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Southwest Securities International Securities Limited

西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “Board”) of directors (the “Directors” and each a “Director”) of Southwest Securities International Securities Limited (the “Company”) presents the consolidated final results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 (the “Review Period”), together with comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Revenue	2	129,633	251,174
Other income and gains	4	5,218	37,132
		134,851	288,306
Fee and commission expenses		(11,629)	(14,835)
Finance costs	5a	(85,741)	(116,083)
Staff costs (including directors' emoluments)	5b	(50,238)	(97,035)
Depreciation	5c	(17,891)	(18,843)
Expected credit losses on financial assets, net	5c	(1,501)	(149,286)
Other operating expenses		(26,485)	(30,712)
Fair value losses arising from investment fund		(349)	–
Total expenses		(193,834)	(426,794)
Loss before tax	5	(58,983)	(138,488)
Income tax expense	6	–	–
Loss for the year		(58,983)	(138,488)

* *For identification purpose only*

	2021	2020
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income (expense)		
Item that will not be reclassified subsequently to profit or loss:		
Fair value gain on financial assets at fair value through other comprehensive income	<u>75</u>	<u>–</u>
Item that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of financial statements of foreign operations	<u>(4)</u>	<u>(179)</u>
Other comprehensive income (expense) for the year	<u>71</u>	<u>(179)</u>
Total comprehensive expense for the year	<u>(58,912)</u>	<u>(138,667)</u>
Loss for the year attributable to		
— equity shareholders of the Company	(63,786)	(138,488)
— holder of other equity instrument	<u>4,803</u>	<u>–</u>
	<u>(58,983)</u>	<u>(138,488)</u>
Total comprehensive expense/income for the year attributable to		
— equity shareholders of the Company	(63,715)	(138,667)
— holder of other equity instrument	<u>4,803</u>	<u>–</u>
	<u>(58,912)</u>	<u>(138,667)</u>
Loss per share		
— Basic (<i>HK cents</i>)	7 <u>(1.742)</u>	<u>(3.782)</u>
— Diluted (<i>HK cents</i>)	7 <u>(1.742)</u>	<u>(3.782)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Fixed assets		1,890	4,355
Right-of-use assets	<i>8</i>	14,901	28,554
Intangible assets		–	–
Financial assets at fair value through other comprehensive income		–	–
Other non-current assets		3,400	8,048
		<u>20,191</u>	<u>40,957</u>
Current assets			
Financial assets at fair value through profit or loss	<i>9</i>	1,227,529	1,391,161
Accounts receivable	<i>10</i>	205,855	176,300
Prepayments, other receivables and other assets		14,734	15,267
Tax recoverable		2,661	2,661
Cash and bank balances		285,073	382,180
		<u>1,735,852</u>	<u>1,967,569</u>
Current liabilities			
Bonds payable	<i>11</i>	–	1,548,676
Derivative financial liabilities	<i>12</i>	6,747	2,724
Accounts payable	<i>13</i>	68,669	57,909
Other payables and accrued charges		33,817	43,041
Provisions		21,151	37,126
Lease liabilities	<i>8</i>	17,817	15,268
Net assets attributable to holders of third-party interests in consolidated investment fund		5,408	1,059
		<u>153,609</u>	<u>1,705,803</u>
Net current assets		<u>1,582,243</u>	<u>261,766</u>
Total assets less current liabilities		<u>1,602,434</u>	<u>302,723</u>

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Bonds payable	<i>11</i>	1,382,512	–
Provisions		–	2,034
Lease liabilities	<i>8</i>	156	17,208
		<u>1,382,668</u>	<u>19,242</u>
NET ASSETS		<u>219,766</u>	<u>283,481</u>
Capital and reserves			
Share capital		366,182	366,182
Reserves		(726,416)	(662,701)
Other equity instrument		580,000	580,000
TOTAL EQUITY		<u>219,766</u>	<u>283,481</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICY

Basis of preparation

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

The measurement basis used in the preparation of these consolidated final results is the historical cost basis except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, derivative financial liabilities and net assets attributable to holders of third-party interests in consolidated investment fund, which are measured at fair value.

The consolidated final results are presented in the currency of Hong Kong dollars, which is also the Company’s functional currency and all values have been rounded to the nearest thousand, unless otherwise indicated.

Application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2021:

Amendment to HKFRS16	<i>Covid-19-Related Rent Concessions</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFR 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>

The application of the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated final results.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	<i>Insurance Contracts and related Amendments²</i>
Amendments to HKFRS 3	<i>Reference to Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause³</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transactions²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information²</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020 cycle¹</i>

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the results and the consolidated statement of financial position of the Group.

2. REVENUE

An analysis of the Group's revenue for the year is as follows:

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Total revenue from contracts with customers	<i>(i)</i>		
<i>Brokerage:</i>			
— commission income on securities dealing		5,150	9,213
— commission income on futures and options dealing		447	1,362
— insurance brokerage fee income		2,373	2,972
		<u>7,970</u>	<u>13,547</u>
<i>Corporate finance:</i>			
— initial public offering (“IPO”) sponsor fee income		6,270	12,412
— underwriting and placing commission income		16	5,105
— consultancy and financial advisory fee income		2,488	5,359
		<u>8,774</u>	<u>22,876</u>
		<u>16,744</u>	<u>36,423</u>
Total revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		<u>4,803</u>	<u>14,158</u>
<i>Net gains from proprietary trading (note)</i>		<u>108,086</u>	<u>200,593</u>
		<u>112,889</u>	<u>214,751</u>
Total revenue		<u>129,633</u>	<u>251,174</u>

Note:

The amount included the unrealised fair value loss in financial assets at fair value through profit or loss amounted to approximately HK\$27,727,000 (2020: HK\$68,949,000) and unrealised fair value loss on derivative financial liabilities amounted to approximately HK\$4,023,000 (2020: gain of HK\$15,008,000).

