



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



2023
Interim Report
中期報告

* For identification purpose only
僅供識別

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. ZHANG Hongwei (*Chairman*)

Mr. HUANG Changsheng

Independent Non-executive Directors

Mr. MENG Gaoyuan

Mr. LIANG Jilin

Mr. CAO Ping

Audit Committee

Mr. MENG Gaoyuan (*Chairman*)

Mr. CAO Ping

Mr. LIANG Jilin

Remuneration Committee

Mr. CAO Ping (*Chairman*)

Mr. ZHANG Hongwei

Mr. MENG Gaoyuan

Mr. LIANG Jilin

Nomination Committee

Mr. LIANG Jilin (*Chairman*)

Mr. ZHANG Hongwei

Mr. MENG Gaoyuan

Mr. CAO Ping

Authorised Representatives

Mr. HUANG Changsheng

Ms. LI Peihua

Company Secretary

Ms. LI Peihua

Registered Office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Head Office and Principal Place of Business in Hong Kong

14/F, One Hysan Avenue

Causeway Bay

Hong Kong

CORPORATE INFORMATION

Bermuda Principal Share Registrar	MUFG Fund Services (Bermuda) Limited 4th floor North Cedar House 41 Cedar Avenue Hamilton HM12 Bermuda
Branch Share Registrar in Hong Kong	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Auditor	SHINEWING (HK) CPA Limited
Legal Adviser as to Hong Kong Law	Nixon Peabody CWL
Principal Banker	Standard Chartered Bank (Hong Kong) Limited
Listing Information	Equity securities listed on The Stock Exchange of Hong Kong Limited Stock Code: 812.HK Debt securities listed on The Stock Exchange of Hong Kong Limited (US\$178,000,000, 4% guaranteed bonds due 2024) Stock Code: 40594.HK
Website	www.swsc.hk

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Southwest Securities International Securities Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 (the “**Review Period**”) together with the comparative figures for the six months ended 30 June 2022 as set out on pages 11 to 37 to this report.

INTERIM DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

BUSINESS REVIEW

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Brokerage and Margin Financing

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

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

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

Corporate Finance

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Asset Management

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Proprietary Trading

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

Other Income and Gains

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

Staff Costs

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

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

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period were HK\$0.1 million (six months ended 30 June 2022: HK\$3.2 million). Fee and commission expenses mainly include commissions paid for brokerage business and proprietary trading business. The decrease in commission expenses during the Review Period was mainly attributable to the decrease in trading volume of brokerage business and proprietary trading business.

Finance Costs

The Group's finance costs during the Review Period amounted to HK\$16.6 million (six months ended 30 June 2022: HK\$37.6 million), decreased by approximately HK\$21.0 million or 55.9%. The finance costs were mainly interest expenses payable on the guaranteed bonds issued by the Company on 9 February 2021 with an aggregate principal amount of US\$178,000,000 due 2024 which bear a fixed interest rate of 4.00% per annum and listed on the Stock Exchange (Bond Stock Code: 40594) (the "**2021 USD Bonds**"). During the Review Period, the Group completed repurchase of USD\$10 million bonds in aggregate principal amount of the US\$178 million, the details of the repurchase of the 2021 USD Bonds were set out in the announcement of the Company dated 20 April 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Banking Facilities and Charges over Assets

As at 30 June 2023, the Group had no outstanding bank loans (31 December 2022: Nil) and had an aggregate banking facilities of HK\$nil (31 December 2022: HK\$80 million), the drawdown of which is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the cost of funds of the banks. As at 30 June 2023, the Group pledged no assets (31 December 2022: Nil) for the facilities.

Material Acquisitions, Disposals and Significant Investments

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

Contingencies

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

Commitments

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group had no material exposure to fluctuations in exchange rates as at 30 June 2023 (31 December 2022: Nil).

