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

2019
Annual Report 年報

* For identification purpose only 僅供識別

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. WU Jian *(Chairman)*
Mr. PU Rui *(Chief Executive Officer)*
Dr. ZHAO Mingxun

Independent Non-executive Directors
Professor WU Jun
Mr. MENG Gaoyuan
Dr. GUAN Wenwei

AUDIT COMMITTEE

Mr. MENG Gaoyuan *(Chairman)*
Professor WU Jun
Dr. GUAN Wenwei

REMUNERATION COMMITTEE

Professor WU Jun *(Chairman)*
Mr. WU Jian
Mr. MENG Gaoyuan
Dr. GUAN Wenwei

NOMINATION COMMITTEE

Mr. WU Jian *(Chairman)*
Professor WU Jun
Mr. MENG Gaoyuan
Dr. GUAN Wenwei

AUTHORISED REPRESENTATIVES

Mr. PU Rui
Ms. TAM Kar Bo Carrie

COMPANY SECRETARY

Ms. TAM Kar Bo Carrie

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

CORPORATE INFORMATION

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 HM 12
Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
17M 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

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

LISTING INFORMATION

Equity Security Listed on The Stock Exchange of Hong Kong Limited
Ordinary Shares
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

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director(s)") of Southwest Securities International Securities Limited (the "Company" or "SWSI"), I hereby present the annual report and audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2019 (the "Review Period" or the "Year").

The Hang Seng Index rose 9.1% throughout the year, but the average daily turnover dropped by 18.9% as the U.S. Federal Reserve's policy shifted from rate hikes to rate cuts and early ending of balance sheet roll-off were overshadowed by such headwinds as the Sino-US trade friction and the Brexit saga. The revived IPO of Budweiser Brewing Company APAC and the successful secondary listing of Alibaba led a new round of IPO boom in Hong Kong, enabling the Hong Kong Stock Exchange to cling to the crown as the world's largest IPO market.

China and the United States finally reached the "Phase One" trade deal at the beginning of 2020, bringing a pause to the nearly two-year trade war. Meanwhile, the United Kingdom formally withdrew from the European Union in January 2020, putting an end to the farce that lasted about three and a half years. Though China's economic growth in the first quarter of 2020 was heavily dragged down by the COVID-19 outbreak, the long-term fundamentals of the economy will remain sound as the epidemic has been gradually brought under control. Looking ahead to 2020, the U.S. presidential election to be held in November will be a focus of world attention. As for the United Kingdom, it needs to negotiate with other countries to strike new trade agreements set to take effect next year by the end of the Brexit transition period ending 31 December 2020.

In 2019, the trade friction initiated globally by the United States escalated, and the overall economy witnessed downturn trend. The Company adjusted the operation model to take a more prudent strategy. During the Review Period, the total assets of the Company amounted to approximately 2,136 million and the net assets amounted to approximately HK$422 million. As at the Review Period, net loss amounted to approximately HK$345 million, mainly attributable to the increase in provision for margin project loans.

The Group will forging ahead with conviction and caution. While we forge ahead with conviction towards fulfilling the vision of growing into a premier global boutique financial service provider, we will exercise caution in view of the uncertainties in the global landscape and coronavirus concerns.

As such, we will reinforce our commitment to serving our customers in the preservation and management of wealth, and, on the other hand, to the management of risks, drawing on our extensive experience in this area to refrain from high risk endeavors. Furthermore and will deploy additional resources to the development business. Despite growing anxiety over the global capital markets, we are confident in our business acumen, and believe that the Group will be able to withstand the predicted economic downturn.

On behalf of the Board, I would like to extend my sincere gratitude to our clients, business partners and shareholders for their loyalty and strong support to the Group, and to our staff for their dedication and hard work that have driven the Group to move forward with prudence.

Wu Jian
Chairman
Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

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

Hong Kong Stock Market

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

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

BUSINESS REVIEW

The Group's principal business includes brokerage and margin financing, corporate finance, asset management and proprietary trading. During the period under review, the Group recorded total revenue and other income and gains of HK263.0 million *(2018: HK$208.1 million)* and a loss before tax of HK$346.8 million *(2018: a loss before tax of HK$196.7 million)*.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Brokerage and Margin Financing

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

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

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

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

The transformation of brokerage business is imperative under ongoing pressure on customer acquisition costs and service rates arising from the homogeneity of traditional services, the development of Fintech, and the intensifying market competition. The Group will continue its development strategy in 2019 to expand service capabilities of its trading platforms and integrate trading, credit financial instruments, investment strategies and other comprehensive trading services, so as to provide a full range of investment products and capital market solutions for mid-to-high-end customers and promote the transformation of wealth management business. The Group will strengthen the synergic development of business lines by, for example, supporting its corporate finance business with underwriting and placing business. We will also focus on beefing up the business coordination with the parent company's branches at home and abroad, in an effort to integrate into the parent company's development strategy and further consolidate the Group's advantages and role as an offshore platform for financial institutions in Chongqing.

Corporate Finance

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

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

In 2019, the Group achieved great results in the sponsor business for Hong Kong IPOs. Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, successfully completed four main board IPO projects as the sole sponsor, namely, Design Capital Limited (1545.HK), Universal Star (Holdings) Limited (2346.HK), Hevol Services Group Co., Ltd. (6093.HK) and Hong Kong Johnson Holdings Co., Ltd. (1955.HK). In addition, the Group completed two bond underwriting projects in 2019, increasing its activity in the market and improving its ability to undertake projects of various types in the future. The number of financial advisory services projects also saw a significant growth. As at the end of December 2019, there were a total of 11 ongoing advisory services projects, bringing the Group a stable source of income.

2020 will be a year of uncertainties and challenges for Hong Kong's IPO market, the Group will hold fast to our position and further strengthen the cross-border collaboration with its parent company Southwest Securities Co., Ltd., in an effort to provide various types of financial advisory services for high-quality domestic enterprises when they enter the Hong Kong capital market.

MANAGEMENT DISCUSSION AND ANALYSIS

Asset Management

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

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

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

Proprietary Trading

The proprietary trading business of the Group recorded net trading gains of HK$86.4 million during the period under review *(2018: net trading losses of HK$22.3 million)*.

As the proprietary trading results in 2018 were adversely affected by market turbulence, the Group closed its major stock positions by the end of 2018. In 2019, the Group explored investment strategies and directions with accurate research and study and excellent investment personnel on the premise of balancing risks and returns, in hope of generating decent returns from its proprietary trading business. In the fourth quarter of 2019, the Group resumed the proprietary trading and achieved satisfactory results.

Other Income and Gains

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

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

Staff Costs

During the period under review, the Group's staff costs amounted to HK$75.2 million *(2018: HK$96.4 million)*.

The number of staff and fixed costs decreased during the period under review. As part of the salaries of frontline staff was linked to their performance, their salaries decreased in tandem with the drop in business performance, thus lowering the overall staff costs of the Group. The Group also made flexible adjustments to its staffing in response to business growth and necessary resource allocation.

Fee and Commission Expenses

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

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

Finance Costs

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

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

Future Prospects

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

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

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

In mid-April 2019, the Group issued bonds of US$200 million for a term of two years to repay the bonds payable of HK$780 million and US$150 million due in mid-May 2019 and recognised them as non-current liabilities to improve the Group's current ratio and the gearing ratio.

In addition, the Group completed a rights issue at a price of HK$0.131 per rights share on the basis of one rights share for every two shares held in late April 2019. The net proceeds from the rights shares totaled approximately HK$156.9 million and were capitalised to improve the Group's current ratio and the gearing ratio.

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

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

Banking Facilities and Charges on Assets

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

Material Acquisitions, Disposals and Significant Investments

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

Contingencies

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

Commitments

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

USE OF PROCEEDS

The net proceeds of the Rights Issue (the "Net Proceeds") were approximately HK$156.9 million and the table below sets out the use of the Net Proceeds:

Intended use of the Net Proceeds	Net proceeds HK$ million	Actual application for the year ended 31 December 2019 HK$ million	Un-utilised amount as at 31 December 2019 HK$ million
Development of the Group's corporate finance business	62.8	62.8	–
Development of the Group's assets management business	47.1	47.1	–
General working capital	47.0	47.0	–
Total	156.9	156.9	–

EMPLOYEES

As at 31 December 2019, the Group had a total of 88 employees (at 31 December 2018: 117 employees). The Group regards employees as important asset. We continue to improve our human resources management system. We aim to create a good work environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policy, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policy on its employee's remuneration and a comprehensive performance appraisal system. Discretionary Performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION TO THE REPORT

This report illustrates the environmental, social and governance ("ESG") management concepts of Southwest Securities International Securities Limited ("SWSI" or the "Company", together with its subsidiaries, the "Group") and its latest ESG performance for the year ended 31 December 2019. SWSI emphasises corporate social responsibilities and makes active contributions to environmental protection and society to create a better living environment for stakeholders and the public.

Unless indicated otherwise, this report covers the period from 1 January 2019 to 31 December 2019 (the "Reporting Period").

For the Group's corporate governance practices, please refer to page 31 to page 42 for the section "Corporate Governance Report" of the Group's 2019 Annual Report.

The ESG Governance Structure

The Group's senior management is dedicated to ESG issues, leading employees and related department managers to be responsible for ESG matters in the Reporting Period. Related parties are responsible for ESG data collection and consolidation of the ESG report. The related employees would report to the senior management assisting in the assessment and identification of the risk management of the Group on ESG aspects and whether its internal control system is appropriate and effective. They also review the ESG performance of the Group, including environmental, health and safety, labour standards, product responsibility and other ESG aspects. The senior management sets the tone at the top level for its ESG strategies, and is responsible for ensuring effective risk management and internal controls.

SCOPE OF REPORTING

In respect of content, this report complies with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") published by the Hong Kong Stock Exchange, with an index of content set forth in the last part of this report.

Unless specified otherwise, this report covers the Group's business activities in Hong Kong office, which represent the Group's major sources of revenue. The ESG key performance indicators ("KPI") data is gathered and included subsidiaries under the Group's direct management control. The Group has reported the following core businesses:

- Brokerage and Margin Lending;
- Wealth and Asset Management;
- Corporate Finance Services; and
- Proprietary Trading.

The Group will continue to evaluate the significant ESG aspects of different operations to decide the inclusion of such aspects into this report. The Group will extend the scope of disclosures when and where applicable.

STAKEHOLDER ENGAGEMENT

The Group values its stakeholders and their feedback regarding the Group's businesses and ESG aspects. In order to understand and address their key concerns, the Group has maintained close communications with its key stakeholders, including but not limited to government and regulatory authorities, shareholders and investors, employees, customers, suppliers, as well as the general public. SWSI takes stakeholders' expectations into consideration in formulating its businesses and ESG strategies by utilising diversified engagement methods and communication channels, as shown below.

Stakeholders	Expectation and Concerns	Communication Channels
Government and Regulatory Authorities	Compliance with laws and regulations Support in economic development	Supervision on complying with local laws and regulations Submission of reports and taxes paid
Shareholders and Investors	Return on investments Corporate governance Business compliance	Financial reports Announcements and circular General meetings Company website and press release
Employees	Employees' compensation and benefits Career development Health and safety working environment	Meetings and conferences Trainings, seminars and briefing sessions Intranet, emails, hotline and caring activities
Customers	High quality services Protection of customers' benefits	Customer service hotline and email Face-to-face meetings and on-site visits Company website and press release
Suppliers	Fair and open procurement Win-win cooperation	Open tendering Suppliers' satisfactory assessment Face-to-face meetings and on-site visits
General Public	Social responsibilities	Responses to media enquiries Public welfare activities

The Group aims to collaborate with its stakeholders to improve the Group's ESG performance and create greater value for the community on a continuous basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The management and employees of the Group's respective major operations have participated in the preparation of this report to assist the Group in reviewing its operations and identifying relevant ESG issues and assess the importance of related matters to its businesses and stakeholders. Based on the assessed significant ESG issues, a data collection questionnaire was prepared to collect information from relevant departments and business units of the Group.

The following table is a summary of the Group's material ESG issues included in this report:

The ESG Reporting Guide	Material ESG aspects of the Group
A. Environmental	
A1. Emissions	Exhaust Gas and Greenhouse Gas ("GHG") Emissions
	Waste Management
A2. Use of Resources	Energy Consumption
	Water Consumption
A3. The Environment and Natural Resources	
B. Social	
B1. Employment	Compensation and Benefits
	Recruitment, Promotion and Dismissal
	Equal Opportunities and Anti-discrimination
	Employee Relations and Communications
B2. Health and Safety	Health and Safety
B3. Development and Training	Development and Training
B4. Labour Standards	Prevention of Child and Forced Labour
B5. Supply Chain Management	Supply Chain Management
B6. Product Responsibility	Products and Services Quality
	Advertising, Labelling and Sales
	Customer Services
	Protection of Customer Information
	Intellectual Property ("IP") Rights
B7. Anti-corruption	Anti-corruption
B8. Community Investment	Corporate Social Responsibility

During the Reporting Period, the Group confirms that it has established appropriate and effective management policies and internal control systems for ESG issues and confirms that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

SWSI welcomes stakeholders to provide their opinions and suggestions. You can provide valuable advice in respect of this report or the Group's performances in sustainable development by email at enquiry@swsc.hk .

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL ASPECTS

A1. Emissions

The Group adheres to the strategy of sustainable development in its operations, fulfils the Group's social responsibility by focusing on decent environmental management and striving to protect the environment.

The Group regularly keeps track of the latest national and local environmental laws and regulations, and commits to measures that strengthen environmental protection based on related laws and regulations. The Group complies with applicable laws and regulations, including but not limited to the "Waste Disposal Ordinance", "Air Pollution Control Ordinance" and "Product Eco-responsibility Ordinance" of Hong Kong during the Reporting Period.

In the environmental aspect, this report mainly includes environmental impact of, and related measures adopted by, the daily business operations of the Group's Hong Kong office, and the environmental management system and regulation implemented for monitoring the small amount of GHG and non-hazardous waste produced from such operations.

The responsible personnel of the Group's environmental affairs will supervise the implementation of the above measures and related environmental policies. Under the strict supervision and guidance of different departments, the Group strives to implement the environmental protection policy, ensuring all business processes comply with legal requirements. Related environmental protection responsible persons will continue to review the Group's policies and procedures, report to senior management as appropriate, and propose recommended measures if necessary.

During the Reporting Period, the Group has obtained the following awards and certification in the environmental aspect:

- Environmental Campaign Committee — Hong Kong Awards for Environmental Excellence
- Environmental Campaign Committee —Wastewi$e Certificate — Excellence Level
- Environmental Campaign Committee —Energywi$e Certificate — Basic Level
- Environmental Campaign Committee — Hong Kong Green Organization

During the Reporting Period, the Group did not have any violation of relevant local environmental laws and regulations in relation to exhaust gas and GHG emissions, water and land discharge, and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group.

Exhaust Gas and GHG Emissions

Exhaust Gas Emission

Due to its business nature, the Group does not consider the relevant air emissions, including but not limited to NOx, SOx, and other pollutants generated, to be significant.

A. ENVIRONMENTAL ASPECTS (Continued)

A1. Emissions (Continued)

Exhaust Gas and GHG Emissions (Continued)

GHG Emissions

The principal GHG emissions of the Group are generated from gasoline consumption of vehicles (Scope 1) for direct GHG emissions, purchased electricity (Scope 2) and paper consumption for indirect GHG emissions (Scope 3). The Group actively implements environmental protection measures to reduce GHG emissions by:

- Actively adopting paper saving measures, and relevant measures will be explained in the "Waste Management" section of Aspect A1;
- Actively adopting environmental protection and energy conservation measures, and relevant measures will be explained in the "Energy Consumption" section of Aspect A2;
- Switching off the engines when vehicles are not in use;
- Using unleaded fuel and low-sulphur fuel according to the law;
- Eliminating vehicles that are not up to standard;
- Conducting regular maintenance of vehicles to ensure that engine performance does not impede the effective use of fuel;
- Optimising operational procedures to increase utilization and reduce vehicle idle time;
- Scheduling car maintenance after high mileage. Repair immediately if faulty parts are identified;
- Encouraging employees to take public transport instead of driving to work; and
- Reducing the number of business trips through electronic communication such as video or audio conferencing.

In addition to the above measures, the Group also propagates the message of environmental protection to employees to raise their awareness. Also, the office has posted notices and posters of green information to promote environmental management best practices.

A. ENVIRONMENTAL ASPECTS (Continued)

A1. Emissions (Continued)

Exhaust Gas and GHG Emissions (Continued)

GHG Emissions (Continued)

The summary of GHG emissions performances:

Indicator[1]	Unit	2019	2018
Direct GHG emissions (Scope 1)	tCO_2e	**7.07**	14.83
Indirect GHG emissions (Scope 2)	tCO_2e	**139.15**	149.45
Indirect GHG emissions (Scope 3)[2]	tCO_2e	**2.78**	5.52
Total GHG emissions (Scope 1, Scope 2 and Scope 3)	tCO_2e	**149.00**	169.80
Intensity	tCO_2e/employee	**1.32**[3]	1.12

Notes:

1. GHG emission data is presented in terms of carbon dioxide equivalent and are based on, but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report? — Appendix II: Reporting Guidance on Environmental KPIs" issued by The Stock Exchange of Hong Kong Limited, "HK Electric Investments Sustainability Report 2018, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, 2014 (AR5).

2. Recycled papers are not included in the calculation of GHG emissions.

3. As at 31 December 2019, the Group had 88 full-time employment contracted and 25 self-employed employees (IFA). The data is also used for calculating other intensity data.

Employees' awareness in reduction of GHG has been raised with the above GHG reduction measures.