Note:

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

	2021	2020
	HK\$'000	HK\$'000
Analyse by business segment:		
Brokerage		
— services transferred at a point in time	<u>7,970</u>	<u>13,547</u>
Corporate finance		
— services transferred at a point in time	16	10,464
— services transferred over time	<u>8,758</u>	<u>12,412</u>
	<u>8,774</u>	<u>22,876</u>
	<u>16,744</u>	<u>36,423</u>
Analyse by timing of revenue recognition:		
— services transferred at a point in time	7,986	24,011
— services transferred over time	<u>8,758</u>	<u>12,412</u>
	<u>16,744</u>	<u>36,423</u>

The transaction price allocated to the remaining performance obligations for contracts with customers

As at 31 December 2021, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is approximately HK\$23,530,000 (2020: HK\$20,400,000). The amount represents revenue expected to be recognised in the future from IPO sponsor fee income contracts and consultancy and financial advisory fee income contracts.

The Group will recognise this revenue as the service is completed, which is expected to occur over the next 12-18 months (2020: next 12-18 months).

3. SEGMENT INFORMATION

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

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

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

Reportable operating segments

The Group’s operating business are organised and managed separately, according to the nature of services provided, with each segment representing a strategic business unit that offers services which are subject to risks and returns that are different from those of the other operating segments.

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

Brokerage and margin financing	Provision of brokerage services in securities, futures and options and insurance products; provision of margin financing services
Corporate finance	Provision of underwriting and placing and consultancy and financial advisory services
Asset management	Provision of asset management services
Proprietary trading	Proprietary trading in securities, futures and options, fund investments
Other operations	Other operations segment represents the operating segment which does not meet the quantitative threshold for determining reportable segment that have been aggregated in arriving at the reporting segment

2021

	Brokerage and margin financing <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue from external customers	<u>12,773</u>	<u>8,774</u>	<u>–</u>	<u>108,086</u>	<u>–</u>	<u>129,633</u>
Other income and gains	<u>2,079</u>	<u>1,000</u>	<u>749</u>	<u>3</u>	<u>1,387</u>	<u>5,218</u>
Fee and commission expenses	<u>(4,023)</u>	<u>–</u>	<u>–</u>	<u>(7,606)</u>	<u>–</u>	<u>(11,629)</u>
Finance costs	<u>(11,356)</u>	<u>–</u>	<u>–</u>	<u>(58,693)</u>	<u>–</u>	<u>(70,049)</u>
Expected credit losses on financial assets, net	<u>(45)</u>	<u>(1,456)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,501)</u>
Other losses arising from consolidation of investment fund	<u>–</u>	<u>–</u>	<u>–</u>	<u>(349)</u>	<u>–</u>	<u>(349)</u>
Other operating expenses and costs	<u>(35,852)</u>	<u>(22,548)</u>	<u>(5,938)</u>	<u>(13,885)</u>	<u>(6,028)</u>	<u>(84,251)</u>
Segment results	<u>(36,424)</u>	<u>(14,230)</u>	<u>(5,189)</u>	<u>27,556</u>	<u>(4,641)</u>	<u>(32,928)</u>
Unallocated expenses, represented central administration costs						<u>(7,331)</u>
Depreciation of fixed assets						<u>(3,032)</u>
Unallocated finance costs						<u>(15,692)</u>
Loss before tax						<u>(58,983)</u>

	Brokerage and margin financing <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue						
from external customers	<u>27,705</u>	<u>22,876</u>	<u>–</u>	<u>200,593</u>	<u>–</u>	<u>251,174</u>
Other income and gains	<u>4,087</u>	<u>–</u>	<u>–</u>	<u>16</u>	<u>33,029</u>	<u>37,132</u>
Fee and commission expenses	<u>(6,311)</u>	<u>(28)</u>	<u>–</u>	<u>(8,496)</u>	<u>–</u>	<u>(14,835)</u>
Finance costs	<u>(34,449)</u>	<u>–</u>	<u>–</u>	<u>(60,120)</u>	<u>–</u>	<u>(94,569)</u>
Expected credit losses on financial assets, net	<u>(147,811)</u>	<u>(1,475)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(149,286)</u>
Other operating expenses and costs	<u>(68,825)</u>	<u>(30,175)</u>	<u>(873)</u>	<u>(21,071)</u>	<u>(3,516)</u>	<u>(124,460)</u>
Segment results	<u>(225,604)</u>	<u>(8,802)</u>	<u>(873)</u>	<u>110,922</u>	<u>29,513</u>	<u>(94,844)</u>
Unallocated expenses, represented central administration costs						(18,297)
Depreciation of fixed assets						(3,833)
Unallocated finance costs						(21,514)
Loss before tax						<u>(138,488)</u>

Geographical information

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2021 and 31 December 2020, the Group's revenue is mainly derived from customers in Hong Kong.

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

Major customers

During the years ended 31 December 2021 and 31 December 2020, the following external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net gains from proprietary trading.

