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Southwest Securities International Securities Limited

西證國際證券股份有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 812)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of Southwest Securities International Securities Limited (the “**Company**”) presents the consolidated final results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 (the “**Year**”), together with comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	2	(102,042)	129,633
Other income and gains	4	8,051	5,218
		(93,991)	134,851
Fee and commission expenses		(3,756)	(11,629)
Finance costs	5a	(57,578)	(85,741)
Staff costs (including Directors’ emoluments)	5b	(42,553)	(50,238)
Depreciation of fixed assets and right-of-use assets		(16,524)	(17,891)
Expected credit losses on financial assets, net		1,512	(1,501)
Other operating expenses		(28,784)	(26,485)
Fair value gains (losses) arising from investment fund		440	(349)

* *For identification purpose only*

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Loss before tax	5	(241,234)	(58,983)
Income tax credit	6	96	–
Loss for the year		<u>(241,138)</u>	<u>(58,983)</u>
Other comprehensive income (expense)			
Item that will not be reclassified subsequently to profit or loss:			
Fair value gain on financial assets at fair value through other comprehensive income		–	75
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of financial statements of consolidated investment fund		84	(4)
Release of exchange reserve upon redemption of consolidated investment fund		154	–
Other comprehensive income for the year		238	71
Total comprehensive expense for the year		<u>(240,900)</u>	<u>(58,912)</u>
Loss for the year attributable to			
— the equity shareholders of the Company		(241,138)	(63,786)
— the holder of other equity instrument		–	4,803
		<u>(241,138)</u>	<u>(58,983)</u>
Total comprehensive (expense) income for the year attributable to			
— the equity shareholders of the Company		(240,900)	(63,715)
— the holder of other equity instrument		–	4,803
		<u>(240,900)</u>	<u>(58,912)</u>
Loss per share			
— Basic (<i>HK cents</i>)	7	<u>(6.585)</u>	<u>(1.742)</u>
— Diluted (<i>HK cents</i>)	7	<u>(6.585)</u>	<u>(1.742)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Fixed assets		1,267	1,890
Right-of-use assets	8	150	14,901
Intangible assets		–	–
Financial assets at fair value through other comprehensive income		–	–
Other non-current assets		400	3,400
		1,817	20,191
Current assets			
Financial assets at fair value through profit or loss	9	372,713	1,227,529
Accounts receivable	10	47,726	205,855
Prepayments, other receivables and other assets		8,589	14,734
Tax recoverable		–	2,661
Cash and bank balances		378,104	285,073
		807,132	1,735,852
Current liabilities			
Derivative financial liabilities	12	–	6,747
Accounts payable	13	–	68,669
Other payables and accrued charges		18,457	33,817
Provisions		13,185	21,151
Lease liabilities	8	941	17,817
Net assets attributable to holders of third party interests in consolidated investment fund		–	5,408
		32,583	153,609
Net current assets		774,549	1,582,243
Total assets less current liabilities		776,366	1,602,434

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current liabilities			
Bonds payable	<i>11</i>	797,500	1,382,512
Lease liabilities	<i>8</i>	<u>–</u>	<u>156</u>
		797,500	1,382,668
		(21,134)	219,766
Capital and reserves			
Share capital		366,182	366,182
Reserves		(967,316)	(726,416)
Other equity instrument		<u>580,000</u>	<u>580,000</u>
		(21,134)	219,766

Notes:

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

These consolidated final results have been prepared in accordance with 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**”). These consolidated final results include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of these consolidated final results is the historical cost basis except for financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, derivative financial liabilities and net assets attributable to holders of third party interests in consolidated investment fund, which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for services.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

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

Going concern assumption

The Group incurred a consolidated loss of approximately HK\$241,138,000 for the year ended 31 December 2022 and had capital deficiency of approximately HK\$21,134,000 as at 31 December 2022, which was mainly attributable to bonds payable of approximately HK\$797,500,000 that would be due for repayment on 9 February 2024, while its cash and cash equivalents amounted to only approximately HK\$378,104,000 as at 31 December 2022. 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.

In the preparation of the Group’s consolidated financial statements, the Directors of the Company have prepared a cash flow forecast covering a period of not less than twelve months from 31 December 2022 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 Directors, the consolidated financial statements have been prepared on a going concern basis:

- (1) 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 on 30 December 2022 in relation to the potential sale and purchase of the shares of the Company (the “**Potential Transaction**”). The Directors considered that neither the MOU itself nor the Group’s capital deficiency position as at 31 December 2022 would trigger any early redemption of the bonds before the maturity date, unless and until there is any subsequent completion of the Potential Transaction;
- (2) as of the date on which these 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, as and when required. The Directors considered SWSC have such financial ability to do so, as of the date on which these consolidated financial statements are approved by the Directors; and
- (3) 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 consolidated financial statements.

Application of new and amendments to HKFRSs

In the current year, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2022:

Amendment to HKFRS 16	<i>Covid-19 Related Rent Concessions beyond 30 June 2021</i>
Amendment to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020 Cycle</i>

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	<i>Insurance Contracts¹</i>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback²</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause²</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants¹</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies¹</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹</i>

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

² Effective for annual periods beginning on or after 1 January 2024.

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

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

2. REVENUE

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

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Total revenue from contracts with customers within the scope of HKFRS 15:	<i>(i)</i>		
<i>Brokerage:</i>			
— commission income on securities dealing		912	5,150
— commission income on futures and options dealing		—	447
— insurance brokerage fee income		561	2,373
		1,473	7,970
<i>Corporate finance:</i>			
— IPO sponsor fee income		6,230	6,270
— underwriting and placing commission income		4,099	16
— consultancy and financial advisory fee income		654	2,488
		10,983	8,774
		12,456	16,744
Total revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		810	4,803
Net (losses) gains from proprietary trading (<i>note</i>)		(115,308)	108,086
		(114,498)	112,889
Total revenue		(102,042)	129,633

Note:

The amount included the unrealised fair value gains in financial assets at fair value through profit or loss amounted to approximately HK\$27,867,000 (2021: unrealised fair value losses of HK\$27,727,000) and unrealised fair value gains in derivative financial liabilities amounted to approximately HK\$6,739,000 (2021: unrealised fair value losses of HK\$4,023,000).