Domestic Sewage

The Group's daily operations do not consume significant volume of water, and therefore the Group's business activities did not generate any material discharge into water. The majority of the water supply facilities and drainage system of the Group are provided and managed by the relevant property management company.

A. ENVIRONMENTAL ASPECTS (Continued)

A1. Emissions (Continued)

Waste Management

The Group follows the principles of waste management and strives to properly handle and dispose all wastes related to its operations. All of its waste management practices are in line with local environmental laws and regulations. Paper and other solid wastes are the major non-hazardous wastes generated by the Group's business activities. After collection and separation, such wastes are collected and handled centrally by general waste collection service provider, while recyclables, like paper, will be recycled.

The Group monitors the consumption of paper, toner cartridge and ink cartridge regularly and implement various reduction measures. Solid wastes will be collected in a centralised way by property management. The Group encourages employees to recycle office paper and toner cartridges, and to reuse office stationeries to reduce solid wastes. When the notice of changing cartridge appeared on the copier, the Group requires employees to shake the toner cartridge to extend its lifespan. The Group also posts labels in different areas at office to remind employees to use less paper. The Group's offices also provide related facilities to encourage employee to separate waste at source and recycle waste materials, striving to achieve waste reduction, reusability and recycling targets in its operations. The Group maintains high standards in waste reduction and educates employees on the importance of sustainable development while providing related support, in order to encourage sustainability practices and strengthen their knowledge of sustainability.

The Group reduces paper consumption through the following initiatives:

- Using FSC or PEFC paper to reduce harm to the environment;
- Encouraging employees to use copiers instead of multi-function printers for photocopying in order to reduce the number of toner cartridge orders;
- Circulating the existing printing amount to all employee so as to prompt them to think before they print;
- Setting the default setting of the printer to double-sided printing;
- Previewing the file before printing, adjusting page layout or margins;
- Using the access card to record the paper usage of each employee in printing or copying;
- Printing the required pages accurately to prevent wastage;
- Using office automated systems and emails for internal documentation;
- Using the back of old documents for printing or as scratch paper; and
- Collecting used paper for recycling.

A. ENVIRONMENTAL ASPECTS (Continued)

A1. Emissions (Continued)

Waste Management (Continued)

A summary of major non-hazardous waste discharge performance is set out below:

Category of waste	Unit	2019	2018
Paper	tonnes	**0.58**	1.15
Other solid waste	tonnes	**0.48**	0.48
Total non-hazardous waste	tonnes	**1.06**	1.63
Intensity	tonnes/employee	**0.01**	0.01

Due to its business nature, the Group did not generate hazardous waste from its operations.

During the Reporting Period, the Group recycled 1,665 kg of paper, which is a 15.6% increase compared with the year ended 31 December 2018. The Group has reduced paper order by 13.4% during the Reporting Period . The Group has achieved the target of 5% paper order reduction set in the last reporting period.

A2. Use of Resources

The Group upholds and promotes the principle of effective use of resources. The Group has immediate monitoring on potential environmental impact from its business operations. Through the 4Rs principles, namely, "reduce, reuse, recycle and replace", the Group promotes green office and operation environment, and minimises the environmental impact of the Group. As mentioned in Aspect A1, the Group has developed policies and procedures associated with environmental management. The Group has recorded the monthly consumption of resources like electricity and gasoline. Through the analysis of the consumption behaviour, the Group has prioritised management on major energy consumption facilities, and standardised the operation process of those facilities in order to use energy effectively.

Energy Consumption

In daily production and operation process, the Group's main forms energy consumption are gasoline consumption for transportation and electricity consumption for its operations. The Group's office is equipped with various glazed partitions for maximising the use of natural light to reduce energy consumption. The existing office has also installed energy efficiency lamps (such as LED and T5 fluorescent tubes) and centralised air conditioning system (except dealing room).

The Group has formulated rules and regulations to achieve the goal of energy conservation and efficiency. Such measures are listed below:

- Cleaning office equipment regularly to maintain high energy efficiency;
- Performing regular check on the lighting system;
- Placing "Save electricity, turn off idle lights" signage in prominent places to encourage electricity saving;
- Adding timer to water dispensers for energy saving;
- Using air-conditioned server rack in server room to reduce the use of 24 hours air-conditioning;
- Installing translucent curtains to let light through and to maintain effective air conditioning;

A. ENVIRONMENTAL ASPECTS (Continued)

A2. Use of Resources (Continued)

Energy Consumption (Continued)

- Using electronic equipment with energy saving label;
- Turning off all unnecessary lights, air conditioners, computers and other office equipment in office areas, conference rooms and corridors when they are not in use to avoid waste of electricity;
- Unless necessary, employees are not allowed to stay in office to avoid waste of electricity; and
- Enhancing the maintenance and overhaul of equipment, maintain the best condition of all electronic equipment for effective use of electricity.

In addition, the Group strive to promote energy conservation and environmental protection awareness into the work and life of employee by posing power-saving slogans.

Through these energy-saving measures, employees' awareness of energy conservation has increased. The consumption of gasoline and electricity has dropped significantly, compared to figures for the year ended 31 December 2018.

During the Reporting Period, the energy consumption of the Group and its intensity were as follows:

Type of energy	Unit	2019	2018
Gasoline	kWh	**25,773.02**	53,071.28
Electricity	kWh	**173,935.00**	189,183.00
Total energy consumption	kWh	**199,708.02**	242,254.28
Intensity	kWh/employee	**1,767.33**	1,583.36

Water Consumption

The Group's water usage is mainly domestic sewage in office areas. The Group's water consumption expenses are included in the property management fee. Therefore, the Group did not have water consumption expenses recorded during the Reporting Period.

The Group is dedicated to promoting better utilisation of water resources and conserving water by adopting the following practices:

- Fixing dripping taps immediately to avoid further leakage of the water supply system;
- Fitting flow controller onto water tap to reduce water consumption; and
- Presenting "Saving Water Resource" signage in prominent places to encourage water conservation.

With the above water conservation measures, employees' awareness of water conservation has improved.

Due to the Group's business nature and the major operations are mainly in the city, the procurement of suitable water sources is not relevant to the Group.

Use of Packaging Materials

Due to its business nature, the Group does not require the use of significant amounts of package materials.

A. ENVIRONMENTAL ASPECTS (Continued)

A3. The Environment and Natural Resources

The Group's businesses have no significant impact on the environment. The Group reviews its environmental policy from time to time and will consider implementing further eco-friendly measures and practices in the Group's business operations in order to enhance environmental sustainability.

B. SOCIAL ASPECTS

Employment and Labour Practices

B1. Employment

Employees are the greatest and most valuable asset of the Group and its core competitive advantage, hence it is important and essential to attract, cultivate and retain employees. Adherence to a people-oriented approach, the Group respects and protects the rights and interests of employee, standardises employment management, protects employees' occupational health and safety, fully respects and motivates employees' enthusiasm, initiative and creativity in order to build a harmonious working relationship. Besides, the Group is committed to providing employees a fit and proper platform for their career development, professionalism and promotion opportunities.

The Group actively complies with labour laws and regulations, including but not limited to the "Employment Ordinance", "Employees' Compensation Ordinance", "Minimum Wage Ordinance", "Mandatory Provident Fund Schemes Ordinance", "Personal Data (Privacy) Ordinance", "Disability Discrimination Ordinance", "Family Status Discrimination Ordinance", "Race Discrimination Ordinance" and "Sex Discrimination Ordinance" of Hong Kong . In order to build an active and positive working atmosphere and provide a long-term career development guidance, the Group has formulated a series of human resources policy. The Group's Human Resources Department also regularly reviews and updates relevant policies in accordance with the latest laws and regulations.

During the Reporting Period, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group.

Compensation and Benefits

Based on the principle of fairness, competitiveness, incentives, reasonableness, and legality, the Group has established a fair, reasonable and competitive remuneration system for employees. To attract high calibre talent, the Group offers competitive remuneration and benefits based on the individuals' past working performance, professional qualification and experiences. The Group also uses market benchmarks as reference in designing the remuneration packages. In order to motivate and reward existing employees, the Group conducts regular salary review according to the overall market environment, inflation, profitability of the Group and employees' working performance.

The working hours and holidays for employees determined by the Group are in line with local employment laws and the employment contracts with employees. In order to promote a family-friendly working environment, the Group not only provides the statutory holidays and paid annual leave stipulated by the employment laws of Hong Kong Government, but also provides different types of paid leaves. The Group also provides a series of benefits including medical and dental insurance, life insurance to employees. During the Reporting Period, the Group organised an annual dinner and a spring tea for its employees to thank them for their contributions.

B. SOCIAL ASPECTS (Continued)

Employment and Labour Practices (Continued)

B1. Employment (Continued)

Recruitment, Promotion and Dismissal

Talent acquisition is vital to the development of the Group's business. The Group adopts a set of transparent and clear procedures to conduct recruitment activities, aiming to live up to "Openness, Fairness, Transparency, Standardisation" in every detail. During the recruitment process, the Group standardises the procedures and principles, and adheres to the requirements of ability and experience to attract and recruit the right talent.

The Group establishes procedures on staff promotion, transfer and demotion, and regulates departure process to protect the interests of both employees and the Group. Any employment, promotion or dismissal will be based on legitimate grounds. The Group prohibits any kind of illicit or illegitimate dismissals.

Equal Opportunity and Anti-discrimination

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. For instance, training and promotion opportunities, dismissal and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job-related elements in all business units of the Group. The Group enforces zero tolerance to any workplace discrimination, harassment or victimisation in accordance with relevant government legislation, ordinances and regulations. If there is any violation of anti-discrimination incidents, employees can report to the Human Resources Department. The Human Resources Department is responsible for ensuring strict compliance with local and corporate regulations on assessing, dealing with, recording and taking disciplinary actions on such events.

Employee Relations and Communications

In terms of internal coaching and communication, effective two-way communication between general employees and managerial employees is highly encouraged. Employees are encouraged to maintain regular communication with the management and their colleagues through the office automation system, emails, training, website and meetings. The Group strives to provide and maintain a barrier-free employer-employee relationship.

As at 31 December 2019, all 88 employees are located in Hong Kong . Below is the employee breakdown by gender, age group, and employment type.

Gender:
Male: 51%
Female: 49%

Age group:
30 or below: 19.32%
31–40: 43.18%
41–50: 26.14%
50 or above: 11.36 %

Employment type:
Full time: 99%
Part time, contract and temporary: 1%

B. SOCIAL ASPECTS (Continued)

Employment and Labour Practices (Continued)

B2. Health and Safety

The Group highly recognises the importance of health and safety of its employees, commits to providing employees with a healthy, safe and comfortable working environment and strives to eliminate potential health and safety hazards in the workplace. The Group strictly enforces relevant laws and regulations such as "Occupational Safety and Health Ordinance" and "Employees' Compensation Ordinance" of Hong Kong.

The Group pays great attention to employees' physical and mental health as the Group believes work efficiency is closely related to employee's physical and mental health. The Group has incorporated a range of occupational health and safety measures for its employees. The medical insurance purchased for the Group's employees includes health check-up. The Group has also prohibited smoking and drinking in its office. It is the Group's goal to have a clean, tidy, smoke-free, accident free, healthy and safe working environment.

During the Reporting Period, the Group did not record any accidents that resulted in death or serious physical injury, and no claims or compensation was paid to its employees due to such events. In addition, no material non-compliance of laws and regulations relevant to health and safety of employees were found.

B3. Development and Training

The Group focuses on the establishment of internal management training, enhancing the mutual development of employees. The Group provides diverse training to fulfil the needs of different job duties, enriches the technical knowledge and skills of employees, and provides high quality service, boosting the Group's development and eventually fulfilling the common development goal of both the Group and its employees.

The Group offers different training and development opportunities to its employees, so as to strengthen employees' work-related skills and to improve their efficiency and productivity.

The Group has training rooms equipped with professional training facilities for organising training programs. Most of the Group's training programs are tailored to regulated activities and are aimed at fulfilling the Securities and Futures Commission's ("SFC") Continuous Professional Training ("CPT") requirement for licensed employees. To maintain their professional competence to remain fit and proper, licensed employees must undertake a minimum of 5 CPT hours per calendar year for each regulated activity they engage in. The Group provides employees with CPT training courses related to anti-money laundering and anti-terrorist financing, SFC rules and regulations, anti-corruption and risk management. The Group maintains the attendance or completion records of the CPT activities for a minimum of 3 years to enable the Group to meet the requirements of the SFC.

B. SOCIAL ASPECTS (Continued)

Employment and Labour Practices (Continued)

B3. Development and Training (Continued)

A detailed breakdown of the average training hours completed by each employee during the Reporting Period is as follows:

By gender	Male	Female
Percentage of employees trained	52%	48%
The average training hours completed per employee	3 hours	2.7 hours

By employee category	General staff	Middle management	Senior management
Percentage of employees trained	79%	17%	4%
The average training hours completed per employee	3 hours	2.3 hours	3.3 hours

B4. Labour Standards

Prevention of Child and Forced Labour

The Group has complied with all relevant child labour and forced labour laws in Hong Kong, such as "Employment Ordinance" and "Occupational Safety and Health Ordinance".

The Group strictly prohibits employing any child labour or forced labour in its Hong Kong operations. To combat against illegal employment on child labour and forced labour, during the recruitment process the Group's Human Resources Department requires candidates to provide valid identity documents to ensure that they are lawfully employable. The Group's Human Resources Department is also responsible for monitoring and ensuring compliance with the latest relevant laws and regulations that prohibits child labour and forced labour.

At the same time, the Group also avoids using the administrative supplies and services from those vendors and contractors with records of employing child or forced labour.

During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour-related laws and regulations that would have a significant impact on the Group.

B. SOCIAL ASPECTS (Continued)

Operating Practices

B5. Supply Chain Management

As a socially responsible enterprise, it is critical and vital for the Group to maintain and manage a reliable supply chain that is in-line with the Group's policy on sustainability. The Group is committed to establishing and maintaining a close relationship with its business partners. The Group's main suppliers are the insurance companies, custodian banks, overseas exchange participates, fund houses in Hong Kong and overseas. The Group highly values the importance of potential environmental and social risks management in its supply chain. The Group has established a stringent and standardised procurement system and a systematic selection process for suppliers, while requiring suppliers to have relevant environmental and social risk control management.

In selecting suppliers, comprehensive assessment is performed applying different criteria including but not limited to the supplier's reputation, track record, expertise, capacity credibility, business stability and product quality. Approved suppliers are typically certified by local regulators and authorities. The Group insists on choosing suppliers that are also socially sustainable in its business operations, financially stable and legally responsible according to local laws. The Group conducts assessment of its suppliers regularly. The Group constantly reviews the public enforcement information of the local regulatory authorities, and checks whether the suppliers have been reprimanded or punished by local regulatory authorities. The Group will also take measures to examine whether suppliers have complied with relevant laws and regulations, and other standards for health, safety, forced labour and child labour, as well as to examine suppliers' awareness of these aspects.

The Group maintains close liaison with its suppliers to ensure that they comply with local laws and regulations. Meetings with the suppliers are held periodically for sharing market information and product updates. Given the firm and stable relationship between the Group and its suppliers, the Group is quickly informed of the suppliers' situation through the internet, phone calls, and other communication means. The Group monitors the quality of its suppliers and supply chain practices on a strict and continuous basis.

In addition, the Group's procurement is conducted on an open, fair and impartial basis without any discrimination against any particular supplier, nor corruption and bribery. Employees and any party related to the relevant suppliers are forbidden to take part in the subject procurement. The Group places emphasis on the integrity of its suppliers.

B6. Product Responsibility

The Group maintains on-going communication with its customers to ensure understanding of their expectations and satisfying their demands. The Group keeps on improving its service quality by monitoring customer satisfaction levels.

As a professional financial services provider, the Group complies with the requirements as set out by various regulators such as Hong Kong Exchanges and Clearing Limited, the SFC, the Hong Kong Independent Commission Against Corruption, the Hong Kong Confederation of Insurance Brokers, the Professional Insurance Brokers Association, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Group also strictly adheres to applicable laws and regulations in the Hong Kong relating to product responsibility and proper conduct in the financial market, including but not limited to the "Securities and Futures Ordinance"; "Personal Data (Privacy) Ordinance"; "Companies Ordinance"; "Anti-Money Laundering and Counter-Terrorist Financing Ordinance"; "Drug Trafficking (Recovery of Proceeds) Ordinance"; "Organised and Serious Crimes Ordinance"; "United Nations (Anti-Terrorism Measures) Ordinance"; "United Nations Sanctions Ordinance"; "Weapons of Mass Destruction (Control of Provision of Services) Ordinance"; "Prevention of Bribery Ordinance"; "Insurance Ordinance"; and "Mandatory Provident Fund Schemes Ordinance".

B. SOCIAL ASPECTS (Continued)

Operating Practices (Continued)

B6. Product Responsibility (Continued)

During the Reporting Period, the Group was not aware of any incident that had a significant impact on the Group, concerning advertising, labelling and privacy matters relating to products and services provided and methods of redress.

Products and Services Quality

The Group has established internal procedures and manuals such as General Compliance Manual, Sales Manual for the Brokerage Department and to ensure that products and services provided by the Group comply with the requirements of the aforesaid manuals. The Group is committed to providing clear and balanced information to its clients. Product features, terms and conditions, and any associated risks are clearly communicated by the Group's licensed employees through emails, telephones (with recording function) and relevant documents to its clients, so they can make an informed decision. Clients that are interested in the Group's services are required to sign the client agreement, acknowledging its terms and conditions along with the associated risks. The Group follows the regulators' guidelines on Anti-Money Laundering and Counter-Financing of Terrorism in performing "Customer Due Diligence" and "Customer Risk Assessment" procedures implemented in relation to its clients. This helps the Group understand its clients' financial background, trading experience and risk tolerance level before providing them with suitable products and services.