	2021 HK\$'000	2020 <i>HK\$'000</i>
Customer A from brokerage and margin financing and corporate finance segments	<u>N/A*</u>	<u>8,536</u>

* Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2021.

4. OTHER INCOME AND GAINS

	2021 HK\$'000	2020 <i>HK\$'000</i>
Other income		
Handling income	1,116	1,278
Other interest income	1,583	1,996
Written-off of staff bonus	1,000	–
Arrangement fee income	428	–
Sundry income	<u>1,091</u>	<u>72</u>
	<u>5,218</u>	<u>3,346</u>
Other gains		
Exchange gains, net	<u>–</u>	<u>33,786</u>
	<u>5,218</u>	<u>37,132</u>

5. LOSS BEFORE TAX

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss before tax is arrived at after charging:		
(a) Finance costs		
Bank loan interest expenses	208	296
Bond interest expenses	79,012	107,073
Imputed interest expenses on bonds payable (<i>note 11</i>)	3,971	5,737
Interest expenses on lease liabilities	1,790	2,807
Other interest expenses	760	170
	<u>85,741</u>	<u>116,083</u>
(b) Staff costs (including directors' emoluments)		
Contributions to retirement benefit schemes	1,207	1,428
Salaries, commission and allowances	49,031	95,607
	<u>50,238</u>	<u>97,035</u>
(c) Other items		
Auditor's remuneration		
— Audit-related assurance services	1,329	2,532
— Other services	100	635
Depreciation of fixed assets	3,032	3,833
Depreciation of right-of-use assets	14,859	15,010
Loss on disposal of fixed assets	4	—
Expected credit losses on financial assets, net	1,501	149,286
Exchange loss, net	1,640	—
	<u>1,640</u>	<u>—</u>

6. INCOME TAX EXPENSE

Hong Kong profit tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made since the assessable profit is wholly absorbed by tax losses brought forward.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. No provision for PRC income tax has been made since there were no assessable profit generated.

7. LOSS PER SHARE

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

	2021	2020
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share	<u>(63,786)</u>	<u>(138,488)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share	<u>3,661,830</u>	<u>3,661,830</u>
Basic loss per share (<i>HK cents</i>)	<u>(1.742)</u>	<u>(3.782)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(1.742)</u>	<u>(3.782)</u>

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2021 and 31 December 2020. Accordingly, the diluted loss per share for the respective years are the same as basic loss per share.

Dividends

No dividend was paid or proposed during the year ended 31 December 2021, nor has any dividend been proposed since the end of the reporting period (2020: HK\$nil).

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

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

Right-of-use assets:

The net carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Properties <i>HK\$'000</i>
As at 1 January 2020	43,564
Depreciation charge	<u>(15,010)</u>
As at 31 December 2020 and 1 January 2021	28,554
Additions	1,206
Depreciation charge	<u>(14,859)</u>
As at 31 December 2021	<u><u>14,901</u></u>

Additions to the right-of-use assets for the year ended 31 December 2021 amounted to approximately HK\$1,206,000 due to a new lease of building.

Lease liabilities:

The carrying amounts of the Group's lease liabilities are as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current	156	17,208
Current	17,817	15,268
	<u>17,973</u>	<u>32,476</u>
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	17,817	15,268
After one year but within two years	156	17,208
	<u>17,973</u>	<u>32,476</u>

During the year ended 31 December 2021, the Group entered into a new lease agreement in respect of renting building and recognised lease liabilities amounted approximately HK\$1,206,000. All the leases payment are fixed payments.

The following are the amounts recognised in profit or loss:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation expense of right-of-use assets	14,859	15,010
Interest expense on lease liabilities	1,790	2,807
Expense relating to short-term leases	38	–
Expense relating to leases of low-value assets	180	190
	<u>16,867</u>	<u>18,007</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Financial assets mandatorily measured at FVTPL			
Equity securities			
— Listed in Hong Kong	<i>(i)</i>	730,457	917,656
— Listed outside Hong Kong	<i>(i)</i>	131,976	333,048
		862,433	1,250,704
Debt securities			
— Listed in Hong Kong	<i>(ii)</i>	272,627	70,866
— Listed outside Hong Kong	<i>(ii)</i>	60,957	38,083
		333,584	108,949
Unlisted fund investments	<i>(iii)</i>	31,512	31,508
		1,227,529	1,391,161

Notes:

- (i) Fair values of the listed equity securities are determined with reference to quoted active market bid price on the respective stock exchanges at the end of each reporting period.
- (ii) For the debt securities, the fair values are determined with reference to the quoted price provided by brokers/financial institutions.
- (iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly listed securities) of the fund.
- (iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2021 to any bank as collateral for the facilities granted (*31 December 2020: Nil*).

10. ACCOUNTS RECEIVABLE

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Accounts receivable arising from the ordinary course of business of brokerage services in securities and futures and options contracts:			
— securities margin clients	<i>(a)</i>	579,384	624,053
— securities cash clients	<i>(b)</i>	720	7,798
— securities subscription clients	<i>(b)</i>	—	20,966
— securities and options clearing houses and brokers	<i>(b)</i>	24,343	58,322
— futures clients	<i>(b)</i>	—	3
Accounts receivable arising from proprietary trading	<i>(b)</i>	135,783	—
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)</i>	<u>5,542</u>	<u>4,171</u>
		<u>745,772</u>	<u>715,313</u>
Less: impairment		<u>(539,917)</u>	<u>(539,013)</u>
		<u>205,855</u>	<u>176,300</u>

As at 31 December 2021, the gross amount of accounts receivable arising from contracts with customers amounted to approximately HK\$5,542,000 (2020: HK\$4,171,000).

