610	122,061
At 31 December 2019, 1 January 2020 and 30 June 2020	3,661,830	366,182

Note:

A rights issue of one rights share for every two existing shares held by members on the register of members on 27 March 2019 was made, at an issue price of HK\$0.131 per rights share with a par value of HK\$0.1 each, resulting in the issue of 1,220,610,204 shares. The theoretical ex-rights price calculated based on the closing price of HK\$0.16 per shares as quoted on the Stock Exchange on the last trading day, i.e. 18 March 2019 was approximately HK\$0.15 per share. The total consideration amounted to HK\$159,900,000, of which HK\$122,061,000 was credited to share capital and the balance of HK\$34,839,000, after deducting the outgoing expenses of HK\$3,000,000, was credited to the share premium account. The net price per rights share was approximately HK\$0.13.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. OTHER EQUITY INSTRUMENT

On 15 October 2019, the Company issued HK\$580 million perpetual securities (the "Perpetual Securities") with an initial distribution rate of 3.875% per annum. Distributions are paid annually in arrears and the first distribution date will be 14 October 2020. The Company may, at its sole discretion, elect to defer, in whole or in part, any distribution. The Perpetual Securities have no fixed redemption date and may be redeemed in whole or in part at any time at the sole discretion of the Company on giving prior notice to the holder of the Perpetual Securities, in accordance with the terms and conditions stated in the subscription agreement. The first reset date of distribution rate is 15 October 2022. The Perpetual Securities constitute direct, unconditional, subordinated and unsecured obligations of the Company and are classified as equity instruments and recorded as equity in the condensed consolidated statement of financial position.

17. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these interim condensed consolidated financial information, 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	
		Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
Key management personnel, including Directors	Salaries, commission and allowances	7,187	7,603
	Contributions to retirement benefit schemes	98	97
		7,285	7,700
Ultimate holding company	Referral fee expenses	–	64
		7,285	7,764

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. COMMITMENT

(a) Capital commitments

	Unaudited At 30 June 2020 HK\$'000	Audited At 31 December 2019 HK\$'000
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the interim condensed consolidated financial information	–	40

19. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value in addition to the fair value disclosed elsewhere in these interim condensed consolidated financial information on a recurring basis at 30 June 2020 and 31 December 2019 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. FAIR VALUE MEASUREMENTS (CONTINUED)

At 30 June 2020 (Unaudited)

	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	709,364	709,364	-	-
— Equity securities listed outside Hong Kong	362,231	362,231	-	-
— Unlisted equity-linked notes	15,000	-	15,000	-
— Debt securities listed in Hong Kong	41,626	41,626	-	-
— Unlisted fund investments	31,488	-	31,488	-
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	-	-	-	-

At 31 December 2019 (Audited)

	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	340,405	340,405	-	-
— Equity securities listed outside Hong Kong	202,919	202,919	-	-
— Unlisted debt securities	164,669	-	164,669	-
— Unlisted fund investments	31,513	-	31,513	-
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	-	-	-	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities	17,732	17,732	-	-

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. FAIR VALUE MEASUREMENTS (CONTINUED)

The movements in fair value measurements within Level 3 during the period are as follows (unaudited):

	Total HK\$'000
As at 1 January 2019	1,079
Total gains recognised in other comprehensive income	388
Disposed during the year	(1,467)
At 31 December 2019, 1 January 2020 and 30 June 2020	-

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

Note 10 to the interim condensed consolidated financial information provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments and unlisted equity-linked notes.

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 and Level 2 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

20. EVENT AFTER REPORTING PERIOD

Subsequent to the end of the reporting period on 18 August 2020, one of the margin client's collateral listed on the Stock Exchange was suspended. As at 30 June 2020, this margin client was at Stage 3 and the Group has provided allowance for expected credit losses at approximately 94% of the carrying amount of the accounts receivable from this margin client. On 28 August 2020, the Group announced that it has further provided for the remaining carrying amount of the accounts receivable from this margin client.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the board of directors of Southwest Securities International Securities Limited

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 12 to 45, which comprises the condensed consolidated statement of financial position of Southwest Securities International Securities Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

31 August 2020

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2020, none of the Directors, the chief executive of the Company or 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 Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

SHARE OPTION SCHEME

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") which is valid and effective for 10 years from the date of adoption. The total number of shares available for issue is 119,147,600 shares, representing 10% of total number of shares in issue as at the date of adoption of the 2013 Share Option Scheme (i.e. 12 November 2013). During the Review Period, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the "Share Option Scheme" 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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, substantial shareholders of the Company (other than Directors and chief executive of the Company whose interests or short positions have been disclosed in the "Directors' and Chief Executive's Interests in Shares" 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 and to the best knowledge of the Company are as follows:

Interests in long positions in the ordinary shares of the Company (the "Shares")

Names	Note	Capacity and nature of interest	Number of Shares held	Approximate percentage of issued voting Shares
Southwest Securities International Investment Limited ("SSI")	1	Beneficial owner	2,692,237,233	73.52%
Southwest Securities Co., Ltd. ("SWSC")	1	Interest of controlled corporation	2,692,237,233	73.52%
LAW Wei		Beneficial owner	221,646,259	6.05%

Note:

1. SSI is wholly owned by SWSC. SWSC is therefore deemed, or taken to be, interested in all shares in which SSI is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2020, the Company has not been notified of any persons (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.

OTHER INFORMATION

ADVANCE TO AN ENTITY

On 13 February 2018, Southwest Securities (HK) Brokerage Limited, an indirect wholly-owned subsidiary of the Company (the “Lender”) advanced to Jaguar Asian Limited (a company incorporated under the laws of the British Virgin Islands with limited liability, the “Borrower”) a secured security margin loan facility of up to HK\$270 million (the “Loan”). The repayment date of the Loan was extended from 13 February 2019 to 28 April 2019 on 13 February 2019 by way of an amendment deed.

On 16 October 2019, the Lender entered into a restructuring deed (the “Restructuring Deed”) of even date with the Borrower and the relevant guarantors to, amongst others, extend the repayment date of the outstanding amounts under the facility as follows:

- (i) as to HK\$10,000,000 on or before the date falling three days after the date of the Restructuring Deed and as to HK\$20,000,000 on or before the date falling thirty days after the date of the Restructuring Deed, in respect of which HK\$19,084,932 is to be applied towards repayment of the interests accrued from 13 February 2019 up to and including 15 September 2019 and HK\$10,915,068 towards repayment of the Loan;
- (ii) as to HK\$30,000,000 on or prior to the date falling six months of the date of the Restructuring Deed, which is to be applied towards repayment of the Loan;
- (iii) as to HK\$50,000,000 on or prior to the date falling nine months of the date of the Restructuring Deed, which is to be applied towards repayment of the Loan; and
- (iv) as to the balance of the Loan and all other sums payable on or before the date falling twelve months of the date of the Restructuring Deed.

As at 30 June 2020, the total outstanding amount of the Loan and interest was approximately HK\$308 million with an interest rate of 12% per annum and default interest rate 20% per annum, and is secured by a charge over 588,720,412 ordinary shares in the issued share capital of Yi Hua Holdings Limited (“Yi Hua”, the issued shares of which are listed on the Main Board of the Stock Exchange, stock code: 2213) beneficially owned by the Borrower.

The trading in the shares of Yi Hua on the Stock Exchange has been suspended since 3:33 p.m. on 18 August 2020. According to a winding-up search report procured from the Official Receiver’s Office on 26 August 2020, a winding-up order was made against Yi Hua on 18 August 2020. Details of the Loan are set out in the announcements of the Company dated 14 February 2018, 13 February 2019, 16 October 2019 and 28 August 2020.

OTHER INFORMATION

UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The changes in the information of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

- Ms. WANG Huiyun has resigned as an executive Director with effect from 18 March 2020.
- Mr. XIONG Xiaoqiang has resigned as an executive Director with effect from 26 March 2020.
- Mr. LIANG Jilin has been appointed as an independent non-executive Director and a member of audit committee, remuneration committee and nomination committee of the Company with effect from 1 July 2020.
- Professor WU Jun has resigned as an independent non-executive Director, the chairman of the remuneration committee, a member of the nomination committee and a member of the audit committee of the Company with effect from 14 July 2020.
- Dr. GUAN Wenwei, an independent non-executive Director, has been appointed as the chairman of the remuneration committee of the Company with effect from 14 July 2020.

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

CORPORATE GOVERNANCE

During the Review Period, the Company has applied the principles of, and has complied with, all the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

During the Review Period, the Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry with each Director and, based on such enquiry, confirmed that all Directors have complied with the required standard and code of conduct regarding directors' securities transactions, set out in the Model Code throughout the Review Period. Employees and consultants who are privy to inside information are required to follow the Model Code.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the interim condensed consolidated financial information for the six months ended 30 June 2020 and this interim report.

By order of the Board

WU Jian

Chairman

Hong Kong, 31 August 2020