- (i) An analysis of total revenue from contracts with customers within the scope of HKFRS 15 was as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Analyse by business segment:		
<i>Brokerage</i>		
— services transferred at a point in time	<u>1,473</u>	<u>7,970</u>
<i>Corporate finance</i>		
— services transferred at a point in time	4,099	16
— services transferred over time	<u>6,884</u>	<u>8,758</u>
	<u>10,983</u>	8,774
	<u>12,456</u>	<u>16,744</u>
Analyse by timing of revenue recognition:		
— services transferred at a point in time	5,572	7,986
— services transferred over time	<u>6,884</u>	<u>8,758</u>
	<u>12,456</u>	<u>16,744</u>

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

As at 31 December 2022, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is approximately HK\$3,700,000 (2021: HK\$23,530,000). The amount represents revenue expected to be recognised in the future from IPO sponsor fee income contracts and consultancy and financial advisory fee income contracts.

The Group will recognise this revenue as the service is completed, which is expected to occur over the next 12-18 months (2021: next 12-18 months).

3. SEGMENT INFORMATION

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

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

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

Reportable operating segments

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

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

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

The accounting policies of the operating segments are the same as the Group’s accounting policies.

Inter-segment revenue are charged at prevailing market rates.

2022

	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	2,283	10,983	-	(115,308)	-	(102,042)
Inter-segment revenue	1,388	-	1,514	(84)	-	2,818
Segment revenue	3,671	10,983	1,514	(115,392)	-	(99,224)
Eliminations	(1,388)	-	(1,514)	84	-	(2,818)
Group Revenue	2,283	10,983	-	(115,308)	-	(102,042)
Other income and gains	2,535	240	144	151	4,981	8,051
Fee and commission expenses	(1,019)	(8)	-	(2,729)	-	(3,756)
Finance costs	(4,549)	-	-	(41,368)	-	(45,917)
Expected credit losses on financial assets, net	288	1,224	-	-	-	1,512
Fair value gains arising from consolidation investment fund	-	-	-	440	-	440
Other operating expenses	(21,852)	(18,825)	(9,500)	(8,196)	(9,879)	(68,252)
Segment results	(22,314)	(6,386)	(9,356)	(167,010)	(4,898)	(209,964)
Unallocated expenses, represented certain administration costs						(17,836)
Unallocated depreciation of fixed assets						(1,773)
Unallocated finance costs						(11,661)
Loss before tax						(241,234)

2021

	Brokerage and margin financing <i>HK\$'000</i> (Restated)	Corporate finance <i>HK\$'000</i> (Restated)	Asset management <i>HK\$'000</i> (Restated)	Proprietary trading <i>HK\$'000</i> (Restated)	Other operations <i>HK\$'000</i> (Restated)	Consolidated <i>HK\$'000</i> (Restated)
Segment revenue from external customers	12,773	8,774	–	108,086	–	129,633
Inter-segment revenue	6,076	151	21,556	(378)	–	27,405
Segment revenue	18,849	8,925	21,556	107,708	–	157,038
Eliminations	(6,076)	(151)	(21,556)	378	–	(27,405)
Group Revenue	12,773	8,774	–	108,086	–	129,633
Other income and gains	2,079	1,000	749	3	1,387	5,218
Fee and commission expenses	(4,023)	–	–	(7,606)	–	(11,629)
Finance costs	(11,356)	–	–	(58,693)	–	(70,049)
Expected credit losses on financial assets, net	(45)	(1,456)	–	–	–	(1,501)
Fair value losses arising from consolidation of investment fund	–	–	–	(349)	–	(349)
Other operating expenses	(35,852)	(22,548)	(5,938)	(13,885)	(6,028)	(84,251)
Segment results	(36,424)	(14,230)	(5,189)	27,556	(4,641)	(32,928)
Unallocated expenses, represented certain administration costs						(7,331)
Unallocated Depreciation of fixed assets						(3,032)
Unallocated finance costs						(15,692)
Loss before tax						(58,983)

Geographical information

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2022 and 2021, the Group's revenue is derived from customers in Hong Kong. Accordingly, no analysis by geographical segment is provided for revenue.

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, is based on the location to which they are managed, are also located in Hong Kong. Accordingly, no analysis by geographical segment is provided for non-current assets.

Major customers

During the years ended 31 December 2022 and 2021, the following external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net (losses) gains from proprietary trading.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A from corporate finance segment	3,640	N/A*
Customer B from corporate finance segment	2,292	N/A*
Customer C from corporate finance segment	<u>1,500</u>	<u>N/A*</u>

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

4. OTHER INCOME AND GAINS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other Income		
Other interest income	5,836	1,583
Government grant (<i>note</i>)	1,487	–
Handling income	374	1,116
Written-off of staff bonus	–	1,000
Arrangement fee income	–	428
Sundry income	<u>347</u>	<u>1,091</u>
	<u>8,044</u>	<u>5,218</u>
Other gains		
Gain on disposal of fixed assets	<u>7</u>	<u>–</u>
	<u>8,051</u>	<u>5,218</u>

Note: During year ended 31 December 2022, the amounts of HK\$1,487,000 (2021: nil) represented cash subsidies from the Employment Support Scheme (“ESS”) under Anti-epidemic Fund launched by the Hong Kong Special Administrative Region Government supporting the payroll of the Company’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not to reduce employee head count below prescribed levels for a specified period of time. The Group had complied with all attached conditions during the year ended 31 December 2022 and does not have other unfulfilled conditions and other contingencies attached to the receipts of the grant.