Notes:

(a) Analysis on accounts receivable from securities margin clients

- (i) The carrying amount of accounts receivable arising from the ordinary course of business of brokerage services in securities margin clients, net of impairment of the Group was as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities:		
— Securities margin clients	579,384	624,053
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	—
— Stage 3	<u>(536,389)</u>	<u>(536,381)</u>
	<u>42,995</u>	<u>87,672</u>

Accounts receivable arising 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 approximately HK\$404,177,000 (2020: HK\$263,218,000).

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

- (ii) Accounts receivable arising from the ordinary course of business of brokerage services in securities margin clients of the Group are internally classified into the following categories:

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

The following is the analysis of the gross carrying amount of the accounts receivable arising from securities margin clients as at 31 December 2021 and 2020 by the Group's internal credit rating and year end classification:

2021

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Internal rating grade				
Excellent	42,885	–	–	42,885
Good	–	–	–	–
Non-performing	–	73	–	73
Individually impaired	–	–	536,426	536,426
	<u>42,885</u>	<u>73</u>	<u>536,426</u>	<u>579,384</u>

At 31 December 2021, for the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was approximately HK\$64,000.

2020

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Internal rating grade				
Excellent	85,189	–	–	85,189
Good	–	–	–	–
Non-performing	–	6	–	6
Individually impaired	–	–	538,858	538,858
	<u>85,189</u>	<u>6</u>	<u>538,858</u>	<u>624,053</u>

At 31 December 2020, for the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was HK\$Nil.

- (iii) The movements in the impairment of accounts receivable arising from the ordinary course of business of brokerage services in securities margin clients were as follows:

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	–	–	387,498	387,498
New assets originated (<i>Note</i>)	–	–	4,646	4,646
Charged to profit or loss	–	–	144,237	144,237
As at 31 December 2020 and 1 January 2021	–	–	536,381	536,381
Charged to profit or loss	–	–	8	8
As at 31 December 2021	<u>–</u>	<u>–</u>	<u>536,389</u>	<u>536,389</u>

Note: During the year ended 31 December 2020, new origination of securities margin clients with gross amount of HK\$4,646,000 were transferred from stage 1 and classified under stage 3. This results in an increase in loss allowance of HK\$4,646,000 as at year end.

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

- i. The carrying amounts of accounts receivable arising from the ordinary course of business of brokerage services in securities and futures and options contract other than securities margin clients of the Group are as follows:

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities and futures and options contracts:			
– securities cash clients	(1)	720	7,798
– securities subscription clients	(2)	–	20,966
– securities and options clearing houses and brokers	(3)	24,343	58,322
– futures clients		–	3
Accounts receivable arising from proprietary trading		135,783	–
Accounts receivable arising from the provision of corporate finance advisory services	(4)	5,542	4,171
		166,388	91,260
Less: impairment	(5)	(3,528)	(2,632)
		162,860	88,628

- (1) Accounts receivable arising from cash clients arising from the business of dealing in securities are repayable on demand after settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors of the Company as the ageing analysis does not give additional value in view of the nature of broking business.
- (2) At the end of the prior reporting period, accounts receivable arising 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 consolidated financial results amounted to HK\$Nil (2020: HK\$1,076,000).

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2021, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") of HK\$20,351,000 (2020: HK\$5,303,000), with legally enforceable right to set off the corresponding receivable and payable balances.

- (4) At the end of the reporting period, the ageing analysis of accounts receivable net of impairment arising from the provision of corporate finance advisory services, based on the invoice date which approximates the respective revenue recognition dates, was as follows:

	2021	2020
	HK\$'000	HK\$'000
Current	619	670
Overdue:		
Within 30 days	1,316	885
31–90 days	105	86
91–180 days	138	25
	2,178	1,666

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

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Lifetime ECL simplified approach <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	-	-	89	3,320	3,409
Charged to profit or loss <i>(note 1)</i>	-	-	38	1,475	1,513
Amount written off <i>(note 2)</i>	-	-	-	(2,290)	(2,290)
As at 31 December 2020 and 1 January 2021	-	-	127	2,505	2,632
Charged to profit or loss <i>(note 1)</i>	-	-	37	1,456	1,493
Amount written off <i>(note 2)</i>	-	-	-	(597)	(597)
As at 31 December 2021	-	-	164	3,364	3,528

Notes:

- During the year ended 31 December 2021, new origination of account receivables arising from the provision of corporate finance advisory services with gross amount of HK\$3,433,000 (2020: HK\$2,241,000) resulted in an increase in loss allowance of HK\$1,356,000 (2020: HK\$701,000).
- During the year ended 31 December 2021, accounts receivable amounted to approximately HK\$597,000 (2020: HK\$2,290,000) were written off. The Group writes off amounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. BONDS PAYABLE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current	1,382,512	–
Current	–	1,548,676
	<u>1,382,512</u>	<u>1,548,676</u>

