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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 2023

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of Southwest Securities International Securities Limited (the “**Company**”) presents the audited consolidated final results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2023 (the “**Year**”), together with comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	2	31,192	(102,042)
Other income and gains	4	24,886	8,051
		56,078	(93,991)
Fee and commission expenses		(225)	(3,756)
Finance costs	5a	(31,756)	(57,578)
Staff costs (including Directors’ and chief executive’s emoluments)	5b	(25,626)	(42,553)
Depreciation of fixed assets and right-of-use assets		(804)	(16,524)
Expected credit losses on financial assets, net		1,890	1,512
Other operating expenses		(15,500)	(28,784)
Fair value gains arising from investment fund		–	440

* *For identification purpose only*

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loss before tax	5	(15,943)	(241,234)
Income tax credit	6	—	96
Loss for the year		<u>(15,943)</u>	<u>(241,138)</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of financial statements of consolidated investment fund		—	84
Release of exchange reserve upon redemption of consolidated investment fund		—	154
Other comprehensive income for the year		—	238
Total comprehensive expense for the year		<u>(15,943)</u>	<u>(240,900)</u>
Loss for the year attributable to			
— the equity shareholders of the Company		(15,943)	(241,138)
— the holder of other equity instrument		—	—
		<u>(15,943)</u>	<u>(241,138)</u>
Total comprehensive expense for the year attributable to			
— the equity shareholders of the Company		(15,943)	(240,900)
— the holder of other equity instrument		—	—
		<u>(15,943)</u>	<u>(240,900)</u>
Loss per share			
— Basic (<i>HK cents</i>)	7	<u>(0.435)</u>	<u>(6.585)</u>
— Diluted (<i>HK cents</i>)	7	<u>(0.435)</u>	<u>(6.585)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current assets			
Fixed assets		613	1,267
Right-of-use assets	8	–	150
Intangible assets		–	–
Financial assets at fair value through other comprehensive income		–	–
Other non-current assets		300	400
		913	1,817
Current assets			
Financial assets at fair value through profit or loss	9	99,090	372,713
Accounts receivable	10	678	47,726
Prepayments and other receivables		5,072	8,589
Cash and bank balances		603,964	378,104
		708,804	807,132
Current liabilities			
Other payables and accrued charges		15,163	18,457
Provisions		9,209	13,185
Lease liabilities	8	–	941
Bond payable	11	722,422	–
		746,794	32,583
Net current (liabilities)/assets		(37,990)	774,549
Total assets less current liabilities		(37,077)	776,366

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current liability			
Bond payable	<i>11</i>	—	797,500
		<u>(37,077)</u>	<u>(21,134)</u>
Capital and reserves			
Share capital		366,182	366,182
Reserves		(983,259)	(967,316)
Other equity instrument		580,000	580,000
		<u>(37,077)</u>	<u>(21,134)</u>

GENERAL

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

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) comprise:

- broking securities, unit trusts, investment-linked and insurance products for its clients;
- provision of margin financing, underwriting and placements, corporate finance advisory services and asset management services; and
- trading in securities, equity index, commodity and currency futures contracts for its own account.

The consolidated final results are presented in Hong Kong dollars (“**HK\$**”), which is the same as the Company’s functional currency and all values have been rounded to the nearest thousand, unless otherwise indicated.

Notes:

1. MATERIAL ACCOUNTING POLICY INFORMATION 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 includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (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 and financial assets at fair value through profit or loss, 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.

Going concern assumption

The Group incurred a consolidated loss of approximately HK\$15,943,000 for the year ended 31 December 2023, had net current liabilities of approximately HK\$37,990,000 and capital deficiency of approximately HK\$37,077,000 as at 31 December 2023, which was mainly attributable to bond payable of approximately HK\$722,422,000 that would be due for repayment on 9 February 2024, while its cash and bank balances amounted to only approximately HK\$603,964,000 as at 31 December 2023.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern.

In the preparation of the Group’s consolidated final results, the Directors have considered the on-going cash flow situation and the continuous financial support that might have from SSII covering a period of not less than twelve months from 31 December 2023 and have given careful consideration to the Group’s future liquidity and performance and its available sources of financing to continue as a going concern.

After taking into account the following considerations, the consolidated final results have been prepared by the Directors on a going concern basis:

- (i) subsequent to the end of the reporting period, on 9 February 2024, the bond payable was fully settled with the proceeds from the disposal of all the Group's financial assets at fair value through profit or loss of approximately HK\$99,042,000 and a shareholder loan from SSII of HK\$120,000,000 ("**Controlling Shareholder's Loan**"). The Controlling Shareholder's Loan is unsecured, unguaranteed, interest-bearing at fixed rate of 6.1475% and repayable on or before 31 December 2024;
- (ii) the repayment of the Controlling Shareholder's Loan could be negotiated and further agreed upon in writing as stipulated in the Controlling Shareholder's Loan agreement, if necessary; and
- (iii) as of the date on which these consolidated final results are being approved by the Directors, being the controlling shareholder of the Company, SSII also provided a written letter to the Company to confirm its intention to provide adequate financial support to ensure that the Group has sufficient working capital to maintain its operations until 30 June 2025.