An online trading system is used to support the Group's provision of products and services via the internet. The Group's online trading system has real time monitoring function. The Group can check the financing status of each client at all times, allowing the Group to provide timely suggestion to its clients. The Group uses a system with two different internet connections of mutual backup function, helping to prevent client loss due to wire-network failures or delays in transactions. The Group also has a backup server on standby for preventing data loss. A comprehensive emergency plan has been set up, and relevant departments conduct emergency drills regularly, to ensure that proper measures are taken efficiently when there is an emergency. In addition, the Group uses a maker-and-checker mechanism to avoid any misappropriation or unauthorised use of clients' money and assets.

Advertising, Labelling and Sales

The Group is committed to not providing advertisements that may give investors any impression of guaranteed profits. In the Group's dealings with its clients, information provided should be complete, true, accurate, clear, and in compliance with relevant laws and regulations such as the "Securities and Futures Ordinance" and "Insurance Ordinance". Marketing staff should obtain written approval from the relevant department head and from the Legal and Compliance ("L&C") Department before the publication of any advertisement or sales literature, to ensure that the Group's advertisements do not contain false, misleading and deceptive statements, commitments and forecasts, and to ensure that information provided to customers is true, accurate, not misleading, and in compliance with relevant laws and regulations.

In addition, the Group has fairly strict specifications to monitor the behaviour of all staff and prohibits high-pressure sales tactics to induce customer trading, so as to prevent customers from making investment decisions under pressure or in haste. At the same time, the Group gives enough time to customers to understand the relevant materials, consider carefully and seek independent third party advice, if necessary, before making any investment decisions.

B. SOCIAL ASPECTS (Continued)

Operating Practices (Continued)

B6. Product Responsibility (Continued)

Customer Services

The Group strives to provide prompt responses to client complaints. The Group collects complaints from its clients through various channels such as customer service hotline, emails, or letters. The Customer Services Department is responsible for acknowledging the complaint, identifying the issues, and referring the cases to L&C Department for investigation. Subsequently, a formal reply will be issued to the client. An investigation report will be filed to record the complaint, and to prevent recurrence of similar issues. In case of any significant issues, the Group will notify relevant parties in accordance with the rules and regulations of SFC and other relevant regulatory units.

Protection of Customer Information

At all times, the Group is committed to protecting clients' privacy, and in abiding by the "Personal Data (Privacy) Ordinance" and other relevant codes of practice (issued by the Privacy Commissioner for Personal Data) in collection , use and holding of client's information. The Group has a General Compliance Manual that sets out the specific procedure for handling and protecting client data. The Group owes a contractual obligation of confidentiality to clients in relation to their information; therefore, the Group treats clients' transaction records and personal information as private and confidential, subject to disclosure requirements under relevant laws, rules and regulations which the Group is required to comply with. Information collected will only be used for the purpose for which it has been collected. Clients will be told in advance on how the collected data will be used. The Group prohibits the provision of consumer information to a third party without client authorisation from its client. Clients always have the rights to review and revise their data, and to opt out from any direct marketing events. If there are any requests for client information or client's business, the L&C Department will be consulted to ensure the appropriateness of disclosure under applicable laws, regulations and policies. A strong commitment to protect clients' privacy has enabled the Group to stay competitive in the market. In addition, the Group has established the Information System Accident Handling Process. In the event of an information system accident, the Group will handle the accident according to the following procedures to ensure the stability and security of the Group's information system to protect customer privacy. The information system accident handling process is as follows:

1. Identify information system accidents

2. Report the accident to the department head and director

3. Accident analysis and implementation of interim solutions

4. Investigate the cause of the accident and find a long-term solution

5. Implement long-term solutions and issue accident reports

IP Rights

The Group is dedicated to protecting and enforcing the Group's own IP rights as well as the IP rights of other enterprises. The Group obtains proper license for software and information the Group used in its business operation. Any duplication or downloading of information, software and images from the internet must be approved by relevant departments.

B. SOCIAL ASPECTS (Continued)

Operating Practices (Continued)

B7. Anti-corruption

The Group believes that a corporate culture of high integrity is the key to its continued success. Therefore, the Group recognises the importance of its anti-corruption work, policy and system, and is committed to building a fair, open and transparent corporate culture. To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery irrespective of the area or country where the Group conducts its business, and the Group has complied with the "Prevention of Bribery Ordinance" of Hong Kong.

The Group has formulated and strictly enforced its anti-corruption policies as stipulated in the Prevention of Bribery Guideline. Employees are expected to discharge their duties with integrity, and to abstain from engaging in any activities that involve bribery, extortion, fraud and money laundering. Employees should also make declaration to the L&C Department for any direct or indirect interest in businesses that competes with the Group or with which the Group has business dealings. Any breach of policies by an employee will be subject to disciplinary actions or have his/her employment contract terminated, and the employee may be prosecuted under the Prevention of Bribery Ordinance. Whistle-blowers can report verbally or in writing to immediate supervisor or the L&C Department with full details and supporting evidence of the suspected misconduct or malpractice. The Group advocates a confidentiality mechanism to protect the whistle-blowers from any unfair dismissal or victimisation. Where criminality is suspected after consulting the L&C Department, a report is to be made to the relevant regulators or law enforcement authorities.

In addition, the Group has established the Anti-Money Laundering and Terrorist Financing Policy, and cooperates with law enforcement agencies to take appropriate measures to comprehensively combat money laundering and terrorist financing activities to prevent criminals or terrorists, and to do money laundering action and terrorist financing through the Group.

During the Reporting Period, the Group had not identified any non-compliance with laws and regulations in relation to corruption, bribery, extortion, and fraud, which had a significant impact on the Group.

B8. Community Investment

Corporate Social Responsibility

The Group's employees believe that the Group, as a corporate citizen, should have the sense of fulfilling its social responsibility for society. The core value of the Group is that sustainable development goals must be achieved by maintaining a balance between the Group's development and the development of society. Hence, the Group pays attention to the difficulties and social needs of the minorities and vulnerable groups in society, actively donates to society, contributes to society and promotes a harmonious society. The Group proactively partners and works with different non-governmental organizations and charity organizations to conduct charitable and social activities so as to respond to society's needs and establish a good model for the public.

During the Reporting Period, the Group had made donations to the Hong Kong Federation of Youth Groups and the Community Chest.

In recognition of the Group's continuous contribution to the community, the Group has obtained "Heart to Heart Company" by the Hong Kong Federation of Youth Groups since 2009 and during the Reporting Period.

The Group also hopes to raise employees' sense of social responsibility. Therefore, it has encouraged employees to participate in charity activities during their work and personal time to make greater contributions to the community. It has also arranged employees to participate in environmental protection activities, donation for educational development, and social services.

THE ESG REPORTING INDEX

Subject areas, aspects, general disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 ("comply or explain")	The types of emissions and respective emissions data.	Emissions — Exhaust Gas and GHG Emissions, Domestic Sewage, Waste Management
KPI A1.2 ("comply or explain")	GHG emissions in total (in tonnes) and intensity.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.3 ("comply or explain")	Total hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management Not applicable — Explained
KPI A1.4 ("comply or explain")	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions — Waste Management
KPI A1.5 ("comply or explain")	Description of emissions reduction initiatives and results achieved.	Emissions — Exhaust Gas and GHG Emissions
KPI A1.6 ("comply or explain")	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions — Waste Management
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 ("comply or explain")	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources — Energy Consumption
KPI A2.2 ("comply or explain")	Water consumption in total and intensity.	Use of Resources — Water Consumption
KPI A2.3 ("comply or explain")	Description of energy use efficiency initiatives and results achieved.	Use of Resources — Energy Consumption
KPI A2.4 ("comply or explain")	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources — Water Consumption
KPI A2.5 ("comply or explain")	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources — Use of Packaging Materials Not applicable — Explained

THE ESG REPORTING INDEX (Continued)

Subject areas, aspects, general disclosures and KPIs	Description	Section/Declaration
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 ("comply or explain")	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training

THE ESG REPORTING INDEX (Continued)

Subject areas, aspects, general disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

CORPORATE GOVERNANCE REPORT

The Board recognizes the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders. The Board and senior management of the Company recognizes their responsibility to maintain the interests of the shareholders and to enhance the value of such interests. The Board also believes a deliberate policy of corporate governance can facilitate a company in rapid growth under a healthy governance structure and strengthen the confidence of shareholders and investors.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2019 (the "Year"), the Company has applied the principles of, and has complied with, all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' SECURITIES TRANSACTIONS

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 during the Year. 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 Year. Employees and consultants who are privy to inside information are required to follow the Model Code.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

During the Year, the Company arranged for appropriate cover on Directors' and officers' liability insurance policy to indemnify the Directors and officers for liabilities arising from the corporate activities. The coverage and the amount insured under such policy are reviewed annually by the Company. No legal actions were made against any of the Directors in relation to their duties performed for the Company during the Year.

BOARD OF DIRECTORS

The Board Composition

As at 31 December 2019, the Board comprises five executive directors and three independent non-executive directors, namely:

Executive Directors:	Mr. WU Jian *(Chairman)*
	Mr. PU Rui *(Chief Executive Officer)*
	Dr. ZHAO Mingxun (appointed on 23 August 2019)
	Mr. XIONG Xiaoqiang (resigned on 26 March 2020)
	Ms. WANG Huiyun (resigned on 18 March 2020)
	Ms. ZHAO Dongmei (resigned on 30 April 2019)
	Mr. LUO Yi (resigned on 28 February 2019)
Independent Non-executive Directors:	Professor WU Jun
	Mr. MENG Gaoyuan
	Dr. GUAN Wenwei

BOARD OF DIRECTORS (Continued)

Roles and Responsibilities

The Board is responsible for overseeing the overall business strategy, management planning and control of the Company. The management is responsible for day-to-day management of the Group. The Directors have accumulated sufficient and valuable experience to carry out their duties in an efficient and effective manner. Other than the statutory duties imposed on each of them, all of the Directors have exercised due care in monitoring the corporate matters of the Company and have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Group.

Each newly appointed Director is provided with an induction on the first occasion of his/her appointment to ensure that he/she has adequate understanding of the businesses and operations of the Group. The Directors are also kept informed on a timely basis of their responsibilities and obligations under the Listing Rules, as well as other relevant statutory or regulatory requirements.

Details of the backgrounds and qualifications of the Directors are set out under the section "BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT" in this report.

Directors were appointed for a specific term where all Directors were appointed for a period of 3 years. At least one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at least once every three years. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment.

The Board has established a set of board diversity policy setting out the approach to achieve diversity on the Board aiming at enhancing Board effectiveness and corporate governance as well as achieving our business objectives and sustainable development. Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The current Board consists of a diverse mix of Board members appropriate to the requirement of the business of the Company.

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business, with the ultimate goal of maximizing the shareholders' value and long-term success of the Company while the day-to-day management of business and operations are delegated to the chief executive officer, respective Board committees and senior management of the Group.

To the best knowledge of the Directors, there are no relationships among the Board members, including financial, business, family or other material/relevant relationships.

Independent Non-executive Directors

During the Year, the Board has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in having 3 independent non-executive Directors (representing one-third of the Board) from time to time. The independent non-executive Directors, all of whom are independent of the management of the Group's businesses, are highly experienced professionals with substantial experience in areas such as legal, accounting or financial management.

The Company has received annual written confirmation from each independent non-executive Director of his independence to the Group pursuant to the Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors were acting independently throughout the Year.

BOARD OF DIRECTORS (Continued)

Directors' Continuing Professional Development

Directors' training is an ongoing process. All Directors are encouraged to attend the seminars and courses on relevant topics when counting towards continuous professional development training.

Pursuant to A.6.5 of the CG Code, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. According to the records maintained by the Company, during the Year, all Directors participated in continuous professional development through reading materials on regulatory updates, director's duties and responsibilities and corporate governance matters and attending relevant seminars or courses provided by professional bodies. Save for Mr. LUO Yi and Ms. ZHAO Dongmei, whose resigned as executive Directors on 28 February 2019 and 30 April 2019 respectively, all Directors have provided the Company with a record of the relevant training undertaken during the year as summarized below:

Directors	Attending Seminar	Reading Materials
Executive Directors:		
Mr. Wu Jian *(Chairman)*	✓	✓
Mr. PU Rui *(Chief Executive Officer)*	✓	✓
Dr. ZHAO Mingxun[1]	✓	✓
Ms. WANG Huiyun[2]	✓	✓
Mr. XIONG Xiaoqiang[3]	✓	✓
Mr. LUO Yi[4]	✗	✗
Ms. ZHAO Dongmei[5]	✗	✗
Independent Non-executive Directors:		
Professor WU Jun	✓	✓
Mr. MENG Gaoyuan	✓	✓
Dr. GUAN Wenwei	✓	✓

Notes:

1. appointed on 23 August 2019
2. resigned on 18 March 2020
3. resigned on 26 March 2020
4. resigned on 28 February 2019
5. resigned on 30 April 2019

Board meetings

The Board meets regularly for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. Notice of not less than 14 days are given to all Directors in convening all regular meetings. Each Director can access to the advices and services of the company secretary and is invited to include any matters in the agenda of the regular meetings. Agendas and materials for discussion in the meetings are circulated to all Directors at least 3 days prior to the date of the meetings.

Any Directors, who have declared to have a conflict of interest in the proposed transactions or issues to be discussed, would not be counted in the quorum of the meeting and would abstain from voting on the relevant resolution.

Senior management may be invited to attend the meetings to make presentations and answer the Board's enquiries. All draft minutes of each meeting are circulated to all Directors for comment within reasonable time after the meeting has been held.

During the Year, the Board held 4 meetings and the attendance of each Director is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman ("Chairman") and Chief Executive Officer ("CEO") of the Company are currently held by Mr. WU Jian ("Mr. WU") and Mr. PU Rui ("Mr. PU") respectively. The roles of Chairman and CEO are segregated and there are no relationships between Mr. WU and Mr. PU. The Chairman provides leadership for the Board and ensures that there is clear division of responsibilities at the board level. The CEO is responsible for overseeing the day-to-day management of the Company, supervising the businesses of the Group and ensuring that the Board committees work smoothly and effectively.

BOARD COMMITTEES

The Company currently has three committees, namely the audit committee, remuneration committee and nomination committee for overseeing particular aspects of the Company's affairs. All committees have been provided with sufficient resources to discharge their respective duties and all committee members may seek external professional advices, if necessary, at the costs of the Group.

Audit Committee

The audit committee of the Company (the "Audit Committee") currently comprises all 3 independent non-executive Directors, namely Mr. MENG Gaoyuan, who acts as the chairman, Professor WU Jun and Dr. GUAN Wenwei.

The duties of the Audit Committee include, inter alia, monitoring the integrity of financial statements and the accounting policies and practices, making recommendation to the Board on the appointment, reappointment and removal of external auditor, reviewing the Company's financial controls, risk management and internal control systems. The Audit Committee meets four times a year to discuss and review the financial information, the risk management and internal control systems and relevant matters. The proceedings of the Audit Committee meetings are the same as the Board meetings. The terms of reference of the Audit Committee is currently available on the HKEXnews website and the Company's website.

During the Year, the Audit Committee performed duties, including the review of (i) the audit planning memoranda; (ii) the results for the financial year ended 31 December 2018 and the interim period for the six months ended 30 June 2019; (iii) financial reporting and compliance procedures; (iv) the compliance and internal audit reports; and (v) the effectiveness of risk management and internal control system and internal audit function, and making recommendations to the Board on reappointment of external auditor and its remuneration.

The Company's annual results for the Year have been reviewed by the Audit Committee.

The Audit Committee held 4 meetings during the Year and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") currently consists of 4 members, including an executive Director, namely Mr. WU Jian, who acts as the chairman, and all 3 independent non-executive Directors, namely Professor WU Jun, Mr. MENG Gaoyuan and Dr. GUAN Wenwei.

The main duties of the Nomination Committee include, inter alia, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors and making recommendations to the Board on the appointment and removal of Directors. The terms of reference of the Nomination Committee is currently available on the HKEXnews website and the Company's website.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

During the Year, the Nomination Committee performed the duties including (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to access the independence of independent non-executive Directors; (iii) to formulate and review the nomination policy and to make recommendation to the Board for the approval of adoption; and (iv) to identify individual suitably qualified to become Board member based on the nomination policy of the Company and took into account the board diversity policy of the Company and to make recommendation to the Board on such appointment.

The Nomination Committee held 2 meetings during the Year and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") currently comprises all 3 independent non-executive Directors, namely Professor WU Jun, who acts as the chairman, Mr. MENG Gaoyuan and Dr. GUAN Wenwei, and an executive Director, namely Mr. WU Jian.

The responsibilities and authorities of the Remuneration Committee are clearly stated in its terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and review and approval of the compensation packages of the executive Directors and the senior management and make recommendations to the Board on the remuneration of non-executive Directors. The Board together with the Remuneration Committee monitor the performance of the executive Directors and the senior management. Such division of responsibilities ensures a balance of power. The Remuneration Committee shall meet at any time as and when necessary. Terms of reference of the Remuneration Committee is currently available on the HKEXnews website and the Company's website.

During the Year, the Remuneration Committee performed duties including, reviewing and discussing the Company's remuneration policy and structure of the Directors and senior management, reviewing and approving the remuneration packages of the Directors and senior management and making recommendations to the Board. No director was involved in deciding his/her own remuneration.

The Remuneration Committee held 1 meeting during the Year and the attendance of each member is listed under the heading "ATTENDANCE SUMMARY" below on a named basis.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group. In addition, the Directors' remuneration is reviewed by the Remuneration Committee annually. Details of the Directors' remuneration are set out in note 7 of the consolidated financial statements.