	2021 <i>USD Bonds</i> <i>HK\$'000</i> <i>(note (i))</i>	2019 <i>USD Bonds</i> <i>HK\$'000</i> <i>(note (ii))</i>	Total <i>HK\$'000</i>
Carrying amount at 1 January 2020	–	1,549,172	1,549,172
Imputed interest expenses for the year <i>(note 5a)</i>	–	5,737	5,737
Exchange difference	–	(6,233)	(6,233)
Carrying amount at 31 December 2020 and 1 January 2021	–	1,548,676	1,548,676
Net amount upon issuance	1,372,283	–	1,372,283
Imputed interest expenses for the year <i>(note 5a)</i>	2,205	1,766	3,971
Exchange difference	8,024	3,029	11,053
Principal repayment	–	(1,553,471)	(1,553,471)
Carrying amount at 31 December 2021	<u>1,382,512</u>	<u>–</u>	<u>1,382,512</u>

Notes:

- (i) On 9 February 2021, the Company issued bonds with aggregate principal amount of US\$178,000,000 (the “2021 USD Bonds”). The 2021 USD Bonds bear interest from 9 February 2021 (inclusive) at the fixed rate of 4.00% per annum and guaranteed by Southwest Securities Co., Ltd (“SWSC”). Interest on 2021 USD Bonds is payable semi-annually in arrears. The 2021 USD Bonds are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and will mature on 9 February 2024 with the outstanding principal and interest payable at the maturity date. The fair value determined with reference to the quoted price provided by brokers/financial institutions as at 31 December 2021 was approximately HK\$1,409,063,000. Details of the bonds are set out in the company’s announcements on 1 and 10 February 2021.

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

- (ii) 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 fixed rate of 6.9% per annum and guaranteed by SWSC. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds were listed on the Stock Exchange. On 10 February 2021, the Company repurchased and cancelled US\$59,400,000 of the 2019 USD Bonds. The remaining portion US\$140,600,000 were matured and fully settled on 17 April 2021. Details of the bonds are set out in Company’s announcements on 8 and 11 April 2019 and 11 February 2021.

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

12. DERIVATIVE FINANCIAL LIABILITIES

	<i>Note</i>	2021 HK\$’000	2020 HK\$’000
Index futures contracts held for trading	<i>(i)</i>	6,747	2,724

The notional amount of the derivative financial instruments are as follows:

	2021 HK\$’000	2020 HK\$’000
Index futures contracts trading in Hong Kong market	527,194	299,407
Index futures contracts trading in overseas market	150,047	–
	677,241	299,407

Note:

- (i) The futures contracts are classified as held for trading. As at 31 December 2021, the fair value of the futures contracts were amounted to approximately HK\$6,747,000 (2020: HK\$2,724,000). Fair value was determined with reference to quoted market prices in active markets. During the year, the loss on change in fair value of futures contracts amounting to approximately HK\$85,416,000 (2020: gain of HK\$78,612,000) was recognised in the profit or loss.

13. ACCOUNTS PAYABLE

	<i>Note</i>	2021 HK\$'000	2020 HK\$'000
Accounts payable arising from the ordinary course of business of brokerage services in securities and futures and options contracts:			
– securities margin clients	<i>(i)</i>	551	5
– securities cash clients	<i>(i)</i>	24,778	5,280
– securities clearing house	<i>(i)</i>	2,147	50,600
– futures clients	<i>(ii)</i>	–	1,838
Accounts payable arising from proprietary trading		41,139	–
Accounts payable arising from the provision of insurance brokerage services	<i>(iii)</i>	54	43
Accounts payable to brokers	<i>(i)</i>	–	143
		68,669	57,909

Notes:

Settlement terms

- (i) The settlement terms of accounts payable arising from the ordinary course of business of brokerage in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction date.
- (ii) Accounts payable arising from the ordinary course of business brokerage 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 brokerage services are payable within 30 days.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Macro Environment

In 2021, there were recurring waves of COVID-19 pandemic around the world. As of 31 December 2021, there were over 280 million confirmed COVID-19 cases, over 250 million recovered cases and over 5.445 million fatal cases worldwide. According to Our World in Data, 40% of the world population have injected at least one dose of vaccine by the end of 2021 in most countries. The Omicron variant of the COVID-19 virus is now spreading rapidly and dominating the world. With increasing number of vaccinated people worldwide, it is expected that the spread of the epidemic will slow down to some extent and the chance of serious illness will be effectively reduced.

Despite 2021 being the second year of recurrent COVID-19 outbreaks, the global economy has recovered strongly under the loosening of global liquidity and the launching of economic stimulus measures. China has also achieved a good start in the 14th Five-Year Plan in 2021. In 2021, China's total GDP exceeded HK\$11 billion, a year-on-year increase of 8.1%. Although the COVID-19 pandemic has caused a periodical impact on China's consumption and other fields, the manufacturing industry showed strong resilience, and the performance of exports was also satisfactory. Entering 2022, the global economy faces new challenges and opportunities. China has also formulated a series of policies to maintain sustainable and healthy economic and social development. In March 2022, the Chinese central government proposed at the Two Sessions that the economic work in 2022 should prioritize stability while pursuing progress. The Chinese central government discussed many important development issues such as tax and fee reductions, support for the development of foreign investment, a prudent and flexible monetary policy, promotion of consumption, and expansion of investment. It is believed that China's economy can achieve steady growth under the guidance of active policies.