EMPLOYEE AND REMUNERATION POLICY

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Revenue	3	22,913	(109,624)
Other income and gains	5	9,877	1,030
		32,790	(108,594)
Fee and commission expenses		(104)	(3,179)
Finance costs	6(a)	(16,576)	(37,602)
Staff costs	6(b)	(14,008)	(23,741)
Depreciation of fixed assets and right-of-use assets		(516)	(8,284)
Expected credit losses on financial assets, net	6(c)	1,818	(1,802)
Other operating expenses		(8,965)	(18,825)
Fair value gains arising from investment fund		–	408
Total expenses		(38,351)	(93,025)
Loss before tax	6	(5,561)	(201,619)
Income tax	7	–	–
Loss for the period attributable to equity shareholders of the Company		(5,561)	(201,619)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		–	(55)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		–	(55)
Other comprehensive income for the period, net of tax		–	(55)
Total comprehensive income for the period attributable to equity shareholders of the Company		(5,561)	(201,674)
Loss per share			
— Basic (HK cents)	8	(0.152)	(5.506)
— Diluted (HK cents)	8	(0.152)	(5.506)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 30 June 2023 HK\$'000	Audited At 31 December 2022 HK\$'000
	<i>Notes</i>		
Non-current assets			
Fixed assets		901	1,267
Right-of-use assets		–	150
Financial assets at fair value through other comprehensive income	9	–	–
Other non-current assets		400	400
		1,301	1,817
Current assets			
Financial assets at fair value through profit or loss	10	317,306	372,713
Accounts receivable	11	12,108	47,726
Prepayments, other receivables and other assets		3,836	8,589
Cash and bank balances	12	387,423	378,104
		720,673	807,132
Current liabilities			
Bonds payable	13	723,841	–
Other payables and accrued charges		15,382	18,457
Provisions		9,446	13,185
Lease liabilities		–	941
		748,669	32,583
Net current (liabilities) assets		(27,996)	774,549
Total assets less current liabilities		(26,695)	776,366

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 30 June 2023 <i>HK\$'000</i>	Audited At 31 December 2022 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current liabilities			
Bonds payable	13	–	797,500
		–	797,500
		(26,695)	(21,134)
Capital and reserves			
Share capital	14	366,182	366,182
Reserves		(972,877)	(967,316)
Other equity instrument	15	580,000	580,000
		(26,695)	(21,134)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							Holder of other equity instrument	Total
	Share capital	Investment revaluation reserve	Share premium	*Capital reserve	Foreign exchange reserve	Accumulated losses	Total		
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000		
At 1 January 2022	366,182	(3,301)	249,158	40,836	(238)	(1,012,871)	(360,234)	580,000	219,766
Loss for the period	-	-	-	-	-	(201,619)	(201,619)	-	(201,619)
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(55)	-	(55)	-	(55)
Other comprehensive income for the period, net of tax	-	-	-	-	(55)	-	(55)	-	(55)
Total comprehensive income for the period	-	-	-	-	(55)	(201,619)	(201,674)	-	(201,674)
At 30 June 2022 (Unaudited)	366,182	(3,301)	249,158	40,836	(293)	(1,214,490)	(561,908)	580,000	18,092

	Attributable to equity shareholders of the Company							Holder of other equity instrument	Total
	Share capital	Investment revaluation reserve	Share premium	*Capital reserve	Foreign exchange reserve	Accumulated losses	Total		
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000		
At 1 January 2023	366,182	(3,301)	249,158	40,836	-	(1,254,009)	(601,134)	580,000	(21,134)
Loss for the period	-	-	-	-	-	(5,561)	(5,561)	-	(5,561)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(5,561)	(5,561)	-	(5,561)
At 30 June 2023 (Unaudited)	366,182	(3,301)	249,158	40,836	-	(1,259,570)	(606,695)	580,000	(26,695)