SUMMARY OF THE NOMINATION POLICY

The Company has adopted the nomination policy which sets out the principles and guidelines which the Nomination Committee shall follow in respect of nomination, selection and appointment (including the re-election thereof) of a director of the Company.

The Nomination Committee shall assess the integrity, suitability and ability of a candidate proposed to become a Director, having due regard to the board diversity policy of the company and other factors as the Nomination Committee considers appropriate. For a candidate proposed to become an independent non-executive Director, the Nomination Committee shall assess the independence of the candidate, to which the independent criteria under the Listing Rules shall be observed.

The Nomination Committee shall make recommendation to the Board for appointment of a candidate to become a Director. The Board shall have the ultimate responsibility for all matters relating to the selection and appointment of a Director.

The Nomination Committee shall from time to time review the nomination policy, as appropriate, to ensure the effectiveness of such policy and shall make recommendation of any revision to the Board.

SUMMARY OF THE BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy (the "Board Diversity Policy") setting out the objectives and the factors to be considered for achieving Board diversity. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. All Board appointments will be based on individual merits and competence, and the relevant candidates will be considered against objective criteria including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the same as appropriate. The Board Diversity Policy is currently available on the company's website.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established and the Board is responsible for, amongst other things, the development and review of the policies and practices on corporate governance of the Group and monitoring compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report included as part of the annual report.

The corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

ATTENDANCE SUMMARY

The following table shows the attendance of each individual member of the Board and the Board committees at the regular Board meetings, the respective Board committee meetings, the annual general meeting held on 28 June 2019 (the "2019 AGM") during the Year:

Name of members of the Board/ the Board Committees	Attendance/Number of meetings held during the Year: Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	2019 AGM
Executive Directors:					
Mr. WU Jian *(Chairman)*	4/4	N/A	1/1	2/2	1/1
Mr. PU Rui *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
Dr. ZHAO Mingxun[1]	0/0	N/A	N/A	N/A	0/0
Ms. WANG Huiyun[2]	3/4	N/A	N/A	N/A	1/1
Mr. XIONG Xiaoqiang[3]	4/4	N/A	N/A	N/A	1/1
Mr. LUO Yi[4]	0/1	N/A	N/A	N/A	0/0
Ms. ZHAO Dongmei[5]	2/2	N/A	N/A	N/A	0/0
Independent Non-executive Directors:					
Professor WU Jun	4/4	4/4	1/1	2/2	1/1
Mr. MENG Gaoyuan	4/4	4/4	1/1	2/2	1/1
Dr. GUAN Wenwei	4/4	4/4	1/1	2/2	1/1

Notes:

1. appointed on 23 August 2019
2. resigned on 18 March 2020
3. resigned on 26 March 2020
4. resigned on 28 February 2019
5. resigned on 30 April 2019

The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments. All businesses transacted at board meetings are properly documented and recorded.

All resolutions put forward at general meeting of the Company were voted by way of poll and the announcement on the poll vote results was made by the Company after the general meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

DIRECTORS' RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges the responsibility for preparing the accounts which gives a true and fair view, appropriate accounting policies are selected and applied consistently and judgment and estimates are made prudently and reasonably on a going concern basis.

The reporting responsibilities of the Company's external auditor in relation to the financial reporting are set out under the section "INDEPENDENT AUDITOR'S REPORT" in this annual report.

ACCOUNTABILITY

Directors' Responsibilities for Financial Statements

The Directors acknowledge their responsibilities for the preparation of the Group's financial statements and believe that these statements give a true and fair view of the state of the Group's affairs and of its results. The Board has adopted appropriate accounting policies and made proper estimates for the preparation of financial statements. The Directors confirm that, to the best of their knowledge, information and belief and having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2019.

INDEPENDENT AUDITORS

Pan-China (H.K.) CPA Limited ("Pan-China HK") retired as auditor at the 2018 AGM and Ernst & Young was appointed as auditor of the Company at the 2018 AGM. There has been no other change in auditor of the Company in the past three years. Ernst & Young is subject to reappointment as independent auditor of the Group at the forthcoming annual general meeting of the Company. It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent auditor's report.

The Audit Committee is responsible for considering the appointment of the external auditor of the Company, Ernst & Young and reviewing any non-audit services performed by the Ernst & Young. During the Year, the subsidiaries of the Group engaged external auditors, other than Ernst & Young, to perform audit and provide non-audit services. The remunerations paid to the external auditors for the provision of services are set out as follows:

	HK$'000
Audit services	2,400
Non-audit services	387

The non-audit services during the Year provided by auditors included interim review, implementation and conversion services and tax advisory services.

INTERNAL CONTROL

The legal & compliance department ("L&C") of the Group is responsible for setting and monitoring internal control systems, policies and procedures to ensure the Group's compliance with the relevant and latest laws, rules and regulations. L&C also manages against material legal and compliance risks associated with the business activities of the Group.

The Group's risk management mechanism is also embodied by the three lines of defence for risk management. All executing units serve as the main responsible parties for their respective business risks and are taken as the front line and also the first line of defence for risk management. L&C and the Group's risk control department ("RCM") together constitute the second line of defence for risk management. Different from the business supporting units, L&C and RCM perform their management functions independently of the business units. Charged with the major duty of independent oversight of risks, L&C is responsible for managing compliance risks, whereas RCM is tasked with overall management of financial risks. The internal audit department instead serves as the third line of defence.

INTERNAL CONTROL (Continued)

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control systems and has reviewed their effectiveness periodically through the Audit Committee.

The internal control system has been reviewed on an ongoing basis throughout the Year by the Audit Committee, as delegated by the Board, in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is of the view that the system of internal control adopted for the year ended 31 December 2019 is sound and is effective to safeguard the interests of the shareholders, customers and the Group's assets.

INTERNAL AUDIT

Pursuant to the audit charter that approved by the Audit Committee and the mission statement stipulates in the audit standard manual, the Group's internal audit department ("IA") provides independent and reasonable assurance that the Group's governance, risk management and internal control processes as designed and implemented by management are adequate and effective. IA reports on the adequacy of system of internal controls to the Audit Committee and management. IA adopts a risk-based approach and in accordance with the internal audit plan approved by the Audit Committee, to conduct independent reviews on areas which is prioritized according to an assessment of current and emerging risks, including financial, operational, compliance and technology risks. Ad hoc reviews will also be conducted on areas of concern identified by the Audit Committee and management when necessary. Results of audit work and the assessment of the overall risk management of areas concerned are reported to the Audit Committee and management at least twice a year. IA closely follows up the rectifications and ensures that processes are in place for recommendation raised in internal audit reports.

RISK MANAGEMENT

During the Year, the senior management was responsible for maintaining and reviewing the effectiveness of the Group's risk control. The risk control is implemented to minimize the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business.

The senior management is primarily responsible for the design, implementation and maintenance of the risk control to safeguard the Shareholders' investment and assets of the Group.

The senior management monitors the business activities closely and reviews regular risk control reports. Proper controls are in place for the recording of complete, accurate and timely management information.

The procedures of the Group's risk management and internal control systems are as follows:

For risk management

- Identification: Identify risks, business objectives and risks that could affect the achievement of objectives. Major risks affecting the operation of the Company include market risk, credit risk, liquidity risk and operational risk.

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to changes in market prices, interest rates and exchange rates, which mainly exists in the proprietary business and asset management business and other investment-related business of the Group. The Company implemented the risk control indicators such as the scale of risk exposure, concentration and limit of loss to prevent excess risk taken on investment.

Credit risk refers to the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group. Company's credit exposure mainly relates financial assets under margin financing, fixed income financial assets, securities lending arrangement and securities and futures brokerage business. The Company has used risk management system to evaluate and monitor the credit risks for clients on real time basis so as to prevent excessive risk concentration that would affect the credit exposure of clients, and identify, report and deal with risk of default as early as possible.

RISK MANAGEMENT (Continued)

For risk management (Continued)

Liquidity risk refers to the risk resulting from the failure to make payment, settlement, reimbursement, redemption and to meet obligations in connection with financial liabilities due to shortage of funds in the ordinary course of business of the Company. In order to manage liquidity risk effectively, the Company has strengthened monitoring and management of usage of large amounts of funds in order to achieve centralized fund allocation.

Operational risk refers to the risk of incurring losses resulting from the inadequacy or defect of internal process, personnel or systems, or from such external events as natural disaster and fraud. In order to manage operational risk effectively, the Company has set up a well-established internal control system and regularly carried out effective assessment of internal control and compliance management throughout the Company.

- Evaluation: Risk management is a continuous process carried out at all levels of the Group. After Identifying related risks, the Company will analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly in a timely manner.

- Management: Mitigation measures and plans are then developed based on the risks evaluated and the predetermined risk appetite to manage the risks to an acceptable level. Consider the risk responses, ensure effective communication to the Board and ongoing monitor the residual risks.

For internal control:

- Control environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming basis for determining how risks should be managed.

- Control activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and communication: Internal and external communication to provide the Group with the information needed to carry out on day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

The aforesaid departments responsible for the internal controls and risk management systems shall report to the Board, and the Board acknowledges that it is responsible for the Group's overall risk management and internal control systems and reviewing their effectiveness. Nonetheless, such internal controls and risk management systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board, through the Audit Committee, conducted an annual review on the effectiveness on both of the risk management and internal control systems of the Group and is of the view that the internal control and risk management systems of the Group are effective and adequate.

CORPORATE GOVERNANCE REPORT

DISSEMINATION OF INSIDE INFORMATION

The Group has complied with the relevant requirements for disseminating inside information as defined under the Securities and Futures Ordinance so as to ensure inside information is promptly identified and escalated. Directors and senior management of the Group received relevant trainings to ensure inside information remain confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

COMPANY SECRETARY

Ms. TAM Kar Bo Carrie, the company secretary of the Company, is a full-time employee of the Company and has confirmed that, in compliance with Rule 3.29 of the Listing Rules, she took no less than 15 hours of relevant professional training during the Year.

COMMUNICATION WITH SHAREHOLDERS

The Group has been devoted to maintain effective communications with the shareholders and the general public with an aim to improving the transparency of the Group and to provide them with channels to appraise the position of the Group. During the Year, 2019 AGM was held and the notice of 2019 AGM was given to the Shareholders at least 20 clear business days before the meeting. The Chairman of the Board, the chairmen of the audit, remuneration and nomination committees; and all the members of the Board and the external auditor were present at the 2019 AGM to answer the questions from the Shareholders. Each substantially separate issue was dealt with in a separate resolution so that the Shareholders were able to comprehend the matter easily.

Annual and interim reports and any significant events of the Company fall to be disclosed in accordance with the disclosure requirements under the Listing Rules and other applicable regulatory requirements have been published in a timely manner through the websites of the Company and HKEXnews.

The Company has adopted a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. The purpose of this policy is to ensure the shareholders be provided with prompt and equal access to information about the Company (including but not limited to its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the shareholders to assess the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company. The Shareholders' communication policy is currently posted on the Company's website.

DIVIDEND POLICY

During the Year, the Company has adopted a dividend policy setting out the principles for the Board to reference when it considers a recommendation and/or declaration of dividend.

The Board may propose to recommend to the shareholders of the Company and/or declare dividend after taking into consideration of, inter alia, (i) the actual and expected financial performance of the Group for the financial year; (ii) the Group's current and expected working capital requirements and future business plan; (iii) general economic conditions, business cycle and other factors that the Board reasonably considers may have an impact on the business performance of the Group; and (iv) such other factors which the Board may consider appropriate. The declaration of dividends or recommendation on such payment shall be subject to all applicable laws, rules and regulations including but not limited to the Listing Rules, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the applicable laws of Bermuda and the memorandum of association and Bye-laws of the Company.

SHAREHOLDERS' RIGHTS

The Company holds an annual general meeting every year and may hold a general meeting known as a special general meeting whenever necessary. Pursuant to Bye-law 58 of the Company's Bye-laws, shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner.

Proposals at shareholders' meetings can be put forward by the members of the Company holding at the date of the submission of the proposals not less than one-tenth (10%) of such of the paid-up capital of the company as at the date of the submission carries the right of voting at general meetings of the Company. The submission of the proposals must be made within three (3) business days after a notice of the shareholders' meeting has been served to all registered shareholders by the Board. The proposals must be written and must state the objects of the proposals, and must be signed by the proposers, and mailed and deposited at 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong for attention of the company secretary of the Company; and may consist of several documents in like form, each signed by one or more proposers. The Company will verify the requisition and upon confirmation that the requisition is proper and in order, the Board will update the resolutions by serving sufficient notice in accordance with the statutory requirements to all registered shareholders, provided that the proposers have deposited a sum of money reasonably sufficient to meet the Company's expenses involved in publishing supplementary circular and updating related resolutions. Alternatively, if the requisition has been verified as not in order, the proposer will be advised of this outcome and accordingly, no resolution will be updated as requested.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Shareholders' enquiries, comments and suggestions to the Board or the Company are welcome and can be addressed to the company secretary by mail to 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

INVESTOR RELATIONS

During the Year, there was no change in the Company's memorandum of association and bye-laws and these documents can be found in the websites of the Company and HKEXnews.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WU Jian (吳堅), aged 55, has been appointed as an executive Director since 27 February 2015, the Chairman of the Board and the chairman of the nomination committee since 1 November 2016, and a member of the remuneration committee since 25 March 2017. Mr. Wu graduated from Shanxi University of Finance and Economics in the PRC. He graduated from MBA Institute of Chongqing University with MBA degree in February 2001. Mr. Wu served in China Securities Regulatory Commission Chongqing Office consecutively as the deputy commissioner of division of investigation and enforcement department and commissioner of the listed company supervision department from 1997 to 2005. Mr. Wu was appointed as the deputy general manager of 重慶渝富資產經營管理集團有限公司 (Chongqing Yufu Assets Management Group Co., Ltd.*) from December 2005 to November 2013 and was responsible for investment management. Mr. Wu was also appointed as the chief executive of 重慶股權轉讓中心有限責任公司 (Chongqing Share Transfer Center Co., Ltd.*), a subsidiary of 西南證券股份有限公司 (Southwest Securities Co., Ltd.*) ("SWSC", SSE stock code: 600369), the controlling shareholder (as defined under the Listing Rules) of the Company, since October 2013. Mr. Wu is currently a director and president of SWSC. He is currently a director of Southwest Securities International Investment Limited ("SSII"), the immediate controlling shareholder of the Company. Mr. Wu has over 20 years of experience in investment and securities market.

Mr. PU Rui (蒲銳), aged 46, has been appointed as an executive Director and the CEO of the Company since 27 February 2015. He is also a director and legal representative of certain subsidiaries of the Group. During the period from 27 February 2015 to 27 February 2019 and since 30 April 2019, he was appointed as an authorised representative of the Company. Mr. Pu obtained his master degree in economics majoring in monetary banking from Southwestern University of Finance and Economics in the PRC in June 1998. Mr. Pu served in China Securities Regulatory Commission Sichuan Office consecutively as deputy commissioner of the listed company supervision department one, commissioner of the listed company supervision department two and commissioner of the division of investigation and enforcement department two during August 1998 to September 2012. He had also been the assistant to mayer of Suining government of the PRC during May 2007 to May 2008. Mr. Pu served in SWSC consecutively as the member of the party committee, assistant to chief executive and vice president since October 2012 and he is responsible for assisting the chief executive to manage the securities sales department, credit transaction department, institutional sales department, wealth management centre and operations management department. He is currently a director and the general manager of SSII. He has abundant experience in investment, finance and securities market business.

Dr. ZHAO Mingxun (趙明勛), aged 41, has been appointed as an executive Director since 23 August 2019. He is also a director of a subsidiary of the Group. He has extensive experience in the financial industry. He served in 中國中投證券有限責任公司 (China Investment Securities Co., Ltd) from 2006 to 2011. From February 2011 to February 2015, he worked in various departments of SWSC and had held various positions including the investment manager, project manager and deputy general manager. He served as the deputy general manager in 西證創新投資有限公司 (SWSC Innovation Investment Co., Ltd*) ("SWSC Innovation"), a wholly-owned subsidiary of SWSC, from February 2015 to June 2017, and the deputy general manager and chief risk officer in 西證股權投資有限公司 (Southwest Securities Private Equity Investment Co., Ltd.*), a wholly-owned subsidiary of SWSC, from June 2017 to April 2018. Dr. Zhao graduated from 平頂山教育學院 (Pingdingshan Education College now known as PingDingShan Vocational And Technical College), Henan in June 1998, with a major in Mathematics. He obtained a master's degree in economics from Xiangtan University, Hunan in June 2003 and a doctorate degree in Economics from Fudan University, Shanghai in June 2006.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WU Jun (吳軍), aged 66, has been appointed as an independent non-executive Director, the chairman of the remuneration committee, a member of the nomination committee and the audit committee of the Company since 27 January 2015. Professor Wu has been appointed as the independent supervisor of Jinshang Bank Co., Ltd. (whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 2558.HK)) since May 2018, an independent director of 世紀恒通科技股份有限公司 (Shijihengtong Technology Corporation Limited*) since March 2019 and an independent non-executive director of 錦州銀行股份有限公司 (Bank of Jinzhou Co., Ltd.*, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 416.HK) since October 2019. He is also a professor in and a tutor of the doctor of philosophy students of finance in University of International Business and Economics ("UIBE"). Professor Wu had been appointed as an independent director of SWSC from 16 March 2009 to 3 May 2017. He was also appointed as an independent director in 深圳市深信泰豐(集團)股份有限公司 (Shenzhen Shenxin Taifeng Group Co. Ltd*, now known as 神州數碼集團股份有限公司 Digital China Group Co., Ltd., whose shares are listed on the Main Board of Shenzhen Stock Exchange (Stock code: 000034) from June 2008 to June 2014 and 浙江紹興瑞豐農村商業銀行股份有限公司 (Zhejiang Shaoxing Ruifeng Rural Commercial Bank*) from January 2011 to March 2017. Professor Wu graduated from Yunnan Finance Institution (now known as Yunnan University of Finance and Economics) in July 1981 majoring in finance, and successively finished his master degree and doctorate in currency and banking in 中國人民銀行總行金融研究所 (The Financial Research Institute of People's Bank of China*, now known as the PBC School of Finance, Tsinghua University) in 1988 and 1995. Professor Wu has extensive knowledge in economics and finance, and has strong organizational skill. He has been engaged in teaching and research in finance in Yunnan Finance Institution (now known as Yunnan University of Finance and Economics), 中國金融學院 (China Finance College*) and UIBE for 38 years. He is strong at the research skill in finance theory, its revolution and application.