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) the financial ability of SSII, as being the controlling shareholder of the Company, to ensure the Group is able to continue as a going concern and has sufficient working capital for the Group's requirements till 30 June 2025; and (ii) the final settlement date of the Controlling Shareholder's Loan as further mutually agreed upon with SSII, if necessary.

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 by the Directors in the consolidated final results.

Application of new and amendments to HKFRSs

In the current year, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2023:

HKFRS 17 (including the October 2020 and February 2022 amendments to HKFRS 17)	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform-Pillar Two Model Rules</i>

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated final results.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 — Disclosure of Accounting Policies

The amendments to HKAS 1 and HKFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The application of the amendments has had no material impact on the Group’s financial performance and positions, but has affected the disclosures of accounting policies.

Amendments to HKFRSs issued but not yet effective

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

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 HKFRS 16	<i>Lease Liability in a Sale and Leaseback¹</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 Clause¹</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants¹</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangement¹</i>
Amendments to HKAS 21	<i>Lack of Exchangeability²</i>

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

² Effective for annual periods beginning on or after 1 January 2025.

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

The Directors anticipate that the application of the above 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>	2023 HK\$'000	2022 HK\$'000
Total revenue from contracts with customers within the scope of HKFRS 15:	<i>(i)</i>		
<i>Brokerage:</i>			
— commission income on securities dealing		98	912
— insurance brokerage fee income		<u>—</u>	<u>561</u>
		98	1,473
<i>Corporate finance:</i>			
— IPO sponsor fee income		3,700	6,230
— underwriting and placing commission income		1,262	4,099
— consultancy and financial advisory fee income		<u>560</u>	<u>654</u>
		5,522	10,983
		5,620	12,456
Total revenue from other sources			
<i>Interest income calculated using the effective interest method from:</i>			
— margin financing		5	810
Net gains/(losses) from proprietary trading (<i>note</i>)		<u>25,567</u>	<u>(115,308)</u>
		25,572	(114,498)
Total revenue		31,192	(102,042)

Note:

The amount included the unrealised fair value gains in financial assets at fair value through profit or loss amounted to approximately HK\$22,766,000 (2022: unrealised fair value gains in financial assets at fair value through profit or loss amounted to approximately HK\$27,867,000 and unrealised fair value gains in derivative financial liabilities amounted to approximately HK\$6,739,000).

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analyse by business segment:		
<i>Brokerage</i>		
— services transferred at a point in time	<u>98</u>	<u>1,473</u>
<i>Corporate finance</i>		
— services transferred at a point in time	1,262	4,099
— services transferred over time	4,260	<u>6,884</u>
	<u>5,522</u>	<u>10,983</u>
	5,620	<u>12,456</u>
Analyse by timing of revenue recognition:		
— services transferred at a point in time	1,360	5,572
— services transferred over time	4,260	<u>6,884</u>
	5,620	<u>12,456</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 (2023: nil). The amount represents revenue expected to be recognised in the future from IPO sponsor fee income contracts. The Group will recognise this revenue as the service is completed, which is expected to occur over the next 12 months.

3. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers (“CODM”) to evaluate the performance of operating segments based on the Group’s internal reporting in respect of these segments. 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 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 as follow:

Brokerage and margin financing	Provision of brokerage services in securities, unit trust and investment-linked and insurance products; provision of margin financing services
Corporate finance	Provision of IPO sponsor services, underwriting and placing services and consultancy and financial advisory services
Asset management	Provision of asset management services
Proprietary trading	Proprietary trading in securities
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 sales are charged at prevailing market rates.

2023

	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 and group revenue	<u>103</u>	<u>5,522</u>	<u>-</u>	<u>25,567</u>	<u>-</u>	<u>31,192</u>
Other income and gains	<u>6,704</u>	<u>1</u>	<u>83</u>	<u>-</u>	<u>18,098</u>	<u>24,886</u>
Fee and commission expenses	<u>(223)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(225)</u>
Finance costs	<u>(1,785)</u>	<u>(901)</u>	<u>(352)</u>	<u>(15,439)</u>	<u>-</u>	<u>(18,477)</u>
Expected credit losses on financial assets, net	<u>1,777</u>	<u>113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,890</u>
Other operating expenses	<u>(11,961)</u>	<u>(8,283)</u>	<u>(3,355)</u>	<u>(3,081)</u>	<u>(4,603)</u>	<u>(31,283)</u>
Segment results	<u>(5,385)</u>	<u>(3,550)</u>	<u>(3,624)</u>	<u>7,047</u>	<u>13,495</u>	<u>7,983</u>
Unallocated expenses, represented certain administration costs						<u>(9,993)</u>
Unallocated depreciation of fixed assets						<u>(654)</u>
Unallocated finance costs						<u>(13,279)</u>
Loss before tax						<u>(15,943)</u>