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(5,561)	(201,619)
Adjustments for non-cash items included in profit and loss	(6,726)	20,652
Change in operating assets and liabilities	115,374	574,650
Net cash generated from operating activities	103,087	393,683
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for purchase of fixed assets	–	(1,151)
Net cash used in investing activities	–	(1,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds issuance	(78,498)	(439,335)
Bank loan interest paid	–	(2)
Interest paid on bonds issued	(16,957)	(41,138)
Repayment of lease liabilities	(2)	(495)
Principal portion of lease payments	(941)	(8,192)
Capital withdrawal by third party interests in consolidated investment fund	–	(5,000)
Net cash used in financing activities	(96,398)	(494,162)
Net increase/(decrease) in cash and cash equivalents	6,689	(101,630)
Cash and cash equivalents at the beginning of the period	378,104	285,073
Effect on exchange rate changes	2,630	(1,070)
Cash and cash equivalents at the end of the period	387,423	182,373

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

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

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

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

Going concern assumption

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION *(Continued)*

Going concern assumption *(Continued)*

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION *(Continued)*

Going concern assumption *(Continued)*

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. REVENUE

An analysis of revenue is as follows:

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. REVENUE (Continued)

Note:

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. SEGMENT INFORMATION

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

Reportable operating segments

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

	For the six months ended 30 June 2023 (Unaudited)					
	Brokerage and margin financing	Corporate finance	Proprietary trading	Asset management	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue from external customers	53	4,972	17,888	-	-	22,913
Other income and gains	2,465	1	-	-	7,411	9,877
Fee and commission expenses	(102)	(2)	-	-	-	(104)
Finance costs	(1,382)	(699)	(5,377)	(278)	-	(7,736)
Expected credit losses on financial assets, net	1,687	131	-	-	-	1,818
Other operating expenses	(6,504)	(5,758)	(295)	(2,436)	(3,921)	(18,914)
Segment results	(3,783)	(1,355)	12,216	(2,714)	3,490	7,854
Unallocated expenses, represented central administration costs						(4,209)
Unallocated depreciation of fixed assets						(366)
Unallocated finance costs						(8,840)
Loss before tax						(5,561)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

	For the six months ended 30 June 2022 (Unaudited)					
	Brokerage and margin financing	Corporate finance	Proprietary trading	Asset management	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue from external customers	2,108	3,390	(115,122)	-	-	(109,624)
Other income and gains	405	72	25	-	528	1,030
Fee and commission expenses	(873)	-	(2,306)	-	-	(3,179)
Finance costs	(3,148)	-	(29,788)	-	(495)	(33,431)
Expected credit losses on financial assets, net	(19)	1,109	(2,892)	-	-	(1,802)
Other operating expenses	(12,432)	(10,096)	(1,825)	(6,341)	(11,246)	(41,940)
Fair value gains arising from investment fund	-	-	408	-	-	408
Segment results	(13,959)	(5,525)	(151,500)	(6,341)	(11,213)	(188,538)
Unallocated expenses, represented central administration costs						(8,002)
Unallocated depreciation of fixed assets						(908)
Unallocated finance costs						(4,171)
Loss before tax						(201,619)

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the six months ended 30 June 2023 and 30 June 2022, the Group's revenue is mainly derived from customers in Hong Kong.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. OTHER INCOME AND GAINS

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

6. LOSS BEFORE TAX

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7. INCOME TAX

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

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

8. LOSS PER SHARE

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

	Unaudited Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Loss for the period attributable to equity shareholders of the Company (HK\$'000)	(5,561)	(201,619)
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share (In '000)	3,661,831	3,661,831
Basic loss per share (HK cents)	(0.152)	(5.506)
Diluted loss per share (HK cents)	(0.152)	(5.506)

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (Continued)

Notes:

(a) Accounts receivable analysis on securities margin clients

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

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

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the Reporting Period, fair value of marketable securities pledged by securities margin clients was HK\$358,000 (at 31 December 2022: HK\$565,000).

