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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 2020

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 2020 (the “Review Period”), together with comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Revenue	2	251,174	232,534
Other income and gains	4	37,132	30,466
		288,306	263,000
Fee and commission expenses		(14,835)	(16,913)
Finance costs	5a	(116,083)	(138,835)
Staff costs	5b	(97,035)	(75,200)
Depreciation	5c	(18,843)	(23,611)
Expected credit losses on financial assets, net	5c	(149,286)	(318,538)
Loss on non-substantial modification of financial assets measured at amortised cost	5c	–	(1,763)
Other operating expenses		(30,712)	(34,978)
Total expenses		(426,794)	(609,838)
Loss before tax	5	(138,488)	(346,838)
Income tax credit/(expense)	6	–	2,243
Loss for the year attributable to equity shareholders of the Company		(138,488)	(344,595)

* For identification purposes only

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		<u>(179)</u>	<u>(339)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>(179)</u>	<u>(339)</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		<u>–</u>	<u>388</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>–</u>	<u>388</u>
Other comprehensive income for the year, net of tax		<u>(179)</u>	<u>49</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>(138,667)</u>	<u>(344,546)</u>
Loss per share			
— Basic (HK cents)	7	<u>(3.782)</u>	<u>(10.025)</u>
— Diluted (HK cents)	7	<u>(3.782)</u>	<u>(10.025)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Non-current assets			
Fixed assets		4,355	7,758
Right-of-use assets	8	28,554	43,564
Financial assets at fair value through other comprehensive income		–	–
Other non-current assets		8,048	8,072
		40,957	59,394
Current assets			
Financial assets at fair value through profit or loss	9	1,391,161	739,506
Accounts receivable	10	176,300	532,164
Prepayments, other receivables and other assets		15,267	8,798
Tax recoverable		2,661	6,884
Cash and bank balances		382,180	789,090
		1,967,569	2,076,442
Current liabilities			
Bonds payable	11	1,548,676	–
Derivative financial liabilities	12	2,724	17,732
Accounts payable	13	57,909	48,228
Other payables and accrued charges		43,041	36,896
Provisions		37,126	10,938
Contract liabilities		–	1,336
Lease liabilities	8	15,268	14,876
Net assets attributable to holders of non-controlling interests in consolidated investment fund		1,059	–
		1,705,803	130,006
Net current assets		261,766	1,946,436
Total assets less current liabilities		302,723	2,005,830

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Bonds payable	11	–	1,549,172
Provisions		2,034	2,034
Lease liabilities	8	<u>17,208</u>	<u>32,476</u>
		<u>19,242</u>	<u>1,583,682</u>
NET ASSETS		<u>283,481</u>	<u>422,148</u>
Capital and reserves			
Share capital		366,182	366,182
Reserves		(662,701)	(524,034)
Other equity instrument		<u>580,000</u>	<u>580,000</u>
TOTAL EQUITY		<u>283,481</u>	<u>422,148</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICY

Basis of preparation

The financial information relating to the years ended 31 December 2020 and 2019 included in this announcement does not constitute the Group's consolidated financial statements for those years but is derived from those consolidated financial statements.

These consolidated final results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated final results also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

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, and financial liabilities at fair value through profit or loss.

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

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

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

Changes in accounting policies and disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Except for the amendments to HKFRS 9, HKAS 39 and HKFRS 7, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2. REVENUE

An analysis of revenue is as follow:

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
Total revenue from contracts with customers	(i)		
<i>Brokerage:</i>			
— commission income on securities dealing		9,213	7,275
— commission income on futures and options dealing		1,362	6,675
— insurance brokerage fee income		2,972	4,108
		13,547	18,058
<i>Corporate finance:</i>			
— IPO sponsor fee income		12,412	22,411
— underwriting and placing commission income		5,105	8,456
— consultancy and financial advisory fee income		5,359	4,973
— corporate finance arrangement and commitment fee income		—	764
		22,876	36,604
<i>Asset management:</i>			
— asset management fee income		—	507
		36,423	55,169