At the end of 2021, the Russia-Ukraine conflict continued to intensify and deteriorate rapidly and a war broke out between Russia and Ukraine on 24 February 2022. The Russia-Ukraine war has not yet ended and both sides have started negotiations. However, the outbreak of the war has exceeded the previous expectations of market and has brought severe impacts to the market. Under the background of post-epidemic era, economic stimulation policies and chaotic supply chains have led to high inflation globally, which has been further exacerbated by the war. As both sides of the war, especially Russia, play a very important role in energy supply, the current sanctions have led to a significant increase in oil and gas prices, driving increases in other commodities and sustained high inflation. On the other hand, under the risk aversion scenario, global stock markets have also experienced sharp correction. The Russia-Ukraine war still has a high degree of uncertainty in the short term, but its long-term effects have begun to emerge slowly. Since Russia occupies an extremely important position in the global supply chain in terms of energy supply and food supply, long-term sanctions will cause the global supply chain to be restructured accordingly, while the supply chain chaos that began with the pandemic may last longer. The energy crisis caused by the Russia-Ukraine war and the possible subsequent food crisis are expected to drive all countries to re-examine the far-reaching impacts of globalisation and, at the same time, they will pay more attention to their independence and stability in terms of energy, food and information security.

Hong Kong Stock Market

The Hang Seng Index trended upward first and then slid downward in 2021. As at the beginning of the year, due to the economic recovery, the increasing number of people vaccinated, the record net inflow from Southbound Trading and other favourable factors, the stock market continued to gain momentum. The Hang Seng Index recorded a period high of 31,183 points in mid-February, representing an increase of 6.4% in the first two months of 2021. Economic data from major global economies were generally positive in the second quarter, and the Hang Seng Index continued to increase by 1.6% in the second quarter.

However, since the second half of the year, the repeated outbreaks of COVID-19 worldwide due to virus mutations, increased concerns on tighter liquidity due to rising inflation, and the strengthened regulation in some industries have all limited the growth in the Hong Kong stock market. The Hang Seng Index closed at 23,398 points at the end of December 2021, representing a decrease of 14.1% compared with that of late December 2020; the HSCEI closed at 8,236 points at the end of December 2021, representing a significant decrease of 23.3% compared with that of late December 2020; and the Hang Seng TECH Index closed at 5,671 points at the end of December 2021, representing a significant decrease of 32.7% compared with that of late December 2020.

In 2021, the total turnover of the Hong Kong equity market recorded a year-on-year increase of 28.3% to HK\$41.2 trillion, while the average daily turnover was HK\$166.7 billion, representing a year-on-year increase of 28.8%, and such increase was partially attributable to the attractiveness of Southbound Trading. The total average daily turnover (buys + sells) of Southbound Trading under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect schemes was HK\$41.7 billion in 2021, representing a significant year-on-year increase of 71.1%. Southbound Trading accounted for 12.5% in the average daily turnover of the Hong Kong market, representing an increase of 3.1 percentage points year-on-year, which reflected the increasing influence on the Hong Kong equity market of the investors in mainland. At late December 2021, the number of companies listed on the Main Board and GEM amounted to 2,572 (including 2,219 companies listed on the Main Board, representing an increase of 49 in number or an increase of 2.3% compared with that of late December 2020), representing an increase of 34 in number or a slight increase of 1.3% compared with that of late December 2020, while the total market value of the stock market decreased by 10.8% year-on-year to HK\$42.4 trillion, which was mainly attribute to the decrease of the Hang Seng Index in 2021. Due to the impact of the COVID-19 pandemic and the decision of the Hong Kong Stock Exchange to raise the profitability requirements for the Main Board, only 98 new companies were listed (including 2 companies which transferred its listing from GEM to the Main Board) in 2021, representing a significant decrease of 56 in number or a decrease of 36.4% year-on-year. Nevertheless, as the increase in number of listings of biotechnology companies and companies with a weighted voting rights structure in 2021, Hong Kong Stock Exchange raised HK\$328.9 billion from initial public offerings, only representing a year-on-year decrease of 17.8%. However, the ranking of Hong Kong Stock Exchange in terms of IPOs globally has fallen from the second place in 2020 to the fourth place in 2021, behind only to the Nasdaq Stock Market, the New York Stock Exchange and the Shanghai Stock Exchange.

In 2021, the market share of Category A participants (Position 1 to 14) on the Hong Kong Stock Exchange rose by about 1.3 percentage points to approximately 59.8% compared with that of 2020. On the contrary, the market share of Category B (Position 15 to 65) decreased by about 1.0 percentage point to approximately 33.4% compared with that of 2020, while the market share of Category C (Position ranking after 65) further decreased about 0.3 percentage point to approximately 6.9% compared with that of 2020. The market share of Category A continuously increased while the market shares of Category B and C continuously decreased, reflecting the unattenuated situation of “survival of the fittest” for brokers.

Business Review

The Group’s principal businesses are brokerage and margin financing, corporate finance, asset management and proprietary trading. During the Review Period, the Group recorded a loss before tax of approximately HK\$59.0 million (*2020: loss before tax of HK\$138.5 million*), representing a decrease in loss before tax of approximately HK\$79.5 million or 57.4% as compared to that in the last review period. The following are the items with significant fluctuations:

The Group recorded net gains from proprietary trading during the Review Period which amounted to approximately HK\$108.1 million (*2020: net gains of HK\$200.6 million*), representing a decrease in net gains of approximately HK\$92.5 million or 46.1% as compared to that in the last review period.

The Group’s revenue from brokerage and margin financing for the Review Period amounted to approximately HK\$12.8 million (*2020: HK\$27.7 million*), representing a decrease of approximately HK\$14.9 million or 53.8% as compared to that in the last review period.