5. LOSS BEFORE TAX

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Loss before tax is arrived at after charging (crediting):		
(a) Finance costs		
Bank loan interest expenses	–	208
Bonds interest expenses	52,858	79,012
Imputed interest expenses on bonds payable (<i>note 11</i>)	3,856	3,971
Interest expenses on lease liabilities	707	1,790
Other interest expenses	157	760
	<u>57,578</u>	<u>85,741</u>
(b) Staff costs (including Directors’ emoluments)		
Employer on contributions to retirement benefit schemes	1,052	1,207
Salaries, commission and allowances	41,501	49,031
	<u>42,553</u>	<u>50,238</u>
(c) Other items		
Auditor’s remuneration		
— Audit-related assurance services	1,422	1,329
— Other services	100	100
(Gains) losses on disposal of fixed assets	(7)	4
Exchange loss, net	9,150	1,640
	<u>9,150</u>	<u>1,640</u>

6. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made for year ended 31 December 2022 since the Group did not derived any assessable profit arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made for year ended 31 December 2021 since the assessable profit is wholly absorbed by tax losses brought forward.

A reconciliation of the income tax credit 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 applicable tax rates is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss before tax	<u>(241,234)</u>	<u>(58,983)</u>
Income tax at applicable tax rate of 16.5% (2021: 16.5%)	(39,804)	(9,732)
Tax effect of non-deductible expenses	10,383	50,223
Tax effect of non-taxable income	(2,532)	(15,512)
Tax effect of unrecognised temporary difference	–	293
Tax effect of unrecognised tax losses	31,953	6,877
Utilisation of previously unrecognised tax losses	–	(32,149)
Over-provision in respect of pervious year	<u>(96)</u>	–
Income tax credit	<u>(96)</u>	–

7. LOSS PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share	<u>(241,138)</u>	<u>(63,786)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share	<u>3,661,830</u>	<u>3,661,830</u>
Basic loss per share (<i>HK cents</i>)	<u>(6.585)</u>	<u>(1.742)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(6.585)</u>	<u>(1.742)</u>

Note: There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2022 and 2021. Accordingly, the diluted loss per share for the respective years are the same as basic loss per share.

Dividends

No dividend was paid or proposed during the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: HK\$nil).

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group has lease contracts for office 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.

(i) Right-of-use assets:

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

	Properties <i>HK\$'000</i>
As at 1 January 2021	28,554
Additions	1,206
Depreciation charge	<u>(14,859)</u>
As at 31 December 2021 and 1 January 2022	14,901
Depreciation charge	<u>(14,751)</u>
As at 31 December 2022	<u>150</u>

Additions to the right-of-use assets for the year ended 31 December 2021 amounted to approximately HK\$1,206,000 (2022: nil), due to a new lease of an office.

(ii) Lease liabilities:

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

	2022 HK\$'000	2021 <i>HK\$'000</i>
Non-current	–	156
Current	<u>941</u>	<u>17,817</u>
	<u>941</u>	<u>17,973</u>
	2022 HK\$'000	2021 <i>HK\$'000</i>
Amounts payable under lease liabilities		
Within one year	941	17,817
After one year but within two years	<u>–</u>	<u>156</u>
	<u>941</u>	<u>17,973</u>

During the year ended 31 December 2021, the Group entered into a new lease agreement in respect of renting an office and recognised lease liabilities amounted to approximately HK\$1,206,000 (2022: nil). All the leases payments are fixed payments.

(iii) Amounts recognised in profit or loss:

	2022 HK\$'000	2021 <i>HK\$'000</i>
Depreciation expense on right-of-use assets	14,751	14,859
Interest expenses on lease liabilities	707	1,790
Expense relating to short-term leases	612	38
Expense relating to leases of low-value assets	<u>82</u>	<u>180</u>
Total amount recognised in profit or loss	<u>16,152</u>	<u>16,867</u>

(iv) Others

The total cash outflow relating to leases amounted to approximately HK\$18,433,000 (2021: HK\$17,717,000).

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Financial assets mandatorily measured at FVTPL			
Equity securities			
— Listed in Hong Kong	<i>(i)</i>	—	730,457
— Listed outside Hong Kong	<i>(i)</i>	—	131,976
		<u>—</u>	<u>862,433</u>
Debt securities			
— Listed in Hong Kong	<i>(ii)</i>	266,513	272,627
— Listed outside Hong Kong	<i>(ii)</i>	106,200	60,957
		<u>372,713</u>	<u>333,584</u>
Unlisted fund investments	<i>(iii)</i>	—	31,512
		<u>372,713</u>	<u>1,227,529</u>

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) The fair values of the listed debt securities are determined with reference to the quoted price provided by brokers/financial institutions.
- (iii) The fair values of the unlisted fund investments are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly listed securities) of the fund. During the year ended 31 December 2022, the Group has disposed all unlisted fund investments.
- (iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2022 to any parties as collateral for the facilities granted (*31 December 2021: nil*).

10. ACCOUNTS RECEIVABLE

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities, futures and options contracts:			
— securities margin clients	<i>(a)</i>	536,138	579,384
— securities cash clients	<i>(b)</i>	199	720
— securities and options clearing houses and brokers	<i>(b)</i>	306	24,343
Accounts receivable arising from proprietary trading	<i>(b)</i>	42,540	135,783
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)</i>	4,845	5,542
		<u>584,028</u>	<u>745,772</u>
Less: impairment		<u>(536,302)</u>	<u>(539,917)</u>
		<u>47,726</u>	<u>205,855</u>

As at 31 December 2022, the gross amount of accounts receivable arising from contracts with customers amounted to approximately HK\$4,845,000 (2021: HK\$5,542,000).