Mr. MENG Gaoyuan (蒙高原), aged 48, has been appointed as an independent non-executive Director, the chairman of Audit Committee, a member of the Remuneration Committee and the Nomination Committee since 27 January 2015. Mr. Meng has been qualified as certificated public accountant in the PRC since 1999. He has also been qualified as a certified public valuer and a registered land valuer since 1998 and 2006 respectively. Mr. Meng served in 重慶康華會計師事務所有限責任公司 (Chongqing Kanghua Certified Public Accountants*) as, respectively, a department senior manager and deputy general manager since September 1998. Mr. Meng graduated from 江西財經學院 (now known as Jiangxi University of Finance and Economics) in the PRC with a bachelor degree majoring in finance, accounting and auditing in July 1994. He obtained a master of business administration degree from Chongqing University of Technology. He has abundant experience in accounting, audit and finance.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. GUAN Wenwei (關文偉), aged 51, has been appointed as an independent non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee since 19 September 2016. Dr. Guan graduated from Sun Yat-Sen University with a Bachelor of Laws (LL.B.) Degree in 1991. He obtained a master of laws (LL.M.) degree from Peking University in 2001, a master of arts (M.A.) Degree (Asia Pacific Policy Studies) and a Ph.D in Law from the University of British Columbia in 2004 and 2009, respectively. Dr. Guan served as court clerk, junior judge in the Guangdong Provincial People's High Court, PRC, sessional lecturer in the faculty of law of the University of British Columbia, visiting assistant professor in the school of law of City University of Hong Kong during the period from July 1991 to July 2009. He has been an assistant professor in the school of law of City University of Hong Kong since July 2009 and was promoted to associate professor since July 2018. He was qualified as a lawyer in the PRC since 2000 and has become an arbitrator of South China International Economic and Trade Arbitration Commission since 2015.

SENIOR MANAGEMENT

Ms. TAM Kar Bo, Carrie (譚嘉寶), is the financial controller and company secretary of the Group. She is also a director of certain subsidiaries of the Group. Ms. Tam joined the Group in 2011 as the financial controller and has been appointed as the company secretary, authorised representative, chief compliance officer and chief risk control officer of the Company since November 2019. She was appointed as a member of executive committee of the Company from 15 October 2012 to 27 January 2015. She is currently in charge of the finance and account department, legal & compliance department, risk control department and company secretary and corporate communication department of the Group. Ms. Tam has worked for international accountancy firm and well-known securities houses for over 20 years and is experienced in the field of auditing and accounting in the financial services industry. Ms. Tam obtained a bachelor's degree of arts in accountancy and a master's degree in professional accountancy from The Hong Kong Polytechnic University. She is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. LO Wing Shing Steven (盧永成), is the vice president of the Group and a director of certain subsidiaries of the Group. Mr. Lo joined the Group in February 2016. He is currently in charge of the corporate finance department and global capital markets department of the Group. Mr. Lo has over 15 years of experience in investment banking field and has participated in a number of IPO sponsor, corporate finance and financial consulting projects. Mr. Lo graduated with a bachelor of science degree in mechanical engineering from the University of British Columbia and obtained a master of business administration from Hong Kong University of Science and Technology. He is also a Chartered Financial Analyst charterholder.

* *for identification purpose only*

DIRECTORS' REPORT

The board of directors (the "Board" or the "Directors") submit their report together with the audited consolidated financial statements of the Southwest Securities International Securities Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2019 (the "Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

An analysis of the Group's performance for the Year by business segment is set out in note 4 to the consolidated financial statements. The activities of the Group are mainly carried out in Hong Kong.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 61.

The Directors do not recommend the payment of a final dividend *(2018: Nil)*.

BUSINESS REVIEW

Business review of the Group for the Year is set out in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 10 of this report respectively.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2019, as far as the Board and the management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2019, there were no material and significant disputes between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operating in compliance with the applicable environmental laws as well as protecting the environment by minimizing the negative impact of the Group's existing business activities on the environment. Details are set out in the Environmental, Social and Governance Report on pages 11 to 30 of this report.

RESERVES

Movements in reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on page 63 and note 36(b) to the consolidated financial statements of this report respectively.

As at 31 December 2019, the reserves of the Company available for distribution to the shareholders of the Company (the "Shareholders") amounted to HK$Nil *(2018: HK$Nil)*.

DONATIONS

During the Year, the Group made charitable and other donations amounted to HK$4,000 *(2018: HK$17,500)*.

DIRECTORS' REPORT

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 10 to the consolidated financial statements.

ISSUED SHARES

Rights Issue in April 2019

During the Year, the Company completed a rights issue of 1,220,610,204 rights shares (the "Rights Shares") at the subscription price of HK$0.131 per Rights Share (with par value of HK$0.01 each) on the basis of one Rights Share for every two shares held by the shareholders recorded on the register of shareholders on 27 March 2019 (the "Rights Issue") and raised proceeds of approximately HK$159.9 million before expenses to finance the Group's long term growth. The breakdown and description of the net proceeds from the Rights Issue are set out under the section "USE OF PROCEEDS" in this report. Details of the Rights Issues were set out in the announcements of the Company dated 20 February 2019, 18 March 2019 and 24 April 2019 respectively and the prospectus of the Company dated 28 March 2019.

Details of the Company's shares issued during the Year are set out in note 25 to the consolidated financial statements.

DEBT SECURITIES

Issue of Bonds in April 2019

During the Year, the Company raised proceeds of approximately US$200,000,000 before expenses from the issuance of U.S. Dollar — denominated bonds in aggregate principal amount of US$200,000,000 (the "USD Bonds"). The issue price of the USD Bonds is 100% of its principal amount. The USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum, payable semi-annually in arrears. The USD Bonds are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The Company intended to use the net proceeds from the USD Bonds issuance of US$198.9 million for refinancing existing offshore indebtedness and supplementing working capital. The Company may adjust the foregoing plans in response to changing market conditions. The Company will carefully evaluate such situations and may reallocate the use of the net proceeds. Details of the USD Bonds were set out in the announcements of the Company dated 8 April 2019, 11 April 2019 and 17 April 2019.

Details of the Company's bonds issued are set out in note 19 to the consolidated financial statements.

ISSUE OF PERPETUAL SECURITIES IN OCTOBER 2019

During the Year, the Company raised proceeds of HK$580,000,000 before expenses from the issuance of perpetual securities in aggregate principal amount of HK$580,000,000 (the "Perpetual Securities"). The issue price is 100% of the principal amount of the Perpetual Securities. The Company intended to use the net proceeds from the Perpetual Securities issuance of approximately HK$579.6 million for working capital. Details of the Perpetual Securities were set out in the announcements of the Company dated 8 October 2019 and 15 October 2019.

Details of the Company's perpetual securities issued are set out in note 26 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 134 of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2019.

DIRECTORS' REPORT

DIRECTORS

The Directors who held office during the Year and up to the date of this report are:

Executive Directors:	Mr. WU Jian *(Chairman)* Mr. PU Rui *(Chief Executive Officer)* Dr. ZHAO Mingxun *(appointed on 23 August 2019)* Mr. XIONG Xiaoqiang *(resigned on 26 March 2020)* Ms. WANG Huiyun *(resigned on 18 March 2020)* Ms. ZHAO Dongmei *(resigned on 30 April 2019)* Mr. LUO Yi *(resigned on 28 February 2019)*
Independent Non-executive Directors:	Professor WU Jun Mr. MENG Gaoyuan Dr. GUAN Wenwei

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. WU Jian and Professor WU Jun will, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "AGM").

In accordance with Bye-law 86(2) of the Company's Bye-laws, Dr. ZHAO Mingxun, being the director appointed by the Board on 23 August 2019, shall hold office until the AGM and, being eligible, offer himself for re-election at the AGM.

Directors of Subsidiaries

Other than the Directors named under "DIRECTORS" above, the persons who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report included Mr. ZHANG Yi, Ms. TAM Kar Bo Carrie, Mr. FEI Zheng, Ms. WONG Lai Ping Vicky, Mr. NIP Yiu Chuen, Mr. LO Wing Shing Steven, Mr. HOW Sze Ming, Mr. LIANG Hao, Ms. DENG Xiaoting, Ms. CHENG Song, Mr. Darren Riley and Mr. Brian Douglas Burkholder.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's memorandum of association and bye-laws, subject to the statutes, every Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she shall or may incur or sustain by reason of any act done in or about the execution of their duty or otherwise in relation thereto. The Group has arranged appropriate insurance which covers legal actions brought against the Directors and directors of the subsidiaries of the Group. The level of such insurance coverage is reviewed annually.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into nor is proposing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation. Details of the Directors' emoluments are set out in note 7(a) to the consolidated financial statement of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management are set out in the section "BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT" on pages 43 to 45 of this report.

RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are set out in note 29 to the consolidated financial statements. One of these transactions also constituted continuing connected transaction under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTION

On 3 July 2019, the Company entered into the framework agreement with SWSC, pursuant to which the Company conditionally agreed to engage from SWSC, and SWSC conditionally agreed to provide to the Company client referral services in relation to financing business for the period from the 3 July 2019 to 31 December 2021 (the "Framework Agreement"). Unless otherwise agreed by SWSC and the Company and/or any of its wholly-owned subsidiary(ies) (the "Company Member"), the referral fee payable by the Company to SWSC for each successful client referral shall be the Standard Service Fee times the Referral Fee Rate. The "Standard Service Fee" represents the service fee to be received by the Company Member from the financing service provided to the client, net of all expenses. The "Referral Fee Rate" shall range from 10% to 50% and vary from one case to another depending on the range and complexity of the work performed by SWSC in every successful client referral case.

Pursuant to the Framework Agreement, the annual caps in respect of the referral fees payable by the Company to SWSC for each of the three years ending 31 December 2021 are HK$9 million, HK$9.45 million and HK$9.93 million respectively.

The Company is owned as to approximately 74.22% by SSII, which is in turn wholly-owned by SWSC. Accordingly, SWSC is a connected person of the Company, and the transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The transactions and annual caps under the Framework Agreement are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules. Mr. Wu Jian, Mr. Pu Rui, Ms. Wang Huiyun and Mr. Xiong Xiaoqiang, all being Directors connected with SWSC and/or its associates, were considered to have material interests in the transactions and annual caps under the Framework Agreement and have abstained from voting on the Board resolutions in relation thereto. Details of the transaction were disclosed in the announcement of the Company dated 3 July 2019.

During the Year, no transaction contemplated under the Framework Agreement has been entered into and accordingly no referral fee has been paid by the Company. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or its holding companies or controlling shareholders or any of its respective subsidiaries was a party and in which a Director of the Company or an entity connected with a Director of the Company is or was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

No contract of significance (i) between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries); or (ii) for the provision of services to the Company (or any of its subsidiaries) by its controlling shareholder (or any of its subsidiaries) subsisted at the end of the year or at any time during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, the interests of Directors in businesses which compete or are likely to compete with the Group's businesses of brokerage and margin financing, corporate finance, asset management and proprietary trading were as follows:

Name of Director	Name of Company	Nature of Interests
Mr. WU Jian	Southwest Securities Co., Ltd., a controlling shareholder of the Company ("SWSC")	director, president and general manager
	Yinhua Fund Management Co., Ltd.	director
Mr. PU Rui	SWSC	vice president
Ms. WANG Huiyun*	SWSC	general manager of the project quality management department of the investment banking division and the president of the investment banking division
Mr. XIONG Xiaoqiang**	Shenzhen branch of SWSC	general manager

Having considered the following factors:

(i) the abovementioned Directors are fully aware of and fulfill their fiduciary duties to the Group in order to ensure that they will act in the best interests of the shareholders and the Company as a whole at all times;

(ii) the abovementioned Directors will abstain from voting on any matter where there is or may be a conflict of material interest; and

(iii) the competing business in which SWSC and its subsidiaries and associated companies engaged are primarily focused in the PRC whereas the Group's businesses are primarily Hong Kong-based,

the Board is of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of the abovementioned companies.

Notes:

* *resigned on 18 March 2020*

** *resigned on 26 March 2020*

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENTS

Apart from those disclosed in the "Share Option Scheme" below or in note 27 to the consolidated financial statements, no equity-linked agreements were entered into during the Year or subsisted at end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed in the "Share Option Scheme" below and in note 27 to the consolidated financial statements, at no time during the year ended 31 December 2019 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, their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, its controlling shareholder or their respective subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under the age of 18 to acquire such rights.

SHARE OPTION SCHEME

2013 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"). The summary of the 2013 Share Option Scheme is as follows:

1. The purposes of the 2013 Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.

2. The participants of the 2013 Share Option Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.

3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company, unless shareholders' approval has been obtained in general meeting.

4. Share options may be exercised in accordance with the terms of the 2013 Share Option Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.

5. No consideration for the grant of an option is required to be paid upon acceptance of the option.

6. The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.

7. The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption.

8. 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 on 12 November 2013.

9. During the year ended 31 December 2019, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, none of the Directors, the chief executives and their associates of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as 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 of the Listing Rules on the Stock Exchange.

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

As at 31 December 2019, substantial shareholders of the Company and other persons (other than Directors and chief executives of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and to the best knowledge of the Company are as follows:

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

Name of shareholders	*Note*	Capacity and nature of interest	Number of Shares held	Approximate % of the issued voting Shares
(a) Substantial shareholders				
Southwest Securities International Investment Limited ("SSII")	*1*	Beneficial owner	2,717,695,233	74.22%
Southwest Securities Co., Ltd. ("SWSC")	*1*	Interest of controlled corporation	2,717,695,233	74.22%
(b) Other person				
LAW Wei		Beneficial owner	216,874,259	5.92%

Note:

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

Save as disclosed above, as at 31 December 2019, the Company has not been notified of any persons (other than Directors and chief executives 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the applicable laws of Bermuda that would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders by reason of their holdings of shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the percentage of the Group's turnover (excluding net results from proprietary trading) attributable to the Group's largest client and the five largest clients in aggregate were 12.8% and 54.2% respectively. None of the Directors of the Company; or any of their close associates; or any shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's total issued shares) has any beneficial interest in any of the Group's five largest customers.

The Group has no major supplier due to the nature of principal activities of the Group.

ADVANCE TO AN ENTITY

On 13 February 2018, Southwest Securities (HK) Brokerage Limited (西證(香港)證券經紀有限公司), 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 the 31 December 2019, the outstanding amount of Loan was HK$285 million with an interest rate of 12% per annum and is secured by a charge over 588,720,412 ordinary shares in the issued share capital of Yi Hua Holdings Limited (the issued shares of which are listed on the Main Board of the Stock Exchange, stock code: 2213) beneficially owned by the Borrower.

Details of the Loan are set out in the announcements of the Company dated 14 February 2018, 13 February 2019 and 16 October 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The main risks for the Group include interest rate risk, credit risk, foreign currency risk, liquidity risk and equity price risk. Details of the main risks and risk management are set out in note 31 to the consolidated financial statements.

The principal risks and uncertainties facing the Group for the year ended 31 December 2019 can be found in the Chairman's Statement and the Management Discussion and Analysis on pages 4 to 10 of this report.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

CORPORATE GOVERNANCE

Details of the Company's corporate governance are set out in the Corporate Governance Report on pages 31 to 42 of this Annual Report.

EVENT AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 38 to the consolidated financial statements.

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by Ernst & Young ("EY"), who will retire and a resolution to re-appoint EY as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

WU Jian
Chairman

Hong Kong, 27 March 2020

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
22/F CITIC Tower
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To the shareholders of
Southwest Securities International Securities Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Southwest Securities International Securities Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 134, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of *Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on accounts receivable arising from securities margin clients	
As at 31 December 2019, gross accounts receivable arising from securities margin clients and its related expected credit losses ("ECL") amounted to HK$855.8 million and HK$387.5 million respectively. The assessment of ECL for accounts receivable arising from securities margin clients involves significant management judgement and estimates in the assessment of credit risk, the use of models and the choice of inputs in the calculation of ECL at the reporting date. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also includes the development of forward-looking analysis.	Our procedures to assess the ECL of accounts receivable arising from securities margin clients included the following: • We obtained an understanding of the Group's credit risk management practices and assessed the Group's credit provisioning policy. • We tested the appropriateness of the Group's determination of significant increase in credit risk and the basis for classification of exposures into the three stages. Our testing included checking to margin loan overdue information, loan-to-value percentage or other related information. • For securities margin clients classified at stage 1 and stage 2, we evaluated management's judgment and assumptions, and checked key parameters to external data sources, where available, such as default rates published by credit rating agencies. We recalculated the ECL amounts based on the above parameters and analyzed the sensitivity of the ECL amounts to changes in modelling assumptions, including the forward-looking probability weighted economic scenarios. • For securities margin clients classified at stage 3, we checked the valuation of the collateral and other sources of cash flows, and developed a reasonable range of expected cash shortfall for comparison with the Group's assessment of ECL. • We evaluated the Group's disclosures in relation to credit risk in Note 31 to the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)

Revenue recognition of corporate finance services relating to IPO sponsor fee income

For the year ended 31 December 2019, IPO sponsor fee income of HK$22 million was recognised by the Group.