	2020	2019
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total revenue from other sources		
<i>Interest income calculated using the effective interest method from:</i>		
— margin financing	<u>14,158</u>	<u>90,979</u>
<i>Net gains from proprietary trading</i>	<u>200,593</u>	<u>86,386</u>
	<u>214,751</u>	<u>177,365</u>
Total revenue	<u>251,174</u>	<u>232,534</u>

Note:

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analyse by business segment:		
Brokerage		
— services transferred at a point in time	<u>13,547</u>	<u>18,058</u>
Corporate finance		
— services transferred at a point in time	<u>10,464</u>	<u>18,693</u>
— services transferred over time	<u>12,412</u>	<u>17,911</u>
	<u>22,876</u>	<u>36,604</u>
Asset management		
— services transferred over time	<u>—</u>	<u>507</u>
	<u>36,423</u>	<u>55,169</u>
Analyse by timing of revenue recognition:		
— services transferred at a point in time	<u>24,011</u>	<u>36,751</u>
— services transferred over time	<u>12,412</u>	<u>18,418</u>
	<u>36,423</u>	<u>55,169</u>

3. SEGMENT INFORMATION

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

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

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

Reportable operating segments

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

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

	2020					
	Brokerage and margin financing <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue from external customers	27,705	22,876	–	200,593	–	251,174
Other income and gains	4,087	–	–	16	33,029	37,132
Fee and commission expenses	(6,311)	(28)	–	(8,496)	–	(14,835)
Finance costs	(34,449)	–	–	(60,120)	–	(94,569)
Expected credit losses on financial assets, net	(147,811)	(1,475)	–	–	–	(149,286)
Other operating expenses and costs	(68,825)	(30,175)	(873)	(21,071)	(3,516)	(124,460)
Segment results	(225,604)	(8,802)	(873)	110,922	29,513	(94,844)
Unallocated expenses, represented central administration costs						(18,297)
Depreciation of fixed assets						(3,833)
Unallocated finance costs						(21,514)
Loss before tax						(138,488)

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

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2020 and 31 December 2019, the Group's revenue is mainly derived from customers in Hong Kong.

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

Major customers

During the years ended 31 December 2020 and 31 December 2019, the following respective external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net gains from proprietary trading.

	2020 HK\$'000	2019 HK\$'000
Customer A from brokerage and margin financing and corporate finance segments	8,536	N/A*
Customer B from brokerage and margin financing and corporate finance segments	N/A*	25,703

* Customer A did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2019 and Customer B did not contribute more than 10% of total revenue of the Group during the year ended 31 December 2020.

4. OTHER INCOME AND GAINS

	2020 HK\$'000	2019 HK\$'000
Other income		
Dividend income from financial assets at fair value through other comprehensive income	–	7
Handling income	1,278	3,442
Other interest income	1,996	17,389
Sundry income	72	22
	<u>3,346</u>	<u>20,860</u>
Other gains		
Gain on disposal of fixed assets	–	154
Exchange gains, net	33,786	9,452
	<u>33,786</u>	<u>9,606</u>
	<u>37,132</u>	<u>30,466</u>

5. LOSS BEFORE TAX

	2020 HK\$'000	2019 HK\$'000
Loss before tax is arrived at after charging:		
(a) Finance costs		
Bank loan interest expenses	296	43
Bond interest expenses	107,073	121,731
Imputed interest expenses on bonds payable	5,737	13,292
Interest on lease liabilities	2,807	3,714
Other interest expenses	170	55
	<u>116,083</u>	<u>138,835</u>
(b) Staff costs		
Contributions to retirement benefit schemes	1,428	1,782
Salaries, commission and allowances	95,607	73,418
	<u>97,035</u>	<u>75,200</u>
(c) Other items		
Auditor's remuneration		
— Audit-related assurance services	2,532	2,400
— Other services	635	387
Depreciation of fixed assets	3,833	8,601
Depreciation of right-of-use assets	15,010	15,010
Expected credit losses on financial assets, net	149,286	318,538
Loss on non-substantial modification of financial assets measured at amortised cost	—	1,763
	<u>—</u>	<u>1,763</u>

6. INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2020 HK\$'000	2019 HK\$'000
Current — Hong Kong		
Charge for the year	—	—
Overprovision in prior years	—	(2,243)
Total tax charge/(credit) for the year	<u>—</u>	<u>(2,243)</u>

7. LOSS PER SHARE

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

The calculation of the basic loss per share is based on the loss for the year attributable to equity shareholders of the Company, and the weighted average number of ordinary shares of 3,661,830,000 (2019: 3,437,447,000) in issue during the year.