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

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

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2022	–	–	536,389	536,389
Credited to profit or loss	–	–	(281)	(281)
Exchange alignment	–	–	(94)	(94)
As at 31 December 2022 (audited) and 1 January 2023	–	–	536,014	536,014
Amount written off	–	–	(705)	(705)
Credited to profit or loss	–	–	(1,690)	(1,690)
Exchange alignment	–	–	(22)	(22)
As at 30 June 2023 (unaudited)	–	–	533,597	533,597

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients

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

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

- (1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand on settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

(i) (Continued)

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

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

(i) (Continued)

- (5) 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 2022	-	-	164	3,364	3,528
Credited to profit or loss	-	-	(7)	(1,224)	(1,231)
Amount written off	-	-	-	(2,009)	(2,009)
As at 31 December 2022 (audited) and 1 January 2023	-	-	157	131	288
Charged/(credited) to profit or loss	-	-	3	(131)	(128)
As at 30 June 2023 (unaudited)	-	-	160	-	160

12. CASH AND BANK BALANCES

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the interim condensed consolidated financial information amounted to approximately HK\$115,803,000 (at 31 December 2022: HK\$118,418,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. BONDS PAYABLE

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

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

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

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. SHARE CAPITAL

	At 30 June 2023 (Unaudited)		At 31 December 2022 (Audited)	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each				
At beginning and end of the reporting period	4,000,000	400,000	4,000,000	400,000
Issued and fully paid:				
At the end of the reporting period	3,661,830	366,182	3,661,830	366,182

15. OTHER EQUITY INSTRUMENT

On 15 October 2019, the Company issued HK\$580 million perpetual securities (the “**other equity instrument**”) with an initial distribution rate of 3.875% per annum. From 15 October 2022, the distribution rate increased to 3.92% per annum. The Company may, at its sole discretion, elect to defer, in whole or in part, any distribution declared by the Company. The other equity instrument 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 other equity instrument, in accordance with the terms and conditions stated in the subscription agreement. The other equity instrument 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. On 14 October 2021, the Company had declared the distribution an amount of HK\$4,802,877 to the holder of the other equity instrument and fully settled on 15 February 2022. No distribution declared during the six months ended 30 June 2023.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. RELATED PARTY TRANSACTIONS

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

Related party relationship	Nature of transaction	Unaudited	
		Six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Key management personnel, including Directors	Salaries, fees, commission and allowances	5,337	7,519
	Contributions to retirement benefit schemes	76	65
		5,413	7,584
Ultimate holding company	Amount due from the ultimate holding company	1,009	–

17. COMMITMENT

Capital commitments

There was no capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the interim condensed consolidated financial information as at 30 June 2023 and 31 December 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value in addition to the fair value disclosed elsewhere in these interim condensed consolidated financial information on a recurring basis at 30 June 2023 and 31 December 2022 across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 (lowest level): Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At 30 June 2023 (Unaudited)

	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities listed in Hong Kong	213,908	213,908	—	—
— Debt securities listed outside Hong Kong	103,398	103,398	—	—
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	—	—	—	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. FAIR VALUE MEASUREMENTS (Continued)

At 31 December 2022 (Audited)

	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Debt securities listed in Hong Kong	266,513	266,513	—	—
— Debt securities listed outside Hong Kong	106,200	106,200	—	—
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	—	—	—	—

No movements in fair value measurements within Level 3 during the period.

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

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

Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 and Level 2 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2023, none of the Directors, the chief executive of the Company or their respective associates had any interests and short positions in the shares, underlying shares and/or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the “2013 Share Option Scheme”) which is valid and effective for 10 years from the date of adoption. The total number of shares available for issue is 119,147,600 shares, representing 10% of total number of shares in issue as at the date of adoption of the 2013 Share Option Scheme (i.e. 12 November 2013). During the Review Period, there was no outstanding share option and no share option was granted, exercised, cancelled or lapsed under the 2013 Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

OTHER INFORMATION

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

As at 30 June 2023, the substantial shareholders of the Company (other than Directors and chief executive of the Company whose interests or short positions have been disclosed in the "Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debentures" above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and to the best knowledge of the Company are as follows:

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

Names	Notes	Capacity and nature of interest	Number of Shares held	Approximate percentage of issued voting Shares
Southwest Securities International Investment Limited (" SSII ")	1	Beneficial owner	2,713,469,233	74.10%
Southwest Securities Co., Ltd. (" SWSC ")	1	Interest of controlled corporation	2,713,469,233	74.10%

Note:

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

Save as disclosed above, as at 30 June 2023, the Company has not been notified of any other persons (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company that were recorded in the register required to be kept under Section 336 of the SFO.