The recognition of IPO sponsor fee income involves significant management judgement and estimates with respect to: (i) the identification of the performance obligation; (ii) the establishment of the timing of satisfaction of that performance obligation; and (iii) the determination of an appropriate method to measure the progress towards the completion of that performance obligation.

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation.

In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

Our procedures to assess the recognition of revenue of IPO sponsor fee income included the following:

- We obtained an understanding of the Group's methodology for revenue recognition, including an evaluation of management judgements in respect of the determination of the amount and timing of recognition of revenue from contracts with customers.

- We inspected IPO sponsor contracts, on a sample basis, to assess whether the performance obligation was properly identified and whether the appropriate method (i.e. overtime versus at a point in time) for recognising revenue upon the satisfaction of the performance obligation was used.

- For the measurement of project progress and the recognition of the related revenue overtime, we obtained the project status reports, on a sample basis, and assessed their reasonableness by checking to the supporting evidence, such as project minutes and correspondence with The Stock Exchange of Hong Kong Limited. We also assessed whether it was probable that the Group would collect the consideration to which it was entitled in exchange for transferring the promised services to its customers.

- For IPO sponsor fee income being recognised at a point in time, we checked to the supporting evidence, for example, successful listing announcement or termination notice.

- We also evaluated the Group's disclosures in respect of revenue recognition in Note 3 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tso Miu Yue, Agnes.

Certified Public Accountants
Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	3	**232,534**	122,172
Other income and gains	5	**30,466**	8,479
Fair value change on derivative financial liabilities		**–**	77,413
		263,000	208,064
Fee and commission expenses		**(16,913)**	(24,668)
Finance costs	6a	**(138,835)**	(146,479)
Staff costs	6b	**(75,200)**	(96,360)
Depreciation	6c	**(23,611)**	(10,928)
Expected credit losses on financial assets, net	6c	**(318,538)**	(7,599)
Loss on non-substantial modification of financial assets measured at amortised cost	6c	**(1,763)**	–
Other operating expenses		**(34,978)**	(104,301)
Other losses arising from consolidation of investment fund		**–**	(14,477)
Total expenses		**(609,838)**	(404,812)
Loss before tax	6	**(346,838)**	(196,748)
Income tax credit/(expense)	8	**2,243**	(5,000)
Loss for the year attributable to equity shareholders of the Company		**(344,595)**	(201,748)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		**(339)**	(160)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(339)**	(160)
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**	(168)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**388**	(168)
Other comprehensive income for the year, net of tax		**49**	(328)
Total comprehensive income for the year attributable to equity shareholders of the Company		**(344,546)**	(202,076)
Loss per share			
— Basic (HK cents)	9	**(10.025)**	(7.765)
— Diluted (HK cents)	9	**(10.025)**	(7.765)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Fixed assets	10	**7,758**	13,744
Right-of-use assets	12	**43,564**	–
Financial assets at fair value through other comprehensive income	13	**–**	1,079
Other non-current assets	14	**8,072**	7,654
		59,394	22,477
Current assets			
Financial assets at fair value through profit or loss	15	**739,506**	451,854
Accounts receivable	16	**532,164**	1,099,683
Prepayments, other receivables and other assets	17	**8,798**	10,351
Tax recoverable		**6,884**	–
Cash and bank balances	18	**789,090**	441,812
		2,076,442	2,003,700
Current liabilities			
Bonds payable	19	**–**	1,945,475
Derivative financial liabilities	20	**17,732**	–
Accounts payable	21	**48,228**	4,002
Other payables and accrued charges	22	**47,834**	37,781
Contract liabilities	24	**1,336**	1,125
Lease liabilities	12	**14,876**	–
Tax payable		**–**	8,000
		130,006	1,996,383
Net current assets		**1,946,436**	7,317
Total assets less current liabilities		**2,005,830**	29,794
Non-current liabilities			
Bonds payable	19	**1,549,172**	–
Other payables and accrued charges	22	**2,034**	–
Lease liabilities	12	**32,476**	–
		1,583,682	–
NET ASSETS		**422,148**	29,794
Capital and reserves			
Share capital	25	**366,182**	244,121
Reserves		**(524,034)**	(214,327)
Other equity instrument	26	**580,000**	–
TOTAL EQUITY		**422,148**	29,794

The consolidated financial statements on pages 61 to 134 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

The accompany notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company								
	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$'000**	**Other equity instrument HK$'000**	**Total HK$'000**
At 1 January 2019	**244,121**	**(13,189)**	**214,319**	**40,836**	**284**	**(456,577)**	**(214,327)**	**–**	**29,794**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(344,595)**	**(344,595)**	**–**	**(344,595)**
Exchange difference on translation of financial statements of foreign subsidiaries	**–**	**–**	**–**	**–**	**(339)**	**–**	**(339)**	**–**	**(339)**
Change in fair value of financial assets at fair value through other comprehensive income	**–**	**388**	**–**	**–**	**–**	**–**	**388**	**–**	**388**
Other comprehensive income for the year, net of tax	**–**	**388**	**–**	**–**	**(339)**	**–**	**49**	**–**	**49**
Total comprehensive income for the year	**–**	**388**	**–**	**–**	**(339)**	**(344,595)**	**(344,546)**	**–**	**(344,546)**
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income	**–**	**2,780**	**–**	**–**	**–**	**(2,780)**	**–**	**–**	**–**
Transaction with equity holders									
Transactions with equity contributions and distributions									
Issue of shares under rights issue *(note 25)*	**122,061**	**–**	**34,839**	**–**	**–**	**–**	**34,839**	**–**	**156,900**
Issue of perpetual securities *(note 26)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**580,000**	**580,000**
At 31 December 2019	**366,182**	**(10,021)**	**249,158**	**40,836**	**(55)**	**(803,952)**	**(524,034)**	**580,000**	**422,148**

	Attributable to equity shareholders of the Company							
	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$'000	Total HK$'000
At 1 January 2018	244,121	–	214,319	40,836	444	(250,810)	4,789	248,910
Effect of adoption of HKFRS 9	–	(13,021)	–	–	–	(4,019)	(17,040)	(17,040)
At 1 January 2018 (restated)	244,121	(13,021)	214,319	40,836	444	(254,829)	(12,251)	231,870
Loss for the year	–	–	–	–	–	(201,748)	(201,748)	(201,748)
Exchange difference on translation of financial statements of foreign subsidiaries	–	–	–	–	(160)	–	(160)	(160)
Change in fair value of financial assets at fair value through other comprehensive income	–	(168)	–	–	–	–	(168)	(168)
Other comprehensive income for the year, net of tax	–	(168)	–	–	(160)	–	(328)	(328)
Total comprehensive income for the year	–	(168)	–	–	(160)	(201,748)	(202,076)	(202,076)
At 31 December 2018	244,121	(13,189)	214,319	40,836	284	(456,577)	(214,327)	29,794

* 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 consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(346,838)**	(196,748)
Adjustments for:			
Depreciation	*10*	**8,601**	10,928
Fair value change on derivative financial liabilities		**17,732**	(77,413)
Expected credit loss on financial assets, net	*6(c)*	**318,538**	7,599
Depreciation of right-of-use assets	*6(c)*	**15,010**	–
Loss on non-substantial modification of financial assets measured at amortised cost		**1,763**	–
Gain on disposal of fixed assets	*5*	**(154)**	–
Exchange (gain)/loss, net		**(9,452)**	59,237
Other interest income	*5*	**(17,389)**	(7,236)
Interest expenses	*6(a)*	**135,121**	146,479
Interest expenses on lease liabilities	*6(a)*	**3,714**	–
Dividend income from financial assets at fair value through other comprehensive income	*5*	**(7)**	(7)
Changes in working capital:			
Decrease in loans and advances		**–**	30
(Increase)/decrease in financial assets at fair value through profit or loss		**(287,652)**	342,937
Decrease/(increase) in accounts receivable		**247,098**	(512,119)
Decrease in prepayments and other receivables and other assets		**882**	109,530
Decrease in derivative financial liabilities held for trading		**–**	(19)
Increase/(decrease) in accounts payable		**44,226**	(21,524)
Increase in contract liabilities		**211**	1,125
Increase/(decrease) in other payables and accrued charges		**6,680**	(17,052)
Cash generated from/(used in) operations		**138,084**	(154,253)
Tax paid		**(12,641)**	–
Interest received		**17,864**	7,236
Interest paid		**(3,769)**	(191)
Net cash generated from/(used in) operating activities		**139,538**	(147,208)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from financial assets at fair value through other comprehensive income		**7**	7
Proceeds from disposal of financial assets at fair value through other comprehensive income		**1,467**	–
Interest received from cross-currency swap		**–**	59,468
Interest paid to cross-currency swap		**–**	(43,646)
Proceed from cross-currency swap final exchange		**–**	1,859,250
Proceeds from disposal of fixed assets		**282**	–
Payment of cross-currency swap final exchange		**–**	(1,872,659)
Payment of other non-current assets		**(408)**	(1,631)
Payment for purchase of fixed assets	*10*	**(2,743)**	(4,243)
Net cash used in investing activities		**(1,395)**	(3,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds	*18b*	**1,569,960**	1,957,319
Payment of transaction costs on issuance of bonds	*18b*	**(11,420)**	(25,510)
Repayment of bonds issuance	*18b*	**(1,956,750)**	(1,859,250)
Proceeds from issuance of shares	*25*	**159,900**	–
Payment of transaction costs of issuance of shares	*25*	**(3,000)**	–
Proceeds from issuance of perpetual securities	*26*	**580,000**	–
Proceeds from short-term bank loans	*18b*	**90,410**	100,903
Repayment of short-term bank loans	*18b*	**(90,410)**	(100,903)
Bank loan interest paid	*18b*	**(43)**	(155)
Interest paid on bonds issued	*18b*	**(115,432)**	(122,909)
Principal portion of lease payments	*18b*	**(11,721)**	–
Net cash generated from/(used in) financing activities		**211,494**	(50,505)
Net increase/(decrease) in cash and cash equivalents		**349,637**	(201,167)
Cash and cash equivalents at the beginning of the year		**441,812**	645,184
Effect on exchange rate changes		**(2,359)**	(2,205)
Cash and cash equivalents at the end of the year	*18(a)*	**789,090**	441,812

The accompany notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

CORPORATE INFORMATION

Southwest Securities International Securities Limited (the "Company") is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company of the Company is Southwest Securities International Investment Limited ("SSII"), a company incorporated in Hong Kong with limited liability and wholly-owned by Southwest Securities Co., Ltd. ("SWSC"). SWSC is the ultimate holding company of the Company, which is incorporated in the People's Republic of China (the "PRC") with limited liability and its shares are listed on the Shanghai Stock Exchange.

The principal activities of the Company and its subsidiary (the "Group") comprise:

— broking index, commodity and currency futures, options and securities, unit trusts, investment-linked and insurance products for its clients;

— provision of margin financing, underwriting and placements, corporate finance advisory services and asset management services; and

— trading in securities, equity index, commodity and currency futures contracts for its own account.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements 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 financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The measurement basis used in the preparation of these consolidated financial statements 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, and derivative financial liabilities, which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basic of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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

(a) *Adoption of HKFRS 16*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulative losses at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

(a) *Adoption of HKFRS 16* (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

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

Financial impact at 1 January 2019

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

(a) *Adoption of HKFRS 16* (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

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

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

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

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is 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 expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, the investments in subsidiaries are stated at cost less impairment losses. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of fixed assets over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	Over the unexpired term of lease
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicle	5 years

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fair value measurement

The Group measures its financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Leases (policies under HKFRS 16 applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, it is classified as a lease.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis as follows:

Properties	Over the lease term

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (policies under HKFRS 16 applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, i.e. a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (policies under HKAS 17 applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded as investment revaluation reserve in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has applied probability of default based on that of comparable companies, adjusted for forward-looking factors specific to the debtors and the economic environment.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Modification

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised (an instrument is derecognised when a modification results in a change in cash flows that the Group would consider substantial), the resulting modification loss is recognised in profit or loss with a corresponding decrease in the gross carrying value of the asset.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include bonds payable, derivative financial liabilities, accounts payable and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Trust accounts

Trust accounts maintained by the Group to hold clients' monies are treated as off-statement of financial position items and offset against accounts payable.

In the course of the conduct of the regulated activities of ordinary business, subsidiaries which are licensed corporations, act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position, and the corresponding amounts classified under accounts payable are treated as items not recognised in the consolidated statement of financial position.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Provision of securities, futures and options brokerage services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income on securities and futures dealing and broking is generally due within one to three days after trade date.

Provision of underwriting and placing services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income from underwriting and placing is recognised when the underlying securities are being written or placed.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Provision of IPO sponsor services

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation. In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

IPO sponsor fee is generally due within 30 to 90 days upon reaching the contracts' milestone payment terms.

Provision of consultancy and financial advisory services

The performance obligations for certain consultancy and financial advisory services are fulfilled when all the relevant duties of an advisor as stated in the contract are completed. Consultancy and financial advisory fee is generally due within 30 to 90 days upon reaching contracts' milestone payment terms.

Certain consultancy and financial advisory services' performance obligations are satisfied over time as services are rendered if the customer simultaneously receives and consumes the benefits provided by the Group. These services are charged at agreed fee billed on a mutually basis (e.g. regular period).

Provision of asset management services

Revenue from asset management services is recognised over time as the services are provided. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and due on a regular basis as mutually agreed.

Provision of insurance brokerage service

The performance obligation relating to the insurance brokerage service is satisfied at the point when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder. Insurance brokerage fees are generally due within 30 to 90 days upon the commencement of the policy.

Corporate finance arrangement and commitment services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Corporate finance arrangement and commitment is generally due when the service period is completed.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Employee benefits

Short term employee benefits

Salaries, bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payments

The Group's net obligation in respect of long service payments under the Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of recognition of revenue from contracts with customers:

(i) Identification of the performance obligations, recognition of revenue over time versus at a point in time, and choosing an appropriate method of measuring progress of IPO sponsor service

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation.

In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(1) Provision for ECL allowance of accounts receivable from securities margin clients

The Group calculates ECL allowance for accounts receivable from securities margin clients based on the estimated probability of default of counterparties with similar credit ratings, with adjustment to reflect the current conditions and forecasts of future economic conditions, as appropriate.

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

(2) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There were no deferred tax assets relating to recognised tax losses at 31 December 2019 *(2018: nil)*. The amount of unrecognised tax losses is disclosed in note 23 to the consolidated financial statements.

3. REVENUE

An analysis of revenue is as follow:

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

3. REVENUE (Continued)

Note:

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

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

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. For the purposes of resource allocation and assessment of segment performance, the Directors monitor the results attributable to each reportable segment on the following basis:

— Segment revenue represents revenue generated from external customers; and

— Segment results represent the profit or loss incurred by each segment without allocation of central administration costs, depreciation, central finance costs, and income tax expense.

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

Reportable operating segments

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

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

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

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	2019					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	109,037	36,604	507	86,386	–	232,534
Other income and gains	14,012	–	–	541	15,913	30,466
Fee and commission expenses	(12,327)	(2,141)	–	(2,445)	–	(16,913)
Finance costs	(76,448)	–	–	(36,098)	–	(112,546)
Expected credit losses on financial assets, net	(315,829)	(2,898)	–	–	189	(318,538)
Loss on non-substantial modification of financial assets measured at amortised cost	(1,763)	–	–	–	–	(1,763)
Other operating expenses and costs	(61,384)	(24,672)	(755)	(16,696)	(6,298)	(109,805)
Segment results	(344,702)	6,893	(248)	31,688	9,804	(296,565)
Unallocated expenses, represented central administration costs						(15,383)
Depreciation of fixed assets						(8,601)
Unallocated finance costs						(26,289)
Loss before tax						(346,838)

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	2018					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	100,839	40,922	2,669	(22,258)	–	122,172
Other income and gains	4,478	–	4	338	3,659	8,479
Fee and commission expenses	(11,477)	(2,427)	(2,368)	(8,396)	–	(24,668)
Finance costs	(59,726)	–	–	(44,071)	(42)	(103,839)
Expected credit losses on financial assets, net	–	–	–	–	(7,599)	(7,599)
Other operating expenses and costs	(63,428)	(34,085)	(1,593)	(14,211)	14,681	(98,636)
Other losses arising from consolidation of investment fund	–	–	–	(14,477)	–	(14,477)
Segment results	(29,314)	4,410	(1,288)	(103,075)	10,699	(118,568)
Unallocated expenses, represented central administration costs						(24,612)
Depreciation of fixed assets						(10,928)
Unallocated finance costs						(42,640)
Loss before tax						(196,748)

4. SEGMENT INFORMATION (Continued)

Geographical segments

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

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

Major customers

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

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

5. OTHER INCOME AND GAINS

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

6. LOSS BEFORE TAX

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

Note:

(i) There was no net exchange loss for the year ended 31 December 2019. For the year ended 31 December 2018, included in net exchange loss was HK$58,758,000 exchange loss arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in RMB. Detailed information is set out in note 19.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The analysis of the aggregate amount of emoluments received or receivable by the Directors are as follows:

2019

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employer's contributions to retirement benefit schemes HK$'000	Other services in connection with the management of affairs of its subsidiaries HK$'000	Total HK$'000
Executive Directors:						
Wu Jian	–	–	–	–	–	–
Pu Rui	–	–	–	–	–	–
Luo Yi *(Note i)*	–	452	–	3	–	455
Zhao Dongmei *(Note ii)*	–	–	–	–	–	–
Wang Huiyun *(Note iv)*	–	–	–	–	–	–
Xiong Xiaoqiang *(Note v)*	–	–	–	–	–	–
Zhao Mingxun *(Note iii)*	–	290	1,176	3	–	1,469
Independent Non-executive Directors:						
Wu Jun	204	–	–	–	–	204
Meng Gaoyuan	204	–	–	–	–	204
Guan Wenwei	204	–	–	–	–	204
	612	742	1,176	6	–	2,536

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

2018

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employer's contributions to retirement benefit schemes HK$'000	Other services in connection with the management of affairs of its subsidiaries HK$'000	Total HK$'000
Executive Directors:						
Wu Jian	–	–	–	–	–	–
Pu Rui	–	–	–	–	–	–
Luo Yi *(Note i)*	–	1,788	2,129	18	–	3,935
Zhao Dongmei *(Note ii)*	–	–	–	–	–	–
Wang Huiyun *(Note iv)*	–	–	–	–	–	–
Xiong Xiaoqiang *(Note v)*	–	–	–	–	–	–
Independent Non-executive Directors:						
Wu Jun	204	–	–	–	–	204
Meng Gaoyuan	204	–	–	–	–	204
Guan Wenwei	204	–	–	–	–	204
	612	1,788	2,129	18	–	4,547

Note:

(i) Mr. Luo Yi resigned as a director on 28 February 2019.