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

	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to equity shareholders of the Company	<u>(138,488)</u>	<u>(344,595)</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>3,437,447</u>
Basic loss per share (<i>HK cents</i>)	<u>(3.782)</u>	<u>(10.025)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(3.782)</u>	<u>(10.025)</u>

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2020 and 31 December 2019. Accordingly, the diluted loss per share for the respective years are the same as basic loss per share.

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

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

Right-of-use assets:

The 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 2019	58,574
Depreciation charge	<u>(15,010)</u>
As at 31 December 2019 and 1 January 2020	43,564
Depreciation charge	<u>(15,010)</u>
As at 31 December 2020	<u><u>28,554</u></u>

Lease liabilities:

The carrying amounts of lease liabilities and the movements during the year are as follows:

Properties	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount at 1 January	47,352	59,073
Interest expense	2,807	3,714
Payments	<u>(17,683)</u>	<u>(15,435)</u>
Carrying amount at 31 December	<u><u>32,476</u></u>	<u><u>47,352</u></u>
Analysed into:		
Current portion	15,268	14,876
Non-current portion	<u>17,208</u>	<u>32,476</u>
	<u><u>32,476</u></u>	<u><u>47,352</u></u>

The following are the amounts recognised in profit or loss:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Depreciation expense of right-of-use assets	15,010	15,010
Interest expense on lease liabilities	2,807	3,714
Expense relating to short-term leases	–	136
Expense relating to leases of low-value assets	<u>190</u>	<u>228</u>
Total amount recognised in profit or loss	<u><u>18,007</u></u>	<u><u>19,088</u></u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2020 HK\$'000	2019 HK\$'000
Held for trading			
Equity securities			
— Listed in Hong Kong	(i)	917,656	340,405
— Listed outside Hong Kong	(i)	333,048	202,919
		<u>1,250,704</u>	<u>543,324</u>
Debt securities			
— Listed in Hong Kong	(ii)	70,866	—
— Listed outside Hong Kong	(ii)	38,083	—
— Unlisted	(ii)	—	164,669
		<u>108,949</u>	<u>164,669</u>
Unlisted fund investments	(iii)	31,508	31,513
		<u>1,391,161</u>	<u>739,506</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) For the debt securities, the fair values are determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.
- (iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly listed securities) of the funds.
- (iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2020 to any bank as collateral for the facilities granted (31 December 2019: Nil).

10. ACCOUNTS RECEIVABLE

	Notes	2020 HK\$'000	2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	(a)	624,053	855,780
— securities cash clients	(b)	7,798	2,103
— securities subscription clients	(b)	20,966	13,841
— securities and options clearing houses and brokers	(b)	58,322	20,830
— futures clients	(b)	3	3
— futures clearing house and brokers	(b)	—	23,252
Accounts receivable arising from the provision of corporate finance advisory services	(b)	4,171	7,262
		<u>715,313</u>	<u>923,071</u>
Less: impairment		<u>(539,013)</u>	<u>(390,907)</u>
		<u>176,300</u>	<u>532,164</u>

Notes:

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

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

	2020 HK\$'000	2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— Securities margin clients	624,053	855,780
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	—
— Stage 3	(536,381)	(387,498)
	<u>87,672</u>	<u>468,282</u>

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\$263,218,000 (2019: HK\$1,098,632,000).