Notes:

(a) Analysis on accounts receivable arising from securities margin clients

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities:		
— Securities margin clients	536,138	579,384
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	—
— Stage 3	(536,014)	(536,389)
	<u>124</u>	<u>42,995</u>

Accounts receivable arising from securities margin clients are secured by their pledged securities, repayable on demand after settlement date 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.

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

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

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

The following is the analysis of the gross carrying amount arising from the accounts receivable arising from securities margin clients as at 31 December 2022 and 2021 by the Group's internal credit rating and year end classification:

2022

	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	124	–	–	124
Good	–	–	–	–
Non-performing	–	–	–	–
Individually impaired	–	–	536,014	536,014
	<u>124</u>	<u>–</u>	<u>536,014</u>	<u>536,138</u>

At 31 December 2022, for the gross receivables of stage 1 securities margin clients, fair value of marketable securities pledged was approximately HK\$565,000.

At 31 December 2022, for the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was zero.

2021

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

At 31 December 2021, for the gross receivables of stage 1 and 3 securities margin clients, fair value of marketable securities pledged was approximately HK\$404,177,000.

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

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

	12-month ECL (Stage 1) <i>HK\$'000</i>	Lifetime ECL not credit- impaired (Stage 2) <i>HK\$'000</i>	Lifetime ECL credit- impaired (Stage 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2021	–	–	536,381	536,381
Charged to profit or loss	–	–	8	8
As at 31 December 2021 and 1 January 2022	–	–	536,389	536,389
Credited to profit or loss	–	–	(281)	(281)
Exchange alignment	–	–	(94)	(94)
As at 31 December 2022	<u>–</u>	<u>–</u>	<u>536,014</u>	<u>536,014</u>

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

- i. The carrying amounts of accounts receivable arising from the ordinary course of business of brokerage services in securities, futures and options contracts, proprietary trading and corporate finance advisory services other than securities margin clients of the Group are as follows:

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities and futures and options contracts:			
— securities cash clients	(1)	199	720
— securities and options clearing house and brokers	(2)	306	24,343
Accounts receivable arising from proprietary trading	(3)	42,540	135,783
Accounts receivable arising from the provision of corporate finance advisory services	(4)	4,845	5,542
		47,890	166,388
Less: impairment	(5)	(288)	(3,528)
		47,602	162,860

- (1) Accounts receivable arising from securities cash clients arising from the brokerage business of dealing in securities are unsecured and 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 brokerage in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors of the Company as the ageing analysis does not give additional value in view of the nature of brokerage business.
- (2) At the end of the reporting period, accounts receivable arising from the ordinary course of business of brokerage services in securities clearing house and brokers were unsecured, repayable on demand after settlement date and were not overdue. As at 31 December 2021, included in amount receivable arising from securities clearing house and brokers was a net receivable from Hong Kong Securities Clearing Company Limited (“HKSCC”) of HK\$20,352,000 (2022: nil), 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 10(c).
- (3) Accounts receivable arising from proprietary trading were unsecured and repayable on demand after settlement date. The normal settlement terms are one to three days after trade date.

- (4) The Group allows an credit period of 7 days (2021: 7 days) to its account receivables arising from the provision of corporate finance advisory services. 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:

	2022	2021
	HK\$'000	HK\$'000
Current	3,064	619
Overdue:		
Within 30 days	870	1,316
31–90 days	780	105
91–180 days	–	138
	<u>4,714</u>	<u>2,178</u>

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

	12-month ECL (Stage 1)	Lifetime ECL not credit- impaired (Stage 2)	Lifetime ECL credit- impaired (Stage 3)	Lifetime ECL simplified approach	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2021	–	–	127	2,505	2,632
New assets originated (note 1)	–	–	–	1,356	1,356
Charged to profit or loss	–	–	37	100	137
Amount written off (note 2)	–	–	–	(597)	(597)
As at 31 December 2021 and 1 January 2022	–	–	164	3,364	3,528
Credited to profit or loss (note 3)	–	–	(7)	(1,224)	(1,231)
Amount written off (note 2)	–	–	–	(2,009)	(2,009)
As at 31 December 2022	<u>–</u>	<u>–</u>	<u>157</u>	<u>131</u>	<u>288</u>

Notes:

- During the year ended 31 December 2021, new origination of account receivables arising from the provision of corporate finance advisory services with gross amount of HK\$3,433,000 resulted in an increase in loss allowance of HK\$1,356,000.

2. During the year ended 31 December 2022, accounts receivable amounted to approximately HK\$2,009,000 (2021: HK\$597,000) were written off. The Group writes off accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.
3. During the year ended 31 December 2022, settlement of account receivables arising from securities cash clients and corporate finance advisory services resulted in an decrease in loss allowance of HK\$1,231,000.

(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:

2022

	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position <i>HK\$'000</i>	Gross amount of recognised financial assets position <i>HK\$'000</i>	Net amount of financial assets presented in the consolidated statement of financial position <i>HK\$'000</i>	Related amount not set off in the consolidated statement of financial position <i>HK\$'000</i>	Net <i>HK\$'000</i>
Amounts receivable	-	-	-	-	-

	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position <i>HK\$'000</i>	Gross amount of recognised financial assets position <i>HK\$'000</i>	Net amount of financial assets presented in the consolidated statement of financial position <i>HK\$'000</i>	Related amount not set off in the consolidated statement of financial position <i>HK\$'000</i>	Net <i>HK\$'000</i>
Amounts payable	-	-	-	-	-

2021

	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position <i>HK\$'000</i>	Net amount of financial assets presented in the consolidated statement of financial position <i>HK\$'000</i>	Related amount not set off in the consolidated statement of financial position <i>HK\$'000</i>	Net <i>HK\$'000</i>	
Amounts receivable	36,288	(15,936)	20,352	(2,148)	18,204
	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position <i>HK\$'000</i>	Net amount of financial assets presented in the consolidated statement of financial position <i>HK\$'000</i>	Related amount not set off in the consolidated statement of financial position <i>HK\$'000</i>	Net <i>HK\$'000</i>	
Amounts payable	18,084	(15,936)	2,148	(2,148)	–

11. BONDS PAYABLE

On 17 April 2019, the Company issued bonds with aggregate principal amount of US\$200,000,000 (the “**2019 USD Bonds**”) to independent third parties. The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the fixed rate of 6.9% per annum and guaranteed by SWSC. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds were listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). On 10 February 2021, the Company repurchased and cancelled US\$59,400,000 of the 2019 USD Bonds. The remaining portion US\$140,600,000 were matured and fully settled on 17 April 2021. Details of the bonds are set out in the Company’s announcements on 8 and 11 April 2019.