(ii) Ms. Zhao Dongmei resigned as a director on 30 April 2019.

(iii) Dr. Zhao Mingxun was appointed as a director on 23 August 2019.

(iv) Ms. Wang Huiyun resigned as a director on 18 March 2020.

(v) Mr. Xiong Xiaoqiang resigned as a director on 26 March 2020.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Bonuses, which are recommended by the remuneration committee and subsequently approved by the Board of Directors, are discretionary and are determined by reference to the Group's and the individuals' performance.

(b) Loans, quasi-loans and other dealings in favour of Directors

There are no loans, quasi-loans or other dealings in favour of the Directors of the Company or its holding company that were entered into or subsisted during the year ended 31 December 2019 *(2018: Nil)*.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(c) Directors' material interests in transactions, arrangements or contracts

After due and careful consideration, the Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its holding companies or its subsidiaries was a party and in which Directors or a connected entity of the Directors had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 *(2018: Nil)* or at any time during the year ended 31 December 2019 *(2018: Nil)*.

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, none of the *(2018: 1)* Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the five *(2018: four)* individuals, excluding Directors' emoluments, are as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	**10,575**	8,822
Discretionary bonus	**1,442**	7,715
Contributions to retirement benefit schemes	**98**	72
	12,115	16,609

	Number of individuals 2019	 2018
The emoluments, excluding Directors' emoluments, fell within the following bands:		
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**–**	1
	5	4

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as (a) an inducement to join or upon joining the Group and (b) no compensation for loss of office for the years ended 31 December 2019 and 31 December 2018. There were no arrangements under which Directors waived or agreed to waive any remuneration for the years ended 31 December 2019 and 31 December 2018.

8. INCOME TAX (CREDIT)/EXPENSE

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

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

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(346,838)**	(196,748)
Income tax at applicable tax rate of 16.5% *(2018: 16.5%)*	**(57,228)**	(32,463)
Tax relief of 8.25% on first HK$2 million assessable profit	**–**	(165)
Tax effect on non-deductible expenses	**22,967**	31,983
Tax effect on non-taxable items	**(19,214)**	(15,207)
Unrecognised temporary difference	**906**	1,671
Utilisation of previously unrecognised tax losses	**(1,530)**	(1,687)
Tax effect on unrecognised tax losses	**54,151**	20,946
Effect of different tax rate of PRC subsidiaries	**(52)**	(32)
Over-provision of tax in prior years	**(2,243)**	(76)
Others	**–**	30
Total tax (credit)/expense at effective tax rate of 0.6% *(2018: -2.5%)*	**(2,243)**	5,000

9. LOSS PER SHARE

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

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

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

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

Note:

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

10. FIXED ASSETS

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
Cost:						
As at 1 January 2018	10,529	1,708	1,016	19,232	686	33,171
Additions	455	–	14	3,017	757	4,243
Disposals	–	–	–	–	–	–
As at 31 December 2018 and 1 January 2019	10,984	1,708	1,030	22,249	1,443	37,414
Additions	–	–	–	2,743	–	2,743
Disposals	–	–	–	(13)	(686)	(699)
As at 31 December 2019	10,984	1,708	1,030	24,979	757	39,458
Accumulated depreciation:						
As at 1 January 2018	2,606	351	261	9,204	320	12,742
Provided during the year	4,117	341	189	6,018	263	10,928
Disposals	–	–	–	–	–	–
As at 31 December 2018 and 1 January 2019	6,723	692	450	15,222	583	23,670
Provided during the year	1,705	341	190	6,111	254	8,601
Disposals	–	–	–	(11)	(560)	(571)
As at 31 December 2019	8,428	1,033	640	21,322	277	31,700
Net carrying amount:						
As at 31 December 2019	2,556	675	390	3,657	480	7,758
As at 31 December 2018	4,261	1,016	580	7,027	860	13,744

11. INTANGIBLE ASSETS

The Group holds two trading rights on the Stock Exchange and two trading rights on the Hong Kong Futures Exchange Limited (the "Futures Exchange") with carrying amount of nil as at 31 December 2019 ad 2018.

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

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

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

Right-of-use assets:

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

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

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Lease liabilities:

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

The maturity analysis of lease liabilities is disclosed in note 31 to the financial statements.

The following are the amounts recognised in profit or loss:

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

The total cash outflow relating to leases is disclosed in notes 18(b) to the consolidated financial statements.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 **HK$'000**	2018 HK$'000
Financial assets designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**–**	1,079

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 31 December 2019, the Group held two *(2018: three)* investments with fair value of nil *(2018: HK$1,079,000)*.

During the year ended 31 December 2019, the Group sold its equity interest in the 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.

During the year ended 31 December 2019, the Group received dividends of HK$7,000 *(2018: HK$7,000)*.

14. OTHER NON-CURRENT ASSETS

	2019 **HK$'000**	2018 HK$'000
Reserve fund deposits with the Futures Exchange	**1,500**	1,500
Statutory deposits with the Stock Exchange	**300**	300
Statutory deposits with the Securities and Futures Commission ("SFC")	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**1,500**	1,500
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
Deposits — non-current portion	**4,572**	4,164
Less: impairment	**–**	(10)
	8,072	7,654

During the year ended 31 December 2019, reversal of impairment allowance of HK$10,000 was credited to profit or loss *(2018: impairment allowance of HK$10,000 was charged to profit or loss)*.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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 using with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.

(iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds.

(iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2019 to any bank as collateral for the facilities granted *(31 December 2018: Nil)*.

16. ACCOUNTS RECEIVABLE

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

Notes:

(a) Analysis on accounts receivable analysis on securities margin clients

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

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

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

(i) (Continued)

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

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

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

Excellent : Margin obligations are expected to be met and exposures are fully secured by collaterals, which demonstrate good loan-to-collaterals' value ratios ("LTVs"). Repayment of interest and principal is not in doubt.

Good : Margin obligations are expected to be met and exposures are fully secured by collaterals, but LTVs are higher than the excellent grade exposures. Repayment of interest and principal is not in doubt.

Non-performing : Exposures where some losses of principal or interest may be possible after taking into account of the realisable value of the underlying collaterals.

Individually impaired : Exposures where default events have occurred and individual impairment assessments are made to determine the impairment allowances.

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

2019

	12-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
Internal rating grade				
Excellent	**194,221**	**–**	**–**	**194,221**
Good	**129,634**	**–**	**–**	**129,634**
Non-performing	**–**	**190**	**–**	**190**
Individually impaired	**–**	**–**	**531,735**	**531,735**
	323,855	**190**	**531,735**	**855,780**

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

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

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

(ii) (Continued)

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

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

2018

	12-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
Internal rating grade				
Excellent	651,179	–	–	651,179
Good	230,644	–	–	230,644
Non-performing	–	160,637	–	160,637
Individually impaired	–	–	65,355	65,355
	881,823	160,637	65,355	1,107,815

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

(iii) The movements in the impairment allowance of accounts receivable from securities margin clients 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 2018	2,797	236	61,212	64,245
Transfer to stage 2	(1,461)	1,461	–	–
Impact on transfer between stages	–	6,028	1,410	7,438
Other remeasurement of loss allowance	(1,336)	(233)	1,657	88
As at 31 December 2018 and 1 January 2019	**–**	**7,492**	**64,279**	**71,771**
Transfer to stage 3	**–**	**(7,490)**	**7,490**	**–**
Impact on transfer between stages	**–**	**–**	**300,997**	**300,997**
New assets originated *(Note)*	**–**	**(2)**	**19,503**	**19,501**
Bad debt recovery	**–**	**–**	**(4,754)**	**(4,754)**
Amount written off	**–**	**–**	**(17)**	**(17)**
As at 31 December 2019	**–**	**–**	**387,498**	**387,498**

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

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

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

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

(1) Accounts receivable 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, 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 consolidated financial statements amounted to HK$595,000 *(2018: HK$1,090,000)*.

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2019, 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$17,925,000 *(2018: 3,060,000)*, 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 16(c) to consolidated financial statements.

(4) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$9,486,000 *(2018: HK$4,568,000)*, which was not dealt with in the consolidated financial statements. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Analysis on accounts receivable from 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:

	2019 HK$'000	2018 HK$'000
Current	**2,799**	1,423
Overdue:		
Within 30 days	**93**	–
31–90 days	**1,497**	1,750
91–180 days	**–**	–
Over 180 days	**2,873**	50
	7,262	3,223

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

(7) The movements in the impairment allowance of accounts receivable 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 2018	–	–	–	925	925
Charged/(credit) to profit or loss	74	2	–	(109)	(33)
Amount written off	–	–	–	(397)	(397)
As at 31 December 2018 and 1 January 2019	**74**	**2**	**–**	**419**	**495**
Charged/(credit) to profit or loss *(Note)*	**(74)**	**(2)**	**89**	**2,901**	**2,914**
As at 31 December 2019	**–**	**–**	**89**	**3,320**	**3,409**

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

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(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:

	2019				
	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	**40,135**	**(22,210)**	**17,925**	**(7,037)**	**10,888**

	2019				
	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amount of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	**29,247**	**(22,210)**	**7,037**	**(7,037)**	**–**

	2018				
	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	7,069	(4,009)	3,060	(1,242)	1,818

	2018				
	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amount of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	5,251	(4,009)	1,242	(1,242)	–

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 HK$'000	2018 HK$'000
Deposits, prepayments and other receivables	**6,086**	9,400
Statutory deposits with the Stock Exchange	**2,663**	1,028
Contributions to the Central Clearing and Settlement System Guarantee Fund	**49**	33
Less: impairment	**–**	(110)
	8,798	10,351

During the year ended 31 December 2019, reversal of impairment allowance of HK$110,000 was credited to profit or loss *(2018: impairment allowance of HK$110,000 was charged to profit or loss)*.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**789,090**	441,812
Cash and cash equivalents in the consolidated statement of cash flows	**789,090**	441,812

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 consolidated financial statements amounted to HK$113,954,000 *(2018: HK$824,959,000)*.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities from financing activities, including both cash and non-cash changes are set out in the following table. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Bank loans HK$'000	Interest payable including in other payable and accrued charges HK$'000	Bonds payable HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2019	–	15,867	1,945,475	59,073	2,020,415
Changes from financing cash flows:					
Proceeds from short-term bank loans *(Note (i))*	90,410	–	–	–	90,410
Repayment of short-term bank loans *(Note (i))*	(90,410)	–	–	–	(90,410)
Repayment of bonds issuance	–	–	(1,956,750)	–	(1,956,750)
Proceeds from issuance of bonds	–	–	1,569,960	–	1,569,960
Payment of transaction costs on issuance of bonds	–	–	(11,420)	–	(11,420)
Bank loan interest paid	(43)	–	–	–	(43)
Principal portion of lease payment	–	–	–	(11,721)	(11,721)
Interest paid on bonds issued	–	(115,432)	–	–	(115,432)
Total changes from financing cash flows	(43)	(115,432)	(398,210)	(11,721)	(525,406)
Exchange difference	–	(87)	(11,385)	–	(11,472)
Other changes:					
Interest expenses	43	121,731	13,292	–	135,066
At 31 December 2019	–	22,079	1,549,172	47,352	1,618,603

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans HK$'000	Interest payable including in other payable and accrued charges HK$'000	Bonds payable HK$'000	Total HK$'000
At 1 January 2018	–	10,815	1,797,552	1,808,367
Changes from financing cash flows:				
Proceeds from short-term in bank loans *(Note (i))*	100,903	–	–	100,903
Repayment of short-term in bank loans *(Note (i))*	(100,903)	–	–	(100,903)
Repayment of bonds issuance	–	–	(1,859,250)	(1,859,250)
Proceeds from issuance of bonds	–	–	1,957,319	1,957,319
Payment of transaction costs of issuance of bonds	–	–	(25,510)	(25,510)
Bank loan interest paid	(155)	–	–	(155)
Bonds interest paid	–	(122,909)	–	(122,909)
Total changes from financing cash flows	(155)	(122,909)	72,559	(50,505)
Exchange difference	–	628	56,564	57,192
Other changes:				
Interest expenses	155	127,333	18,800	146,288
At 31 December 2018	–	15,867	1,945,475	1,961,342

Note:

(i) Short-term bank loans of HK$90,410,000 *(2018: HK$100,903,000)* were drawndown for the Group's margin financing business, in which HK$50,410,000 *(2018: HK$50,903,000)* were secured by new issued shares of a listed company subscribed by margin clients and HK$40,000,000 *(2018: HK$50,000,000)* were unsecured, with original maturity within one month and bear interests with reference to the costs of funds of the banks.

19. BONDS PAYABLE

	2019 USD Bonds HK$'000 *(note (i))*	2018 HKD Bonds HK$'000 *(note (ii))*	2018 USD Bonds HK$'000 *(note (iii))*	2015 RMB Bonds HK$'000 *(note (iv))*	Total HK$'000
Carrying amount at 1 January 2018	–	–	–	1,797,552	1,797,552
Carrying amount upon issuance	–	762,682	1,169,127	–	1,931,809
Imputed interest expenses for the year	–	10,865	4,995	2,940	18,800
Exchange difference	–	–	(2,194)	58,758	56,564
Principal repayment	–	–	–	(1,859,250)	(1,859,250)
Carrying amount at 31 December 2018 and 1 January 2019	**–**	**773,547**	**1,171,928**	**–**	**1,945,475**
Carrying amount upon issuance	**1,558,540**	**–**	**–**	**–**	**1,558,540**
Imputed interest expenses for the year	**3,842**	**6,453**	**2,997**	**–**	**13,292**
Exchange difference	**(13,210)**	**–**	**1,825**	**–**	**(11,385)**
Principal repayment	**–**	**(780,000)**	**(1,176,750)**	**–**	**(1,956,750)**
Carrying amount at 31 December 2019	**1,549,172**	**–**	**–**	**–**	**1,549,172**

Notes:

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

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

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

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

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

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

(iv) On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "2015 RMB Bonds"). The 2015 RMB Bonds bore interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the 2015 RMB Bonds was payable semi-annually in arrears. The 2015 RMB Bonds were listed on HKEx and fully settled on maturity date 28 May 2018.

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

20. DERIVATIVE FINANCIAL LIABILITIES

	Note	2019 HK$'000	2018 HK$'000
Futures contracts held for trading	*(i)*	**17,732**	–
		17,732	–

Note:

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

21. ACCOUNTS PAYABLE

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

Notes:

Settlement terms

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

(ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

(iii) Accounts payable arising from the provision of insurance broking services are payable within 30 days.

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

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

22. OTHER PAYABLES AND ACCRUED CHARGES

	2019 HK$'000	2018 HK$'000
Accrued charges	**26,267**	21,314
Interest payables	**22,079**	15,867
Other payables	**1,522**	600
	49,868	37,781
Non-current portion	**2,034**	–
Current portion	**47,834**	37,781
	49,868	37,781

23. DEFERRED TAXATION

Recognised deferred tax assets/(liabilities)

	Assets		Liabilities	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Depreciation allowances	**–**	–	**(498)**	(563)
Tax losses	**498**	563	**–**	–
Deferred tax assets/(liabilities)	**498**	563	**(498)**	(563)
Offset deferred tax assets and liabilities	**(498)**	(563)	**498**	563
Net deferred tax assets/(liabilities)	**–**	–	**–**	–

Unrecognised deferred tax assets arising from

	2019 HK$'000	2018 HK$'000
Deductible temporary differences	**11,663**	6,175
Tax losses	**1,020,706**	701,789
	1,032,369	707,964

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

24. CONTRACT LIABILITIES

	2019 **HK$'000**	2018 HK$'000
Provision of IPO sponsor services	**1,336**	1,125

Contract liabilities, are expected to be settled within the Group's normal operating cycle, and accordingly are classified as current.

Revenue from provision of IPO sponsor services of HK$1,125,000 recognised in the current year relates to contract liabilities as of 1 January 2019.

As a sponsor, the Group normally receives fees by installments according to the completion of milestones as specified in the mandate. This will give rise to contract liabilities over the life of the contract, until the performance obligation is satisfied when the revenue will be recognised at that point in time or over time, by determining if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

25. SHARE CAPITAL

	2019		2018	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At the beginning and end of the year	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
At the beginning and end of the year	**3,661,830**	**366,182**	2,441,220	244,121

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

	Number of shares in issue '000	**Share capital** HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	2,441,220	244,121
Rights issue *(note)*	1,220,610	122,061
At 31 December 2019	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.

26. 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 was 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 consolidated statement of financial position.

27. 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") and the termination of the share option scheme which was adopted by the Company on 30 January 2004 (the "2004 Share Option Scheme"). The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2004 Share Option Scheme.