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

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

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

The following is the analysis of the gross carrying amount of the accounts receivable from securities margin clients as at 31 December 2020 and 2019 by the Group's internal credit rating and year end classification:

2020

Internal rating grade	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
Excellent	85,189	–	–	85,189
Good	–	–	–	–
Non-performing	–	6	–	6
Individually impaired	–	–	538,858	538,858
	<u>85,189</u>	<u>6</u>	<u>538,858</u>	<u>624,053</u>

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

2019

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
Internal rating grade				
Excellent	194,221	–	–	194,221
Good	129,634	–	–	129,634
Non-performing	–	190	–	190
Individually impaired	–	–	531,735	531,735
	<u>323,855</u>	<u>190</u>	<u>531,735</u>	<u>855,780</u>

At 31 December 2019, for the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was HK\$144,237,000.

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

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

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

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

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
As at 1 January 2019	–	7,492	64,279	71,771
Transfer to stage 3	–	(7,490)	7,490	–
Impact on transfer between stages	–	–	300,997	300,997
New assets originated (<i>Note</i>)	–	(2)	19,503	19,501
Bad debt recovery	–	–	(4,754)	(4,754)
Amount written off	–	–	(17)	(17)
As at 31 December 2019 and 1 January 2020	–	–	387,498	387,498
New assets originated (<i>Note</i>)	–	–	4,646	4,646
Other remeasurement of loss allowance	–	–	144,237	144,237
As at 31 December 2020	–	–	536,381	536,381

Note: During the year ended 31 December 2020, new origination of securities margin clients with gross amount of HK\$4,646,000 (2019: HK\$19,503,000) were transferred and classified under stage 3. This results in an increase in loss allowance of HK\$4,646,000 (2019: HK\$19,503,000) as at year end.

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

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

	Notes	2020 HK\$'000	2019 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(1)	7,798	2,103
— securities subscription clients	(2)	20,966	13,841
— securities and options clearing houses and brokers	(3)	58,322	20,830
— futures clients		3	3
— futures clearing house and brokers	(4)	–	23,252
Accounts receivable arising from the provision of corporate finance advisory services	(5)	4,171	7,262
		91,260	67,291
Less: impairment	(6)	(2,632)	(3,409)
		88,628	63,882

- (1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand after settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.
- (2) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.
- (3) The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits maintained in The SEHK Option Clearing House Limited not otherwise dealt with in the consolidated final results amounted to HK\$1,076,000 (2019: HK\$595,000).

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2020, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") of HK\$5,303,000 (2019: 17,925,000), with legally enforceable right to set off the corresponding receivable and payable balances.

- (4) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK\$20,669,000 (2019: HK\$9,486,000), which was not dealt with in the consolidated final results. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.
- (5) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of corporate finance advisory services, based on the contract terms, was as follows:

	2020 HK\$'000	2019 HK\$'000
Current	670	2,799
Overdue:		
Within 30 days	999	93
31–90 days	190	1,497
91–180 days	80	–
Over 180 days	2,232	2,873
	4,171	7,262

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

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Lifetime ECL simplified approach HK\$'000	Total HK\$'000
As at 1 January 2019	74	2	–	419	495
Charged/(credit) to profit or loss (<i>Note</i>)	(74)	(2)	89	2,901	2,914
As at 31 December 2019 and 1 January 2020	–	–	89	3,320	3,409
Charged to profit or loss (<i>Note</i>)	–	–	38	1,475	1,513
Amount written off	–	–	–	(2,290)	(2,290)
As at 31 December 2020	–	–	127	2,505	2,632

Note: During the year ended 31 December 2020, new origination of account receivables arising from the provision of corporate finance advisory services with gross amount of HK\$2,241,000 (2019: HK\$5,001,000) resulted in an increase in loss allowance of HK\$701,000 (2019: HK\$1,045,000).