OTHER INFORMATION

ADVANCE TO AN ENTITY

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

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

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

As at 30 June 2023, the outstanding amount of the Loan and interest were approximately HK\$546.5 million with an interest rate of 12% per annum and default interest rate 20% per annum, and were 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 were delisted from the Main Board of the Stock Exchange on 21 March 2022) 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, 16 October 2019 and 28 August 2020.

OTHER INFORMATION

On 16 October 2020, the Lender initiated civil litigation (the “**Litigation**”) in the PRC against (1) Mr. Chen Da Ren (陳達仁); (2) Zhaoqing Jiazhou New City Real Estate Industry Development Company Limited* (肇慶市加洲新城房地產實業開發有限公司) (“**Zhaoqing Jiazhou**”); and (3) Jiangmen Jinhui Century Plaza Property Management Company Limited* (江門市金滙世紀廣場物業管理有限公司) (“**Jiangmen Jinhui**”) to recover the Loan advanced to the Borrower together with the relevant interest. Each of Mr. Chen Da Ren, Zhaoqing Jiazhou and Jiangmen Jinhui is a guarantor of the Loan.

On 14 July 2021, the Lender initiated an arbitration in the PRC (“**Arbitration**”) against (1) Zhenjiang Hualong Plaza Real Estate Co., Ltd.* (鎮江華龍廣場置業有限公司) (“**Zhenjiang Hualong**”); and (2) Zhenjiang Yihao Real Estate Co., Ltd.* (鎮江逸豪置業有限公司) (“**Zhenjiang Yihao**”) to recover the Loan advanced to the Borrower together with the relevant interest. Each of Zhenjiang Hualong and Zhenjiang Yihao is a guarantor of the Loan.

On 19 October 2020, the Litigation was accepted by the Intermediate People’s Court of Jiangmen City, Guangdong Province* (廣東省江門市中級人民法院). On 28 July 2021, the Arbitration was accepted by Shanghai Arbitration Commission (上海仲裁委員會).

As at the date of this report, the Litigation is still ongoing, while Shanghai Arbitration Commission has issued the arbitration award that denied all the claims of the Lender. Further legal measures will be taken by the Lender to revoke the said arbitration award and recover the Loan.

The Company will make further announcements in due course to inform the Shareholders and potential investors of the Company of any further significant development in the Litigation or Arbitration and the recovery of the Loan.

As of 31 December 2020, the Company had made full impairment provision in respect of the Loan.

CORPORATE GOVERNANCE

It is the belief of the Board that good corporate governance plays a vital part in maintaining the success of the Company. The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value accountability. The Company has adopted and complied with the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Board will continue to review and enhance its corporate governance practice of the Company to ensure compliance with the CG Code and align with the latest developments.

* translation for reference only

OTHER INFORMATION

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the Review Period, the Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry with each Director and, based on such enquiry, confirmed that all the Directors have complied with the required standard as set out in the Model Code.