The Group’s expected credit losses on financial assets for the Review Period amounted to approximately HK\$1.5 million (*2020: HK\$149.3 million*), representing a decrease of approximately HK\$147.8 million or 99.0% as compared to that in the last review period.

Brokerage and Margin Financing

The revenue generated from the Group’s brokerage and margin financing business during the Review Period amounted to approximately HK\$12.8 million (*2020: HK\$27.7 million*).

The Group's brokerage and margin financing business mainly includes agency trading of securities, futures and options trading, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth customers. During the Review Period, the revenue from the Group's brokerage and margin financing business amounted to approximately HK\$12.8 million as compared to HK\$27.7 million for the same period last year, representing a decrease of HK\$14.9 million or 53.8%.

As the pandemic persists, the time for customs clearance between China and Hong Kong remains unknown, so that the local economy continued to be hit, cross-border business was also hindered, and the number of new customers has plummeted. Meanwhile, as there were many uncertainties in the market, the Hang Seng Index fell from 27231 points at the end of 2020 to 23398 points at the end of 2021, representing an annual decline of more than 14%, which seriously discouraged customers' desire to enter the market and directly affected commission revenue. The brokerage commission revenue amounted to approximately HK\$8.0 million during the Review Period as compared to HK\$13.5 million for the same period in 2020, representing a decrease of HK\$5.5 million or approximately 41%, of which the futures and options commission revenue representing a significant 67%. In order to improve its cost-effectiveness, the Group has stopped the direct operations of futures and options at the end of last year.

In terms of margin financing business, the interest income during the Review Period amounted to approximately HK\$4.8 million as compared to HK\$14.2 million for the same period in 2020, representing a decrease of HK\$9.4 million or approximately 66% mainly due to the suspension of interest income recognition of the credit-impaired margin loan. During the Review Period, the Group held fast to measures to strictly monitor credit risks and equity concentration risks. While the Group strove to manage risks in a prudent manner, the Group actively expanded the scope of credit transaction products, including A-share financing business and credit derivatives business under the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect schemes, as well as credit transaction business related to fixed income products, in order to provide better services to high-net-worth customers by improving product capabilities.

Corporate Finance

The revenue generated from the Group's corporate finance business during the Review Period amounted to approximately HK\$8.8 million (2020: HK\$22.9 million).

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 approximately HK\$8.8 million (2020: HK\$22.9 million), representing a decrease of HK\$14.1 million or approximately 62% mainly due to the decreased volume of listing sponsorship and underlying underwriting & placement services during the Review Period. In terms of sponsor and underlying underwriting & placement services, Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, had no listing projects completed during the Review Period, but had three projects whose listing applications have been submitted to the Hong Kong Stock Exchange as at 31 December 2021 and are still being processed. These projects are expected to be launched within 2022.

Given that the global economy still remained heavily dragged down by the variants of COVID-19 pandemic in 2021, and Hong Kong and the mainland have also been unable to clear customs, substantial uncertainties will continue in the small to mid-sized IPO market. In addition to continuing to advance existing and pursuing new IPO projects, we have also been expanding our businesses. During the Review Period, we completed four USD bonds placement projects, three stock placement projects and acted as financial advisor for a privatization project.

The Group will play its role as usual and further strengthen the cross-border collaboration with Southwest Securities Co., Ltd., its parent company, in an effort to provide various types of 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 (2020: HK\$Nil).

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

During the year under review, the Group's asset management business line enhanced its business positioning, actively explored differentiated and characteristic development paths, and comprehensively promoted layout optimization and transformation of business model. During the year, the asset management business line added a number of fixed-income fund products, and scaled up the assets under management of the Company by introducing international and domestic investors.

The total net asset value of the investment portfolio of the Group's fund SP6, which is managed by the Company's wholly-owned subsidiary, Southwest Securities (HK) Asset Management Limited, has been steadily increasing since its inception, with a cumulative rate of return of 27% as at 31 December 2021. Annual return of the investment portfolio of the SP6 exceeded 14% in 2021, during which period the Hang Seng Index fell by 18%, so that the fund continued to outperform the market. In view of the volatile market conditions, the fund has gradually added fixed income investments in the first half of the year to smooth out the changes in net asset value and avoid its significant decreases. Investments in stock and bond both achieved satisfactory returns and were less adversely affected by the market decline. The Group established two new funds with focus on fixed income in December. In the second half of the year, an institutional investor was added to the investment portfolio of the fund SP6, which is an internationally renowned investment bank, and it is hoped that further cooperation in fund sales will be carried out in the future. Our business team is also actively exploring sales collaboration model with distributors and seek more potential investors so as to scale up its assets under management. Leveraging on its accumulated experience and solid track record, it is expected that the Group will achieve better fund performance and attract more high-quality investors in the next year to diversify the investor base of the funds.

Proprietary Trading

The Group's proprietary trading business recorded net gains of approximately HK\$108.1 million (2020: net gains of HK\$200.6 million) during the Review Period.

Affected by the continuous decline of the Hong Kong stock market that year and some hedging measures taken to prevent the risk of a fall in US stocks, the overall performance was not satisfactory. However, due to bond investment, this business segment still achieved absolute returns that far exceeded the performance of the Hang Seng Index for the same year.

Other Income and Gains

During the Review Period, the Group's other income and gains amounted to approximately HK\$5.2 million (2020: HK\$37.1 million).

The decrease in other income and gains during the Review Period was mainly due to the decrease in net exchange gains.