11. BONDS PAYABLE

	2019 USD Bonds HK\$'000 (note (i))	2018 HKD Bonds HK\$'000 (note (ii))	2018 USD Bonds HK\$'000 (note (iii))	Total HK\$'000
Carrying amount at 1 January 2019	–	773,547	1,171,928	1,945,475
Carrying amount upon issuance	1,558,540	–	–	1,558,540
Imputed interest expenses for the year	3,842	6,453	2,997	13,292
Exchange difference	(13,210)	–	1,825	(11,385)
Principal repayment	–	(780,000)	(1,176,750)	(1,956,750)
Carrying amount at 31 December 2019 and 1 January 2020	1,549,172	–	–	1,549,172
Imputed interest expenses for the year	5,737	–	–	5,737
Exchange difference	(6,233)	–	–	(6,233)
Carrying amount at 31 December 2020	1,548,676	–	–	1,548,676

Notes:

- (i) On 17 April 2019, the Company issued bonds with aggregate principal amount of US\$200,000,000 (the “2019 USD Bonds”). The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds are listed on The Stock Exchange of Hong Kong Limited (“HKEx”) and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The fair value determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market as at 31 December 2020 was approximately HK\$1,560,704,000.

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

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

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

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

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

12. DERIVATIVE FINANCIAL LIABILITIES

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
Futures contracts held for trading	(i)	<u>2,724</u>	<u>17,732</u>
		<u>2,724</u>	<u>17,732</u>

Note:

- (i) The futures contracts are classified as held for trading. As at 31 December 2020, the fair value of the futures contracts were amounted to HK\$2,724,000 (2019: HK\$17,732,000). Fair value was determined with reference to quoted market prices in active markets. During the year, the gain on change in fair value of futures contracts amounting to HK\$78,612,000 (2019: loss of HK\$38,102,000) was recognised in the profit or loss.

13. ACCOUNTS PAYABLE

		2020	2019
	Notes	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	(i)	5,280	14,742
— securities margin clients	(i)	5	3,086
— securities clearing house	(i)	50,600	7,038
— futures clients	(ii)	1,838	23,239
Accounts payable arising from the provision of insurance broking services	(iii)	43	102
Accounts payable to brokers	(i)	143	21
		<u>57,909</u>	<u>48,228</u>

Notes:

Settlement terms

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

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

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

14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company issued bonds with an aggregate principal amount of US\$178,000,000 which was listed on The Stock Exchange of Hong Kong Limited on 9 February 2021. The bonds bear interest from 9 February 2021 at the rate of 4% per annum and will mature on 9 February 2024.

On 10 February 2021, the Company completed a partial on-market repurchase of US\$59,400,000 of the 2019 USD Bonds.

Further information and details of events after the reporting period are included in the Company's announcements dated 4 February 2021 and 11 February 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Macro Environment

The COVID-19 pandemic swept the world in 2020. As of the end of January 2021, there were over 100 million confirmed COVID-19 cases and over 2.15 million fatal cases worldwide. Due to this once-in-a-century pandemic, with the emergence of extremely contagious viruses with high fatality rate and variant viruses, mobility restrictions were being imposed in various countries, and the global economy contracted substantially as a result. However, China's GDP managed to record a growth in 2020 with an annual growth rate of 2.3% and a growth rate of 6.5% in the fourth quarter. Given the satisfactory data of COVID-19 vaccines produced by various pharmaceutical companies, it is believed that universal vaccination programmes will be launched around the world in 2021, paving the way for resuming normal daily lives and economic activities as soon as possible. Following the conclusion of the presidential election in the United States, President Joe Biden, upon taking office, is faced with the economic challenges posed by COVID-19 to the United States. He will have to find a way to restore the relationships between the United States and allied countries, and determine whether there will be any major changes in the China policy. As for the European market, the United Kingdom eventually succeeded in reaching an agreement with the European Union before the hard Brexit deadline. It is expected that the United Kingdom will reach trade agreements with other countries during the year. It is also anticipated that the long-negotiated commercial investment agreement entered into between the European Union and China at the end of 2020 will be put forward at European Parliament for approval during the year. On the other hand, the geopolitical situations were intensifying, characterized by the increased friction between China and the United States over the technology sector and the Hong Kong issue, the border dispute between China and India in May 2020, the deteriorating relationship between China and Australia in 2020, and the escalated tensions between South Korea and North Korea following North Korea's demolition of the Inter-Korean Liaison Office in June 2020. Due to the growing risk-averse sentiment as a result of geopolitical uncertainties, coupled with a global low interest rate environment, the prices of precious metals and cryptocurrencies continued to increase. As of the end of December 2020, the international gold price closed at nearly US\$1,900 per ounce, representing an increase of nearly 25% for the year. As of the end of December 2020, the Bitcoin price closed at nearly US\$29,000, representing a dramatic increase of over 3 times for the year.