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

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

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

REVIEW OF INTERIM FINANCIAL INFORMATION

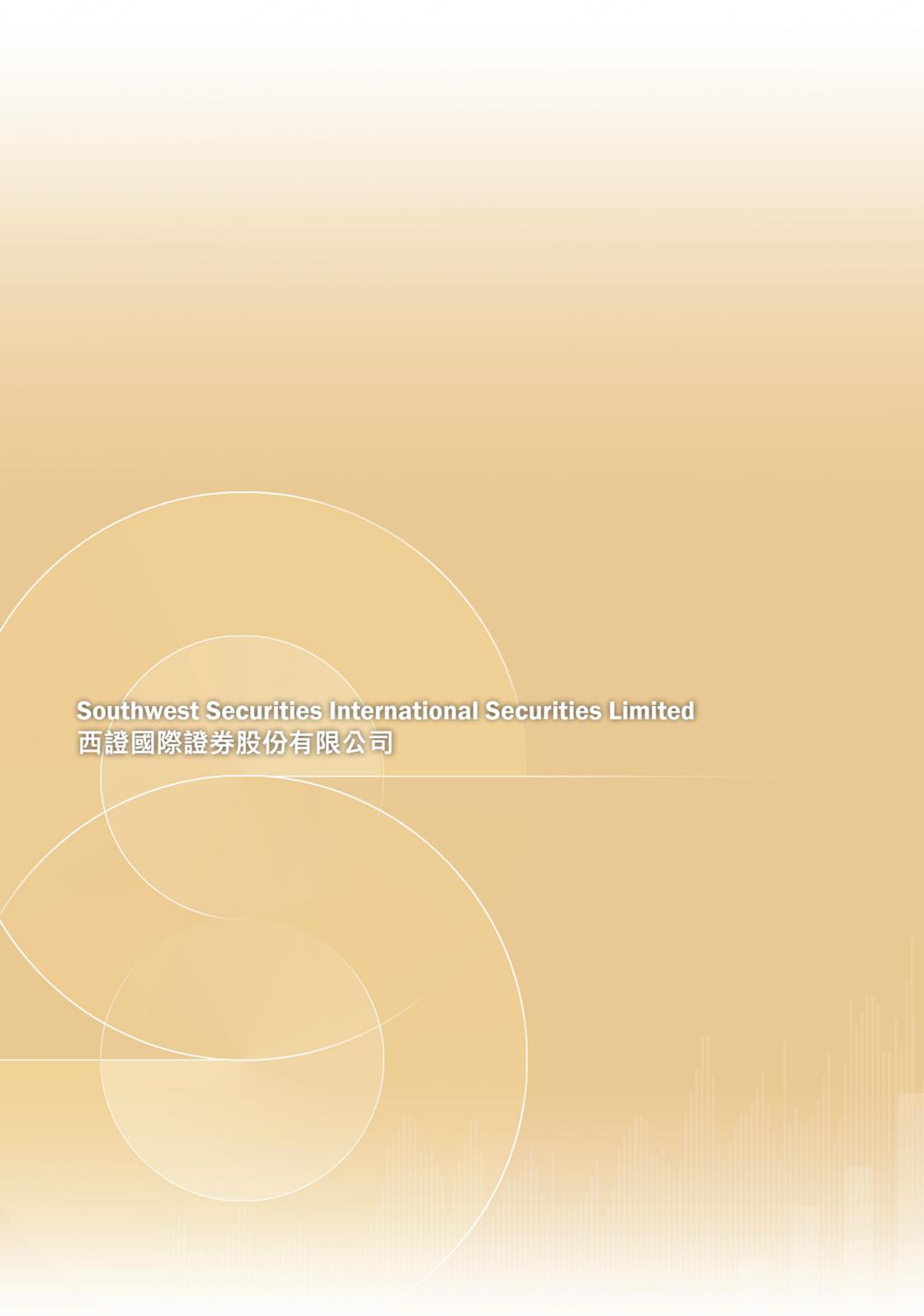
The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim condensed consolidated financial information for the six months ended 30 June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

CHANGE OF AUDITORS

Ernst & Young resigned as auditor of the Company on 7 July 2021 and SHINEWING (HK) CPA Limited (“**SHINEWING**”) was appointed as auditor of the Company at the special general meeting on 28 July 2021. Save as disclosed above, there were no other changes of auditors by the Company in the past three years as at the date of this report. SHINEWING is subject to reappointment as independent auditor of the Group at the annual general meeting of the Company.

By order of the Board
Zhang Hongwei
Chairman

Hong Kong, 25 August 2023



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