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

On 9 February 2021, the Company issued bonds with aggregate principal amount of US\$178,000,000 (the “**2021 USD Bonds**”) to independent third parties. The 2021 USD Bonds bear interest from 9 February 2021 (inclusive) at the fixed rate of 4.00% per annum and guaranteed by SWSC. Interest on 2021 USD Bonds is payable semi-annually in arrears. The 2021 USD Bonds are listed on the Stock Exchange. During the year ended 31 December 2022, the Company repurchased and cancelled US\$75,500,000 of 2021 USD Bonds. The remaining portion of US\$102,500,000 will mature on 9 February 2024 with the outstanding principal and interest payable at the maturity date. Details of the bonds are set out in the Company’s announcements on 1 and 10 February 2021.

The 2021 USD Bonds were carried at amortised cost using an effective interest rate of 4.2% per annum. The fair value determined with reference to the quoted price provided by brokers/financial institutions as at 31 December 2022 was approximately HK\$786,394,000.

The movements in the bonds payable for the years are set out below:

	2021	2019	Total
	USD Bonds	USD Bonds	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January 2021	–	1,548,676	1,548,676
Net amount upon issuance (<i>note</i>)	1,372,283	–	1,372,283
Imputed interest expenses for the year (<i>note 5(a)</i>)	2,205	1,766	3,971
Exchange difference	8,024	3,029	11,053
Principal repayment	–	(1,553,471)	(1,553,471)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December 2021 and 1 January 2022	1,382,512	–	1,382,512
Imputed interest expenses for the year (<i>note 5(a)</i>)	3,856	–	3,856
Exchange difference	3,513	–	3,513
Principal repayment	(592,381)	–	(592,381)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December 2022	<u>797,500</u>	<u>–</u>	<u>797,500</u>

Note: It represented the proceeds from issuance of bonds of approximately HK\$1,379,998,000 after deducting the payment of transactions costs on issuance of bonds of approximately HK\$7,715,000.

12. DERIVATIVE FINANCIAL LIABILITIES

	2022	2021
	HK\$'000	HK\$'000
Index futures contracts held for trading (<i>note</i>)	—	6,747

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

	2022	2021
	HK\$'000	HK\$'000
Index futures contracts trading in Hong Kong market	—	527,194
Index futures contracts trading in overseas market	—	150,047
Index futures contracts	—	677,241

Note: The futures contracts are classified as held for trading. As at 31 December 2022, all the future contracts have been settled. As at 31 December 2021, the fair values of the futures contracts were amounted to approximately HK\$6,747,000 (2021: nil). Fair value was determined with reference to quoted market prices in active markets. During the year, the loss on unrealised and realised change in fair value of futures contracts amounting to approximately HK\$28,717,000 (2021: HK\$85,416,000) was recognised in the Group's "Revenue — net losses from proprietary trading" (*Note 2*).

13. ACCOUNTS PAYABLE

	2022	2021
<i>Notes</i>	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of brokerage services in securities and futures and options contracts:		
— securities margin clients	(i) —	551
— securities cash clients	(i) —	24,778
— securities clearing house	(i) —	2,147
Accounts payable arising from proprietary trading	—	41,139
Accounts payable arising from the provision of insurance brokerage services	(ii) —	54
	—	68,669

Notes:

Settlement terms

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

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

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

14. COMPARATIVE FIGURES

Certain comparative figures of segment information as disclosed in note 3 have been restated to conform with the current year's presentation and there is no impact on the Group's loss for the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

2022 was a challenging year, filled with ups and downs, for the global economy.

In Europe, the sudden outbreak of Russia-Ukraine war at the beginning of the year led to geopolitical tensions, increased risks, soaring prices of natural gas, oil and other energy sources and food, and caused serious supply-chain disruptions. The US and European sanctions against Russia exacerbated the crisis in energy, food and supply chains, driving up inflation in the eurozone and seriously hindering the normalisation of production, operation and consumption activities in the eurozone countries.

In the US, the inflation rate rose sharply amid the strong economic recovery combined with rising energy and food prices, the imbalance between labour supply and demand caused by COVID-19, and the quantitative easing monetary policy of the Federal Reserve and the proactive fiscal policy by the Department of the Treasury since the pandemic, which is a significant deviation from the Fed's 2% target. So the Fed shifted its focus from employment to inflation risks and stuck to an aggressive path of interest rate hikes and balance sheet reduction from March 2022. The Fed announced seven interest rate increases in 2022. As of the end of 2022, the federal funds rate was raised by 4.25% to a range of 4.25%-4.5%. The move triggered monetary-policy tightening by other central banks and a sharp squeeze in global liquidity. It also led to a sharp slowdown in the US economy. The high interest rates have affected household consumption and business investment. The Federal Reserve has lowered the GDP growth forecast for 2023 to 0.5%. However, the US labour market remained strong. As such, rates are likely to remain high for some time until inflation falls back to the target level.