Hong Kong Stock Market

The Hang Seng Index began to fall in mid-January 2020. Stocks listed in the United States have also triggered circuit breakers four times in March. The Hang Seng Index fell nearly 10% in a single month to a low at 21,139 points. There were no local confirmed cases but only sporadic cases for 23 consecutive days in Hong Kong from April to May. In May, in light of the release of draft National Security Law, social unrest with growing social activities in Hong Kong, and revocation of Hong Kong's special trade status by the United States Department of Commerce, the relationship between China and the United States was at swords' points. At the end of June, the Standing Committee of the National People's Congress unanimously passed the National Security Law. The Hang Seng Index rebounded by 6.4% in June. Due to the rebound of the COVID-19 pandemic in Europe and the absence of economic stimulus measures in the United States, the Hang Seng Index fell 6.8% in September. Given the settlement of the presidential election in the United States in early November and promising COVID-19 vaccines news, the Hang Seng Index surged by 9.3% in a single month. The Hang Seng Index eventually closed at 27,231 points at the end of December 2020, representing a drop of 3.4% from the end of December 2019. With the launch of COVID-19 vaccination programmes worldwide, it is expected that global economic activities will start to resume in the second half of the year if the COVID-19 pandemic is under control and no obvious adverse reactions to the vaccine is reported.

At the end of December 2020, 2,538 companies listed on the Main Board and the GEM (including 2,170 companies listed on the Main Board, up by 99 or 4.8% as compared with the end of December 2019), representing an increase of 89 or 3.6% as compared with the end of December 2019, and the total market value of the stock market increased by 24.5% to HK\$47.5 trillion. Due to the impact of the COVID-19 pandemic, 154 new companies were listed (including 8 companies which transferred their listing from the GEM to the Main Board) in 2020, representing a decrease of 29 or 15.8% year-on-year.

Business Review

The Group's principal businesses include brokerage and margin financing, corporate finance, asset management and proprietary trading. During the Review Period, the Group recorded a loss before tax of HK\$138.5 million (*2019: loss before tax of HK\$346.8 million*), representing a decrease in loss before tax of HK\$208.3 million or 60.1% as compared to that in the last review period. The following are the items with significant fluctuations:

The Group recorded net gains from proprietary trading during the Review Period amounted to HK\$200.6 million (*2019: net gains of HK\$86.4 million*), representing an increase in net gains of HK\$114.2 million or 132.2% as compared to that in the last review period.

The Group's revenue from brokerage and margin financing for the Review Period amounted to HK\$27.7 million (*2019: HK\$109.0 million*), representing a decrease of HK\$81.3 million or 74.6% as compared to that in the last review period.

The Group's expected credit losses on financial assets for the Review Period amounted to HK\$149.3 million (*2019: HK\$318.5 million*), representing a decrease of HK\$169.2 million or 53.1% as compared to that in the last review period.

Brokerage and Margin Financing

Revenue generated from the Group's brokerage and margin financing business during the Review Period amounted to HK\$27.7 million (2019: HK\$109.0 million).

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

In terms of brokerage business, commission revenue saw a decline due to the COVID-19 pandemic. The brokerage commission revenue during the Review Period amounted to HK\$13.5 million (2019: HK\$18.1 million), representing a year-on-year decrease of HK\$4.6 million or 25.0%.

In terms of margin financing business, the interest income during the Review Period amounted to HK\$14.2 million (2019: HK\$91.0 million), representing a year-on-year decrease of HK\$76.8 million or 84.4%. During the Review Period, the Group held fast to measures to strictly monitor credit risks and equity concentration risks.