During the years ended 31 December 2018 and 2019, there were no outstanding share option and no share option was granted, exercised, cancelled or lapsed under both the 2004 Share Option Scheme and the 2013 Share Option Scheme.

Details of the share option schemes are set out in the Directors' Report on page 51.

28. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

Contributions to the ORSO Scheme depend on employees' service years, and range from five to seven per cent of their basic salaries.

Employees under the ORSO Scheme are entitled fully to the employer's contributions upon completion of ten service years, or at a reduced scale upon completion of three to nine service years. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five percent of the relevant income of each employee subject to a maximum amount of HK$1,500 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, which have been dealt with in profit or loss for the year amounted to:

	2019 **HK$'000**	2018 HK$'000
Employer's contributions charged to profit or loss *(Note 6(b))*	**1,782**	2,009

29. RELATED PARTY TRANSACTIONS

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

Related party relationship	**Nature of transaction**	**2019** **HK$'000**	2018 HK$'000
Key management personnel, other than Directors	Salaries, commission and allowances	**16,596**	28,694
	Contributions to retirement benefit schemes	**187**	173
		16,783	28,867
Ultimate holding company	Referral fee expenses	**64**	370
A related company *(Note)*	Underwriting and placing commission income	**–**	591
	Bond interest income	**–**	464
		–	1,055

Note: This related company and SWSC are significantly influenced or jointly controlled by Chongqing Yufu Assets Management Group Co., Ltd., which is wholly-owned by the Municipal Government of Chongqing City, in the PRC (the "Government Related Entity").

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss — Held for trading HK$'000	Total HK$'000
Financial assets			
Other non-current assets	8,072	–	8,072
Financial assets at fair value through profit or loss	–	739,506	739,506
Accounts receivable	532,164	–	532,164
Financial assets included in prepayments, other receivables and other assets	5,357	–	5,357
Cash and bank balances	789,090	–	789,090
	1,334,683	739,506	2,074,189

2019	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
Financial liabilities			
Bonds payable	1,549,172	–	1,549,172
Derivative financial liabilities	–	17,732	17,732
Accounts payable	48,228	–	48,228
Financial liabilities included in other payables and accrued charges	23,601	–	23,601
	1,621,001	17,732	1,638,733

30. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2018	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income: Equity investments HK$'000	Financial assets at fair value through profit or loss: Held for trading HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through other comprehensive income	–	1,079	–	1,079
Other non-current assets	7,654	–	–	7,654
Financial assets at fair value through profit or loss	–	–	451,854	451,854
Accounts receivable	1,099,683	–	–	1,099,683
Financial assets included in prepayments, other receivables and other assets	3,671	–	–	3,671
Cash and bank balances	441,812	–	–	441,812
	1,552,820	1,079	451,854	2,005,753

2018	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities		
Bonds payable	1,945,475	1,945,475
Accounts payable	4,002	4,002
Financial liabilities included in other payables and accrued charges	16,467	16,467
	1,965,944	1,965,944

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. The Group's overall risk control focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Risk Control Committee ("RCC") is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks of the Group. The RCC is also responsible for assessing the risk of long term investments and proprietary trading.

Interest-rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through profit or loss, certain accounts receivable from securities margin clients with floating interest rates, cash and bank balances and bonds payable. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in floating rates and ensure they are within reasonable range.

The Group's investments in debt securities being classified as financial assets at fair value through profit or loss and bonds payable bear fixed interest rates. Therefore, in the opinion of the directors, the interest rate risk arising from the debt securities and bonds payable are considered to be minimal.

As at 31 December 2019, if the interest rate on the bank balances is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax *(2018: loss before tax)* for the year of the Group would have decreased/increased by HK$3,945,000 *(2018: decreased/increased by HK$2,209,000)* as a result of higher/lower interest income.

The Group has interest earning assets in securities margin loans to clients and the exposure to interest rate risk mainly arises on certain client securities margin accounts with floating interest rates. As at 31 December 2019, if the interest rate on the margin loans is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax for the year would have decreased/increased by HK$982,000 *(2018: the Group's loss before tax would be decreased/increased by HK$1,885,000)* as a result of higher/lower interest income.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group is exposed to credit risk for all financial assets that a client or counterparty in a transaction may default on settlement. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the Group's consolidated statement of financial position. These amounts represent the worst case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with accounts receivable from securities margin clients is mitigated to the extent that they are secured by listed securities.

In order to minimise the credit risk, the management of the Group has set up the Credit Review Committee responsible for determination of credit approvals.

The Group has concentration of credit risk as 27% *(2018: 25%)* and 51% *(2018: 60%)* of the total accounts receivable was due from the Group's largest customer and the five largest customers respectively within the brokerage and margin financing business segment and corporate finance segment.

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

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

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

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position:

- Bank deposits and balances are placed with authorized financial institutions in Hong Kong and reputable financial institution in PRC, which management believes are of high credit quality.

- For accounts receivable from securities margin clients, the Group's policy requires the review of individual outstanding amounts regularly depending on individual circumstances or market condition. The assessment normally encompasses collateral held, which is valued on a daily basis for marketable securities, and the anticipated receipts for that individual account. Details of the provision for impairment losses of accounts receivable from securities margin clients are included in note 16 to the consolidated financial statements.

- For the debt securities investments, management monitors the credit quality on these investments on a regular basis and consider the credit risk is manageable.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of United States dollar ("U.S. dollar").

The Group considers the risk exposure to foreign currency fluctuation in U.S. dollar would be minimal as long as the Hong Kong dollar remains pegged to the U.S. dollar.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages to maintain its liquidity position at a prudent and adequate level. The Directors monitor the cash flows daily to ensure sufficient funds are available. The senior management would also review the liquidity level in compliance with the statutory requirements for the licensed subsidiaries.

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle, and the Group's derivative financial liabilities at the end of the reporting period, based on the remaining contractual maturities, is summarised below:

	2019					2018				
	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1-5 years HK$'000	Total HK$'000	Carrying amount HK$'000	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1–5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities										
Bonds payable	–	107,412	1,610,406	1,717,818	1,549,172	–	2,017,974	–	2,017,974	1,945,475
Accounts payable	48,228	–	–	48,228	48,228	4,002	–	–	4,002	4,002
Financial liabilities included in other payables and accrued charges	1,522	22,079	–	23,601	23,601	600	15,867	–	16,467	16,467
Derivative financial liabilities										
Futures contracts	17,732	–	–	17,732	17,732	–	–	–	–	–
Others										
Lease liabilities	4,421	13,262	35,669	53,352	47,352	–	–	–	–	–
	71,903	142,753	1,646,075	1,860,731	1,686,085	4,602	2,033,841	–	2,038,443	1,965,944

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risks arising from individual equity investments classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss as at 31 December 2018 and 2019, details of which have been set out in notes 13 and 15 to the consolidated financial statements respectively. The Group's listed investments are mainly listed on the Stock Exchange, the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("SSE") and are valued at quoted market bid prices at the end of the reporting period. The risk management department is responsible for monitoring the equity price risk.

The market equity index for the Stock Exchange, SZSE and SSE at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	2019		2018	
	At 31/12/2019	**High/Low from 1/1/2019 to 31/12/2019**	At 31/12/2018	High/Low from 1/1/2018 to 31/12/2018
Hong Kong — Hang Seng Index	**28,190**	**30,157/25,064**	25,846	33,484/24,541
PRC — SZSE Component Index	**10,431**	**10,437/7,089**	7,240	11,633/7,084
PRC — SSE Composite Index	**3,050**	**3,271/2,464**	2,494	3,587/2,449

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the reasonably possible changes in the fair value of equity investments, with all other variables held constant had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date.

At the end of the reporting period, if the equity price had been 5% *(2018: 5%)* higher/lower with all other variables held constant, the Group's loss before tax would be decreased/increased by HK$28,742,000 *(2018: the Group's loss before tax would be decreased/increased by HK$14,619,000)* as a result of changes in fair value of listed financial assets classified as financial assets at fair value through profit or loss.

32. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2019 and 31 December 2018 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.

2019

	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	–	–

2018

	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	246,860	246,860	–	–
— Debt securities listed outside Hong Kong	159,474	–	159,474	–
— Unlisted fund investments	45,520	–	45,520	–
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	1,079	–	–	1,079

Management has assessed that the carrying amounts of other non-current assets, accounts receivable, other receivables and other assets, cash and cash equivalents, accounts payable and other payables approximate their fair values largely due to the short term maturities of these instruments or immaterial impact on discounting for non-current assets.

32. FAIR VALUE MEASUREMENTS (Continued)

Movements in Level 3 fair value measurements of financial assets

The movements in fair value measurements within Level 3 during the year are as follows:

	HK$'000
Equity investments at fair value through other comprehensive income	
At 1 January 2018	–
Effect of adoption of HKFRS 9	4,247
Total losses recognised in other comprehensive income	(3,168)
At 31 December 2018 and 1 January 2019	**1,079**
Total gains recognised in other comprehensive income	**388**
Disposed during the year	**(1,467)**
At 31 December 2019	**–**

The fair value is determined with reference to the latest net asset value of the investments which are the deemed resale reference price of the investments. Management have determined that the reported net asset values represent fair value of these investments.

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

The fair values of certain debt securities and unlisted fund investments are determined by using valuation techniques and inputs using third-party pricing information without adjustment from the fund managers and the bank.

(i) *Debt securities*

The fair value of debt securities was determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.

(ii) *Unlisted fund investments*

Note 15 to the consolidated financial statements provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments.

Valuation processes of the Group

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

33. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support the Group's growth and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, future capital requirement of the Group and investment opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and bonds. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and investment advisory services, asset management and insurance broking services which are regulated entities under the Securities and Futures Commission, the Insurance Authority and subject to the respective minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity. The Group's policy is to maintain the gearing ratio at a reasonable level. At the end of the reporting period, there were borrowings of HK$1,549,172,000 *(2018: HK$1,945,475,000)* for financing the operations of the Group which resulted in a gearing ratio of 367.0% *(2018: 6,529.8%)*.

34. COMMITMENTS

Capital commitments

	2019 **HK$'000**	2018 HK$'000
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the consolidated financial statements	**40**	971

Commitments under operating leases

As at 31 December 2018, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Minimum lease payments paid under operating leases	
— Properties	17,378
— Other assets	301
	17,679

	2018 HK$'000
Within one year	16,392
In the second to fifth year, inclusive	1,287
	17,679

35. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK$130,000,000 *(2018: HK$90,000,000)* and unlimited guarantee for a facility amounted to HK$140,000,000 *(2018: HK$200,000,000)* for banking facilities granted to subsidiaries from banks, which none of the amount was utilised *(2018: Nil)*.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company and the movements in its reserves are set out below:

	Notes	**2019 HK$'000**	2018 HK$'000
Non-current assets			
Interests in subsidiaries	*(a)*	**–**	1,402,602
		–	1,402,602
Current assets			
Financial assets at fair value through profit or loss		**728,990**	251,341
Deposits, prepayments and other receivables		**50,707**	55,965
Amounts due from subsidiaries		**801,931**	–
Cash and bank balances		**430,216**	281,941
		2,011,844	589,247
Current liabilities			
Bonds payable		**–**	1,945,355
Derivative financial liabilities		**17,732**	–
Other payables and accrued charges		**23,194**	16,700
		40,926	1,962,055
Net current assets/(liabilities)		**1,970,918**	(1,372,808)
Total assets less current liabilities		**1,970,918**	29,794
Non-current liabilities			
Bonds payable		**1,548,770**	–
		1,548,770	–
NET ASSETS		**422,148**	29,794
Capital and reserves			
Share capital		**366,182**	244,121
Reserves	*(b)*	**(524,034)**	(214,327)
Other equity instrument		**580,000**	–
TOTAL EQUITY		**422,148**	29,794

Approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Interests in subsidiaries

Interests in subsidiaries are stated at cost less accumulated impairment, if any.

There were no non-current amounts due from subsidiaries as at 31 December 2019 *(2018: HK$1,402,602,000)*.

(b) Movements of the reserves

	Share premium HK$'000 *(Note ii)*	Contributed surplus HK$'000 *(Note i)*	Accumulated losses HK$'000	Total HK$'000 *(Note iii)*
At 1 January 2019	**214,079**	**65,059**	**(493,465)**	**(214,327)**
Loss and total comprehensive income for the year	**–**	**–**	**(344,546)**	**(344,546)**
Total comprehensive income for the year	**–**	**–**	**(344,546)**	**(344,546)**
Transactions with equity holders				
Contributions and distributions				
Issue of shares under rights issue	**34,839**	**–**	**–**	**34,839**
At 31 December 2019	**248,918**	**65,059**	**(838,011)**	**(524,034)**
At 1 January 2018	214,079	65,059	(274,349)	4,789
Loss and total comprehensive income for the year	–	–	(219,116)	(219,116)
Total comprehensive income for the year	–	–	(219,116)	(219,116)
At 31 December 2018	214,079	65,059	(493,465)	(214,327)

Notes:

(i) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) Share premium

The share premium account of the Company of HK$248,918,000 *(2018: HK$214,079,000)* can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda (as amended).

(iii) Distributable reserves

At the end of the reporting period, in the opinion of the Directors, there is no reserve of the Company available for distribution to shareholders subject to the restriction stated above *(2018: Nil)*.

37. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Financial Management Limited ("SWSFM")	British Virgin Islands/ Hong Kong	US$10,000 (divided into 10,000 ordinary shares of US$1 each)	100%	100%	–	Investment holding and proprietary trading
Southwest Securities (HK) Asset Management Limited ("SWSAM")	Hong Kong/ Hong Kong	HK$44,000,000 ordinary shares and HK$6,000,000 non-voting deferred shares	100%	–	100%	Provision of asset management services, distribution of unit trusts and mutual funds
Southwest Securities (HK) Capital Limited ("SWSCAP")	Hong Kong/ Hong Kong	HK$60,000,000 ordinary shares	100%	–	100%	Provision of corporate finance advisory services
Southwest Securities (HK) Finance Limited ("SWSFIN")	Hong Kong/ Hong Kong	HK$1,000 ordinary shares and HK$10,000 non-voting deferred shares	100%	–	100%	Provision of corporate and personal financing services
Southwest Securities (HK) Futures Limited ("SWSFUT")	Hong Kong/ Hong Kong	HK$40,000,000 ordinary shares and HK$10,000,000 non-voting deferred shares	100%	–	100%	Futures broking and proprietary trading
Southwest Securities (HK) Brokerage Limited ("SWSB")	Hong Kong/ Hong Kong	HK$775,000,000 ordinary shares and HK$25,000,000 non-voting deferred shares	100%	–	100%	Securities broking, margin financing and distribution of unit trusts and mutual funds
Southwest Securities (HK) Wealth Management Limited ("SWSWM")	Hong Kong/ Hong Kong	HK$29,000,000 ordinary shares	100%	–	100%	Distribution of investment-linked products, mandatory provident fund products, provision of personal financial consulting and planning services and provision of insurance broking services

37. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Investments Limited ("SWSINV")	Hong Kong/ Hong Kong	HK$1 ordinary share	100%	–	100%	Investment holding
西證咨詢服務（深圳）有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$5,000,000	100%	–	100%	Provision of corporate finance advisory services
西證（大連）投資管理有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$6,000,000	100%	–	100%	Not yet commenced business
Southwest Value Fund ("SWVF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value and 30,000 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Investment holding
Southwest Value Master Fund ("SWVMF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value, and 29,700 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Portfolio investment

In accordance with Articles of Association of each of SWSAM, SWSFIN, SWSFUT and SWSB, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK$0.01) per non-voting deferred share when the profit exceeds HK$100,000,000,000 in any financial year.

38. EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events undertaken by the Company or by the Group after 31 December 2019 and up to the date of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS:

	Financial year/period					
	1/1/2019 – 31/12/2019 HK$'000	1/1/2018 – 31/12/2018 HK$'000	1/1/2017 – 31/12/2017 HK$'000	1/1/2016 – 31/12/2016 HK$'000	1/7/2015 – 31/12/2015 HK$'000	1/7/2014 – 30/6/2015 HK$'000
Revenue	**232,534**	122,172	240,097	92,038	16,024	56,245
(Loss)/Profit before tax	**(346,838)**	(196,748)	4,092	(167,186)	18,305	12,941
Income tax credit (expense)	**2,243**	(5,000)	(3,000)	263	(4,680)	(1,650)
(Loss)/Profit for the year/period	**(344,595)**	(201,748)	1,092	(166,923)	13,625	11,291
Attributable to:						
Equity shareholders of the Company	**(344,595)**	(201,748)	1,092	(166,923)	13,625	11,291

ASSETS AND LIABILITIES:

	Assets and liabilities at					
	31/12/2019 HK$'000	31/12/2018 HK$'000	31/12/2017 HK$'000	31/12/2016 HK$'000	31/12/2015 HK$'000	30/6/2015 HK$'000
Non-current assets	**59,394**	22,477	27,709	104,222	433,326	140,010
Current assets	**2,076,442**	2,003,700	2,172,078	2,040,151	1,975,709	2,328,413
Total assets	**2,135,836**	2,026,177	2,199,787	2,144,373	2,409,035	2,468,423
Current liabilities	**(130,006)**	(1,996,383)	(1,950,877)	(250,147)	(247,262)	(85,284)
Non-current liabilities	**(1,583,682)**	–	–	(1,659,157)	(1,754,122)	(1,854,306)
Total liabilities	**(1,713,688)**	(1,996,383)	(1,950,877)	(1,909,304)	(2,001,384)	(1,939,590)
Net assets	**422,148**	29,794	248,910	235,069	407,651	528,833
Current ratio	**15.97**	1.00	1.11	8.16	7.99	27.30
Gearing ratio	**367%**	6,530%	722%	706%	430%	351%

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