In China, the Chinese government and People's Bank of China (“**PBOC**”) adhered to the “prioritize stability while pursuing progress” fiscal and monetary policies in 2022. In March 2022, the Chinese government proposed and discussed many important development issues, such as tax and fee cuts, support for the development of foreign investors, a prudent, flexible and appropriate monetary policy, promotion of consumption, and expansion of investment at the National People's Congress and the Chinese People's Political Consultative Conference. China GDP was expected to grow by around 5.5% in 2022. However, as the real estate market was sluggish and real estate developers' default on their debt dragged down the recovery, China saw a moderate GDP growth of 3% in 2022, lower than 8.4% in 2021, but still exceeding consensus market expectations and better than major international economies. In November 2022, the State Council of the People's Republic of China (“**State Council**”) released a circular on further optimising the COVID-19 prevention and control measures (《關

於進一步優化新冠肺炎疫情防控措施科學精準做好防控工作的通知》) to make them more science-based and targeted, in a bid to greatly strengthen scientific and targeted prevention and control measures, and promote personnel exchanges and international communication. In addition, the PBOC and the China Banking and Insurance Regulatory Commission released a joint circular on providing financial support for the steady and healthy development of the real estate market (《關於做好當前金融支持房地產市場平穩健康發展工作的通知》). The 16 measures unveiled include keeping stable and orderly financing for the real estate sector, stabilising lending to real estate development, encouraging reasonable extensions of real estate development loans, trust loans and so forth, and keeping bond financing basically stable. In December 2022, the State Council released a circular on further optimising the COVID-19 prevention and control measures (《關於進一步優化落實新冠肺炎疫情防控措施的通知》), in a bid to minimise the impact of the pandemic on economic and social development. The reopening of the economy through optimised anti-pandemic policies, the resumption of Mainland China and cross-border economic activities, and the implementation of proactive fiscal policies are expected to greatly stimulate the demand for goods and services, driving mid-to-high growth of the Chinese economy in 2023.

In Hong Kong, the city's economy experienced a number of negative impacts and was sluggish in 2022. Hong Kong, as a bridge connecting Mainland China and the rest of the world, was hit by the pandemic prevention and control policies, which severely hindered cross-border economic activities. Coupled with heightened geopolitical risks and sharply contracted global liquidity, Hong Kong faced an economic recession in 2022 and GDP dropped by 3.5% for the full year. With the resumption of quarantine-free travel with the Mainland China in early 2023, Hong Kong's economy will regain its vitality.

Hong Kong Stock Market

The Hang Seng Index underwent perplexing changes in 2022, showing a slight increase, a big drop and then a rebound in the first half of the year, and a big drop and then a rebound in the second half of 2022. As Hong Kong's stock market was boosted by southbound capital inflows at the beginning of 2022, the Hang Seng Index hit a high of 25,050 points in the mid-February trading session. However, the Hang Seng Index reached a first-half low of 18,235 points in the mid-March trading session amid market concerns about tighter regulation on Internet platforms in China, the outbreak of a war between Russia and Ukraine, the massive fifth wave of the COVID-19 pandemic in Hong Kong, a dispute between China and the US over the audit of China concept stocks, and continued high inflation in the US. The index plunged more than 27% in just one month. Subsequently, as the China Securities Regulatory Commission stated China-US negotiation on the audit of China concept stocks went smoothly, the Chinese government introduced a package of measures to stabilise economic growth, and the pandemic in Hong Kong eased and social distancing measures were relaxed in phases, Hong Kong's stock market recovered some of the lost ground in the first half of the year, but still fell by around 6.6% during the first-half period. The Hang Seng Index plunged about 33% at the end

of October from the end of June, and even reached a low of 14,597 points during the period, as the housing crisis in Mainland heated up again, inflation in the US remained high and the Federal Reserve maintained a relatively fast pace of interest rate hikes from July to October. The index surged around 35% at the end of December from the end of October, buoyed by market expectations that the Federal Reserve would slow down the pace of interest rate hikes, China's adjustment of its anti-pandemic mechanism and introduction of 16 measures to support the real estate market starting from November. The Hang Seng Index closed at 19,781 points at the end of 2022, representing a year-on-year decrease of 15.5%. The Hang Seng China Enterprises Index (HSCEI) closed at 6,704 points at the end of 2022, representing a year-on-year decrease of 18.6%. The Hang Seng TECH Index closed at 4,128 points at the end of 2022, representing a year-on-year sharp decline of 27.2%.

BUSINESS REVIEW

The Group's principal businesses are brokerage and margin financing, corporate finance, asset management and proprietary trading. During the Year, the Group recorded a loss before tax of approximately HK\$241.2 million (*2021: loss before tax of HK\$59.0 million*), representing an increase in loss before tax of approximately HK\$182.2 million or 308.8% as compared to that in the last review period. The following are the items with significant fluctuations:

The Group recorded net losses from proprietary trading during the Year which amounted to approximately HK\$115.3 million (*2021: net gains of HK\$108.1 million*), representing an increase in net losses of approximately HK\$223.4 million or 206.7% as compared to that in the last review period.

The Group's finance costs for the Year amounted to approximately HK\$57.6 million (*2021: HK\$85.7 million*), representing a decrease of approximately HK\$28.1 million or 32.8% as compared to that in the last review period.

Brokerage and Margin Financing

The revenue generated from the Group's brokerage and margin financing business during the Year amounted to approximately HK\$2.3 million (*2021: HK\$12.8 million*).

The Group's brokerage and margin financing business includes brokerage 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 clients. It recorded a revenue of approximately HK\$2.3 million in the Year, representing a decrease of approximately HK\$10.5 million or approximately 82.0%.

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, the insurance brokerage and related wealth management services were discontinued on 20 July 2022, with a view to focusing existing resources on business strengths.