Corporate Finance

Revenue generated from the Group's corporate finance business during the Review Period amounted to HK\$22.9 million (2019: HK\$36.6 million).

The Group's corporate finance business includes providing Hong Kong sponsor services, underwriting & placement services, financial advisory services and financing arrangement services to corporate clients. During the Review Period, the Group's corporate finance business recorded a revenue of HK\$22.9 million (2019: HK\$36.6 million), representing a year-on-year decrease of HK\$13.7 million or 37.4%, which was mainly due to the decrease in revenue from sponsor services and underwriting & placement services.

In terms of sponsor services, Southwest Securities (HK) Capital Limited ("SWSCAP"), a wholly-owned subsidiary of the Company, acted as a sole sponsor to assist Shandong Fengxiang Co., Ltd. (9977.HK) in its successful listing on the Main Board of the Hong Kong Stock Exchange during the Review Period, and acted as a joint sponsor to assist Tak Lee Machinery Holdings Limited (2102.HK) in its successful transfer of listing from GEM to the Main Board of the Hong Kong Stock Exchange during the Review Period. SWSCAP also assisted its clients in submitting applications of 3 sole sponsorship projects to the Hong Kong Stock Exchange during the Review Period. In terms of financial advisory services projects, as at the end of December 2020, there were a total of 10 ongoing advisory services projects, bringing a stable source of income to the Group.

Given that the global economy remained heavily dragged down by the COVID-19 pandemic in 2020 and Hong Kong is currently still witnessing the fourth wave of local outbreaks, it is expected that substantial uncertainties will sustain in Hong Kong's economic outlook and IPO market in the first half of 2021. The Group will play its role as usual and further strengthen the cross-border collaboration with Southwest Securities Co., Ltd., its parent company, in an effort to provide various types of advisory services and financial services for high-quality domestic enterprises when they enter the Hong Kong capital market.

Asset Management

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

During the Review Period, the rate of return of the investment portfolio of the Group's structured fund SP6, which is managed by the Company's wholly-owned subsidiary, Southwest Securities (HK) Asset Management Limited, reached double digits with its overall returns outperforming the market. Our business team is aggressively planning to cooperate with its distributors to distribute fund shares and seek more potential investors so as to scale up its assets under management. Leveraging on its accumulated experience and solid track record, it is expected that the Group will achieve better fund performance and attract more high-quality investors in the coming year to diversify the fund investor base.

Proprietary Trading

The Group's proprietary trading business recorded net gains of HK\$200.6 million (2019: net gains of HK\$86.4 million) during the Review Period.

The Group adjusted its investment strategies in the second half of 2019. By using macro hedging strategies on the premise of balancing risks and returns, and focusing on investments in China-affiliated blue chips on the backdrop of rapid economic recovery in the PRC after the COVID-19 pandemic, the Group achieved satisfactory results in 2020 under such volatile market environment based on accurate research and study with the assistance of excellent investment personnel.

Staff Costs

During the Review Period, the Group's staff costs amounted to HK\$97.0 million (2019: HK\$75.2 million).

The number of staff and fixed costs decreased during the Review Period. As part of the salaries of frontline staff was linked to their performance, their salaries increased in tandem with the increase in their business performance, thus raising the overall staff costs of the Group. The Group also made flexible adjustments to its staffing in response to business growth and resource allocation.

Fee and Commission Expenses

The Group's fee and commission expenses during the Review Period amounted to HK\$14.8 million (2019: HK\$16.9 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 corporate finance business.

Finance Costs

The Group's finance costs during the Review Period amounted to HK\$116.1 million (2019: HK\$138.8 million).

The finance costs were mainly interest expenses on bonds payable. In mid-April 2019, the Group issued bonds of US\$200 million for a term of two years to repay the bonds payable of HK\$780 million and US\$150 million due in mid-May 2019. Due to the smaller bonds issuance size in mid-April 2019 and the duplicate interests for the period from mid-April 2019 to mid-May 2019, the finance costs decreased year-on-year by HK\$22.7 million or 16%.