Staff Costs

During the Review Period, the Group's staff costs amounted to approximately HK\$50.2 million (2020: HK\$97.0 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 decrease in their business performance, thus reducing 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 amounted to approximately HK\$11.6 million (2020: HK\$14.8 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 was mainly attributable to the decrease in trading volume of brokerage business and proprietary trading business.

Finance Costs

The Group's finance costs during the Review Period amounted to approximately HK\$85.7 million (2020: HK\$116.1 million).

The finance costs were mainly interest expenses on bonds payable. In February 2021, the Group issued bonds of US\$178 million for a term of three years to repay the bonds payable of US\$200 million due in mid-April 2021. Due to the smaller bonds issuance size in February 2021 and the duplicate interests for the period from February 2021 to mid-April 2021, the finance costs decreased year-on-year by approximately HK\$30.4 million or 26.2%.

Future Prospects

The Company will, based on the idea that “development is the foundation and key to solving all problems”, establish a more open, inclusive and integrated philosophy of continual development by putting its business capabilities and the geographical advantage of the Hong Kong market into the background of new era and the environment of “greater China”, and take on a new look and a new pattern in the new era.

As the overseas securities platform of Chongqing state-owned assets system, the Company should play an irreplaceable role as a state-owned enterprise in Chongqing. In particular, it shall keep a foothold in Hong Kong, such an important connection in the “Belt and Road” region, give full play to the resource advantages of Hong Kong as an international financial center and the Guangdong-Hong Kong-Macao Greater Bay Area, and effectively connect domestic and foreign customers, funds and projects. The Company will satisfy the international business needs of domestic and foreign customers with quality products and services in the international capital market, and actively serve domestic and foreign entities, contributing to high-quality economic development.

The Company will stringently abide by the bottom line of compliance and risk control, and take compliance and risk control as the cornerstone of the Company's long-term development. By keeping a foothold in Hong Kong and eyeing on the global market, it will create a service philosophy that pursues long-term goals and gives top priority to customer interests. The Company will strengthen the interconnection between the domestic and overseas businesses, with asset management business as the critical breakthrough, establish a good brand reputation through the asset management business, and accumulate corporate customers, institutional customers and high-net-worth customer resources, which in turn will boost investment banking business and brokerage business to a higher level, striving to become a boutique global financial institution featuring “investment +investment banking”.

Financial Review

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2021, the Group had total cash and bank balances of approximately HK\$285.1 million (2020: HK\$382.2 million), while net current assets amounted to approximately HK\$1,582.2 million (2020: HK\$261.8 million). The current ratio as a ratio of current assets to current liabilities was approximately 11.3 times (2020: 1.2 times). The gearing ratio was approximately 629.1% (2020: 546.3%). Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

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

Banking Facilities and Charges on Assets

As at 31 December 2021, the Group had no outstanding bank loans (2020: Nil) and had an aggregate banking facilities of HK\$80.0 million (2020: HK\$80.0 million). In the case of certain banking facilities of HK\$80.0 million (2020: HK\$80.0 million), the drawdown is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group did not have any assets pledged for the facilities (2020: Nil).

Material Acquisitions, Disposals and Significant Investments

During the Review Period, there were no material acquisitions and disposals of investments (2020: Nil).

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2021 (2020: Nil).

Commitments

During the Review Period, the Group had no material capital commitment (2020: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2021, the Group had no material exposure to fluctuations in exchange rates (2020: Nil).

EMPLOYEES

As at 31 December 2021, the Group had a total of 66 employees (*as at 31 December 2020: 77 employees*). The Group regards its employees as an important asset. We continue to improve our human resources management system. We aim to create a good working environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policies, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policies on its employees' remuneration and a comprehensive performance appraisal system. Discretionary performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

The Group provides various kinds of on-the-job training, external and internal training programs, including financial and business knowledge, product and operational management, compliance, risk management and etc.. The training programs enrich the employees' professional knowledge and allow employees to have the latest information and technical skills to perform their duties, sustain and enhance their competence.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (*2020: Nil*).

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules throughout the Review Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”). The Company has made specific enquiry with each Director and has confirmed that all the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the Review Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

On 10 February 2021, the Company had completed an on-market repurchase of US\$59,400,000 in aggregate principal amount (the “Repurchased Bonds”) of the US\$200,000,000 6.90% bonds due 2021, which were listed on the Stock Exchange (former Bond Stock Code: 05983) (the “2021 Bonds”), representing 29.7% of the aggregate outstanding principal amount of the 2021 Bonds at the time. Thereafter, the Repurchased Bonds had been cancelled on 10 February 2021. The 2021 Bonds were matured and fully settled on 17 April 2021. Except as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the Review Period.

AUDIT COMMITTEE

The audit committee of the Company, comprising Mr. MENG Gaoyuan as chairman as well as Dr. GUAN Wenwei and Mr. LIANG Jilin as members, has reviewed the results for the year ended 31 December 2021.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in this results announcement have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on this results announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.swsc.hk and the HKEXnews website at www.hkexnews.hk. The 2021 annual report will be despatched to the shareholders of the Company and will be available on the above websites in due course.

By order of the Board

Southwest Securities International Securities Limited

Wu Jian

Chairman

Hong Kong, 25 March 2022

As at the date of this announcement, the executive Directors of the Company are Mr. Wu Jian (Chairman) and Dr. Zhao Mingxun; and the independent non-executive Directors of the Company are Mr. Meng Gaoyuan, Dr. Guan Wenwei and Mr. Liang Jilin.

* *For identification purpose only*