The fifth wave of COVID-19 swept across Hong Kong during the Year, coupled with rising interest rates around the world, high inflation and slow economic growth. Consequently, Hong Kong’s Hang Seng Index fell from 23,398 points at the close of trading in 2021 to 19,781 points at the end of 2022, a year-on-year decline of 15.5%. The trading volume went down, and investors’ desire to enter the market also decreased, which led to a decline in commissions from retail investors. Brokerage commission income saw a gain of HK\$0.9 million during the Year, compared to HK\$5.2 million for the same period in 2021, representing a decrease of approximately 82.7%. The change in strategies also impacted interest income from margin financing business, which only recorded a gain of HK\$0.8 million during the Year, compared to HK\$4.8 million for the same period in 2021, representing a sharp decrease of approximately 83.3%.

In the future, the Group will redefine its strategic development direction and continuously operate futures, options, securities brokerage and margin business by referral. The relevant business segments will be adjusted to cater to its strategic development needs.

Corporate Finance

The revenue generated from the Group’s corporate finance business during the Year amounted to approximately HK\$11.0 million (2021: HK\$8.8 million).

The Group’s corporate finance business includes sponsor services, underwriting and placement services, financial advisory services, and financing arrangement services to corporate clients. During the Year, the Group recorded a revenue of approximately HK\$11.0 million (2021: HK\$8.8 million) in the corporate finance business, representing an increase of approximately \$2.2 million or approximately 25.0%, mainly due to the increase in underwriting and placement services during the Year. In terms of sponsor and underlying underwriting and placement services, Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, was the sole sponsor of Guanze Medical Information Industry (Holding) Co., Ltd and Sanergy Group Limited, which has been listed on the Stock Exchange in December 2022 and January 2023 respectively. The debt capital market (DCM) division that saw remarkable development in 2022 participated in and completed the issuance of 11 offshore bonds of which it took on the role of lead underwriter for six projects as a global coordinator

and participated in the issuance of five projects as a joint bookrunner. The types of bonds include a green bond, a Pearl bond (issued in China (Shanghai) Pilot Free Trade Zone), a bond issued on Macau Stock Exchange, a bond backed by a standby letter of credit provided by a bank, a cross-border issuance, an RMB bond and a USD bond.

Given that the global economy still remained heavily dragged down with multiple pressures, substantial uncertainties will continue in the small to mid-sized IPO market. The Group will further strengthen the cross-border collaboration with SWSC, its parent company, in a compliant manner in an effort to provide advisory services and financial services of the real economy for Chinese high-quality enterprises when they enter the Hong Kong capital market.

Asset Management

During the Year, the Group's asset management business recorded no revenue (2021: 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.

During the Year, the fund portfolios SP6 and SP7 established by the Group were fully redeemed by investors.

Since the beginning of the year, market conditions have been volatile due to the accelerated pace of interest rate hikes and quantitative tightening in the US, the war between Russia and Ukraine, and the increased containment in China due to the resurgence of the pandemic. The performance of the Group's fund portfolios SP6 and SP7, which are managed by Southwest Securities (HK) Asset Management Limited, the Company's wholly-owned subsidiary, were also affected to varying degrees during the Year. Given that volatility is expected to continue in the near term, the business team has reduced the investment portfolio position in a timely manner and controlled the use of leverage in order to avoid a significant decline in net asset value. In addition, the cancellation of the fund portfolios SP6 and SP7 was officially initiated and completed in the second half of 2022.

The Group's asset management business line actively explored differentiated and featured development, promoted the optimisation of strategies and the transformation of business model, and changed its business positioning. As the unfavourable macro market factors gradually settle, the business team expects that quality investment opportunities will resurface.

Proprietary Trading

The Group's proprietary trading business recorded net losses of approximately HK\$115.3 million (2021: net gains of HK\$108.1 million) during the Year.

Affected by the pandemic, geopolitical conflicts, interest rate hikes of the federal reserve, and other factors etc., the Hong Kong stock market and the bond market were greatly impacted and underperformed in 2022. The Group has adjusted its investment strategy, and strengthened its risk management and shifted to high-grade fixed income investments in an all-round manner, achieving expected investment result.

As at 31 December 2022, the Group held the following significant investments that were classified as financial assets at fair value through profit or loss with fair value representing 5 per cent or more of the Group's total assets:

Description of investment	Investment costs (HK\$'000)	Fair value as at 31 December 2022 (HK\$'000)	Percentage of	Size as	Total amount	Realised	Unrealised
			investments held in the investee company as at 31 December 2022 (%)	compared to the Group's total assets as at 31 December 2022 (%)	of dividends received for the year ended 31 December 2022 (HK\$'000)	gain or (loss) for the year ended 31 December 2022 (HK\$'000)	gain or (loss) for the year ended 31 December 2022 (HK\$'000)
Investment in BPHL Capital Management's USD750,000,000 5.95% bonds due 2023 (ISIN: XS2092236780) ("Beipro Bonds")	42,118	44,745	N/A	5.54	N/A	2,487	2,839

BPHL Capital Management Ltd, a company incorporated in the British Virgins Islands which is principally engaged in the provision of logistics services, and a wholly-owned subsidiary of the guarantor, Beijing Properties (Holdings) Limited. Beijing Properties (Holdings) Limited, a company incorporated in Bermuda with limited liability and listed on the Stock Exchange (Stock Code: 925). Beijing Properties (Holdings) Limited and its subsidiaries are principally engaged in investment, development and operation of (i) high-end and modern general warehouses; (ii) cold chain logistics warehouses; (iii) specialised wholesale market for the trading and distribution of local agricultural products; and (iv) modernized industrial plants; and (v) investments in commercial properties and primary land development.

The Group held the bond investment in BPHL Capital Management Ltd's Beipro Bonds with a short to medium-term investment strategy.

Other Income and Gains

During the Year, the Group's other income and gains amounted to approximately HK\$8.1 million (2021: HK\$5.2 million).

The increase in other income and gains during the Year was mainly due to the increase in bank interest income.

Staff Costs

During the Year, the Group's staff costs amounted to approximately HK\$42.6 million (2021: HK\$50.2 million).