Future Prospects

In 2021, SWSI will improve its overall strengths in the following four aspects:

Firstly, SWSI will expand financing channels for replenishment of its working capital. Through issuance of bonds and other financing methods, SWSI plans to enhance its capital structure, maintain the scale of its working capital and further reduce its cost of capital. Meanwhile, SWSI will continue to introduce strategic investors and look for other financing methods such as raising bank loans so as to consolidate its capital strength.

Secondly, SWSI will accelerate its business transformation and realize synergies in different divisions. Leveraging on the good investment returns in SPV6 last year, the Group will expand its asset management portfolio and classify its products as fixed income and equity-based. With the support from the investment demand on asset management products, investment banks will undertake projects such as bond underwriting, IPO, and merger and acquisition, thus providing more product sales for the brokerage business and realizing synergies in different divisions.

Thirdly, SWSI will strengthen its cost control and improve its operational efficiency. SWSI intends to reduce financial costs and operating expenses and utilize resources in an efficient manner, so as to broaden sources of income and reduce expenditures and strive for steady development.

Fourthly, SWSI will strengthen cross-border collaboration under the supervision and guidance of SWSC. Under the new development pattern of “focusing on domestic macro-circulation, along with international and domestic dual-circulation and mutual promotion”, and by leveraging on SWSI's domestic and overseas capital market connections, SWSC will provide domestic and overseas investment and financing services for domestic enterprises, including those in Chongqing. By strengthening the collaboration with its parent company and overseas subsidiaries, the Group is committed to enhancing its capability for serving entities.

Financial Review

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2020, the Group had total cash and bank balances of HK\$382.2 million (2019: HK\$789.1 million), while net current assets amounted to HK\$261.8 million (2019: HK\$1,946.4 million). The current ratio as a ratio of current assets to current liabilities was 1.2 times (2019: 16.0 times). The gearing ratio was 546.3% (2019: 367.0%). Gearing ratio represents the ratio of total borrowings to the total equity of the Group.

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

Banking Facilities and Charges on Assets

As at 31 December 2020, the Group had no outstanding bank loans (2019: Nil) and had an aggregate banking facilities of HK\$80.0 million (2019: HK\$270.0 million). In the case of certain banking facilities of HK\$80.0 million (2019: HK\$265.0 million), the drawdown of which is subject to the market value of the marketable securities pledged and the margin deposits placed. The bank loans are subject to floating interest rates with reference to the costs of funds of the banks. At the end of the year, the Group did not have any assets pledged for the facilities (2019: Nil).

Material Acquisitions, Disposals and Significant Investments

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

Contingencies

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

Commitments

During the Review Period, the Group has no material capital commitment (2019: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2020, the Group had no material exposure to fluctuations in exchange rates (2019: Nil).

EMPLOYEES

As at 31 December 2020, the Group had a total of 77 employees (*as at 31 December 2019: 88 employees*). The Group regards its employees as an important asset. We continue to improve our human resources management system. We aim to create a good working environment that attracts, identifies and nurtures talent. The Group has built up a series of internal employment policies, covering recruitment, promotion, remuneration, welfare and benefit, management of the equality and diversity. The Group has established clear policies on its employees' remuneration and a comprehensive performance appraisal system. Discretionary performance bonus is paid by making references to market, business results, departmental and individual's performance. The discretionary performance bonus aims to retain and reward talented and experienced employees. The Group offers comprehensive employee benefits covering mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance, life and accident insurance and diverse paid leaves.

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (*2019: Nil*).

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with each Director and has confirmed that all the Directors have complied with the required standard set out in the Model Code during the Review Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDIT COMMITTEE

The audit committee of the Company, comprising Mr. Meng Gaoyuan as chairman as well as Dr. Guan Wenwei and Mr. Liang Jilin as members, has reviewed the results for the year ended 31 December 2020.

SCOPE OF WORK OF ERNST & YOUNG

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 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary 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 2020 annual report will be despatched to the shareholders of the Company and will be available on the above websites in due course.

By order of the Board
Southwest Securities International Securities Limited
Wu Jian
Chairman

Hong Kong, 29 March 2021

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