Employee performance bonus provisions are directly linked to the performance of their departments and the results of the annual priorities. Due to the adjustment of the Group's strategic development plan, and the performance of relevant departments falling short of the same period in 2021, staff costs decreased. 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 Year amounted to approximately HK\$3.8 million (2021: HK\$11.6 million).

Fee and commission expenses mainly include commissions paid for brokerage business, proprietary trading business and corporate finance business transactions. The decrease in commission expenses was mainly attributable to the decrease in trading volume of brokerage business and proprietary trading business.

Finance Costs

The Group's finance costs during the Year amounted to approximately HK\$57.6 million (2021: HK\$85.7 million).

The finance costs were mainly interest expenses on bonds payable. In February 2021, the Group issued bonds of US\$178 million for a term of three years to repay the bonds payable of US\$200 million due in mid-April 2021. During the Year, the Group completed the repurchase of US\$75.5 million USD bonds. Finance costs fell by HK\$28.1 million or 32.8%. The details of the repurchase of USD bonds were set out in the announcement of the Company dated 20 October 2022.

FUTURE PROSPECTS

Looking back at 2022, the outbreak of the rampant pandemic in China and the rest of the world, superimposed on escalation of the Russia-Ukraine conflict as well as continuous significant interest-rate hikes by the Federal Reserve, all incurred sharp volatility of the global market, and thus greatly impacted the financial industry in Hong Kong. Despite the foregoing, as anti-pandemic measures are gradually eased in an orderly manner in 2023, and social operations and international transactions return to normal, Hong Kong actively promotes “interconnection and interoperability” to strengthen all-round cooperation with the Mainland and accelerate the internationalization of Renminbi, fully playing the role of a “bridge” between the Mainland and the world. At the same time, Hong Kong responds to the national policy to vigorously develop green and innovative finance amid opportunities and challenges.

In 2023, the Group will seize the opportunity of the company’s strategic transformation, strictly control operation risks and conduct compliance operations. The Group will take advantage of strengths to develop its business, revitalize existing assets, seize market opportunities and meet challenges.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2022, the Group had total cash and bank balances of approximately HK\$378.1 million (*2021: HK\$285.1 million*), while net current assets amounted to approximately HK\$774.5 million (*2021: HK\$1,582.2 million*). The current ratio as a ratio of current assets to current liabilities was approximately 24.8 times (*2021: 11.3 times*). The gearing ratio was approximately (3,773.5)% (*2021: 629.1%*). Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

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

Banking Facilities and Charges on Assets

As at 31 December 2022, the Group had no outstanding bank loans (2021: Nil) and had an aggregate banking facilities of HK\$80.0 million (2021: HK\$80.0 million). In the case of certain banking facilities of HK\$80.0 million (2021: HK\$80.0 million), the drawdown is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group did not have any assets pledged for the facilities (2021: Nil).

Material Acquisitions, Disposals and Significant Investments

Save as disclosed in the section headed “Management Discussion and Analysis — Business Review — Proprietary Trading” of this results announcement, during the Year, there were no material acquisitions and disposals, nor were there any significant investments (2021: Nil).

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2022 (2021: Nil).

Commitments

During the Year, the Group had no material capital commitment (2021: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2022, the Group had no material exposure to fluctuations in exchange rates (2021: Nil).

EMPLOYEES

As at 31 December 2022, the Group had a total of 45 employees (as at 31 December 2021: 66 employees). The Group regards its employees as an important asset. We continue to improve our human resources management system. We aim to create a good working environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policies, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policies on its employees’ remuneration and a comprehensive performance appraisal system. Discretionary performance bonus is paid by making references to market, business results of the Group, departmental and individual’s performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (*2021: Nil*).

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

From 21 April 2022 to 21 October 2022, the Company had completed an on-market repurchase and cancellation of US\$75,500,000 in aggregate principal amount (the “**Repurchased Bonds**”) of the US\$178,000,000 4.00 per cent. Guaranteed Bonds due 2024, which were listed on the Stock Exchange (the “**2021 USD Bonds**”, Stock Code: 40594) , representing approximately 42.42% of the aggregate principal amount of the original 2021 USD Bonds issued on 9 February 2021. Upon completion of the cancellation, the aggregate outstanding principal amount of the 2021 USD Bonds is US\$102,500,000, representing approximately 57.58% of the aggregate principal amount of the original 2021 USD Bonds issued. Except as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Year.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

Below is an extract of the report by SHINEWING (HK) CPA Limited (“SHINEWING”), the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2022.

Opinion

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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(b) to the consolidated financial statements, which indicates that the Group incurred a consolidated loss of approximately HK\$241,138,000 for the year ended 31 December 2022 and had capital deficiency of approximately HK\$21,134,000 as at 31 December 2022, which was mainly attributable to the bonds payable of approximately HK\$797,500,000 that would be due for repayment on 9 February 2024, while its cash and bank balance amounted to only approximately HK\$378,104,000 as at 31 December 2022.

As stated in Note 1(b), these event or conditions, along with other matters as set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

AUDIT COMMITTEE

The audit committee of the Company, comprising Mr. MENG Gaoyuan as chairman as well as Mr. LIANG Jilin and Mr. CAO Ping as members, has reviewed the results for the year ended 31 December 2022.

SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2022 as set out in this results announcement have been agreed by the Group's auditor, SHINEWING, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by SHINEWING in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING on this results announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.swsc.hk and the HKEXnews website at www.hkexnews.hk. The 2022 annual report will be despatched to the shareholders of the Company and will be available on the above websites in due course.

By order of the Board
Southwest Securities International Securities Limited
Zhang Hongwei
Chairman

Hong Kong, 24 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Hongwei (Chairman) and Mr. Huang Changsheng; and the independent non-executive directors of the Company are Mr. Meng Gaoyuan, Mr. Liang Jilin and Mr. Cao Ping.