2022

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

Geographical information

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2023 and 2022, 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 2023 and 2022, the following external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net gains/(losses) from proprietary trading.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Customer A from corporate finance segment	3,907	N/A *
Customer B from corporate finance segment	899	N/A *
Customer C from corporate finance segment	N/A *	3,640
Customer D from corporate finance segment	N/A *	2,292
Customer E from corporate finance segment	N/A *	1,500

* The corresponding revenue did not contribute more than 10% of total revenue of the Group in respective year.

4. OTHER INCOME AND GAINS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Other Income		
Other interest income	23,982	5,836
Referral fee income	644	–
Government grant (<i>note</i>)	35	1,487
Handling income	8	374
Sundry income	217	347
	<u>24,886</u>	<u>8,044</u>
Other gains		
Gains on disposal of fixed assets	–	7
	<u>24,886</u>	<u>8,051</u>

Note: During the year ended 31 December 2023, the amount of approximately HK\$35,000 represented cash subsidies from the Reimbursement of Maternity Leave Pay Scheme (“**RMLP**”) launched by Hong Kong Special Administrative Region Government supporting the additional maternity leave pay to the Company’s employee. Under RMLP, the Group has to commit to paid 14 weeks’ maturity leave payment to the employee.

During year ended 31 December 2022, the amounts of approximately HK\$1,487,000 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 years ended 31 December 2023 and 2022 and does not have other unfulfilled conditions and other contingencies attached to the receipts of the grant.

5. LOSS BEFORE TAX

	2023	2022
	<i>HK\$’000</i>	<i>HK\$’000</i>
Loss before tax is arrived at after charging (crediting):		
(a) Finance costs		
Bond interest expenses	30,185	52,858
Imputed interest expenses on bond payable (<i>note 11</i>)	1,569	3,856
Interest expenses on lease liabilities	2	707
Other interest expenses	–	157
	<u>31,756</u>	<u>57,578</u>
(b) Staff costs (including Directors’ and chief executive’s emoluments)		
Employer on contributions to retirement benefit schemes	593	1,052
Salaries, bonus, commission and allowances	25,033	41,501
	<u>25,626</u>	<u>42,553</u>
(c) Other items		
Auditor’s remuneration		
— Audit-related assurance services	1,158	1,422
— Other services	100	100
Gains on disposal of fixed assets	–	(7)
Exchange losses, net	976	9,150
	<u>976</u>	<u>9,150</u>

6. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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 years ended 31 December 2023 and 2022 since the Group did not derive assessable profits arising in Hong Kong during the years ended 31 December 2023 and 2022.

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 credit at the applicable tax rates is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loss before tax	<u>(15,943)</u>	<u>(241,234)</u>
Income tax at applicable tax rate of 16.5% (2022: 16.5%)	(2,631)	(39,804)
Tax effect of non-deductible expenses	4,147	10,383
Tax effect of non-taxable income	(4,803)	(2,532)
Tax effect of unrecognised temporary difference	26	–
Tax effect of unrecognised tax losses	3,261	31,953
Over-provision in respect of previous year	<u>–</u>	<u>(96)</u>
Income tax credit	<u>–</u>	<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 the equity shareholders of the Company, and the weighted average number of ordinary shares in issue during the Year.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share	<u>(15,943)</u>	<u>(241,138)</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>(0.435)</u>	<u>(6.585)</u>
Diluted loss per share (<i>HK cents</i>)	<u>(0.435)</u>	<u>(6.585)</u>

Note: There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2023 and 2022. 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 2023, nor has any dividend been proposed since the end of the reporting period (2022: HK\$nil).

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group has lease contracts for offices 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 HK\$'000
As at 1 January 2022	14,901
Depreciation charge	<u>(14,751)</u>
As at 31 December 2022 and 1 January 2023	150
Depreciation charge	<u>(150)</u>
As at 31 December 2023	<u><u>–</u></u>

(ii) Lease liabilities

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

	2023	2022
	HK\$'000	HK\$'000
Current and amounts payable under lease liabilities within one year	<u><u>–</u></u>	<u><u>941</u></u>

(iii) Amounts recognised in profit or loss

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Depreciation expense on right-of-use assets	150	14,751
Interest expenses on lease liabilities	2	707
Expense relating to short-term leases	3,596	612
Expense relating to leases of low-value assets	55	82
	<u>3,803</u>	<u>16,152</u>
Total amount recognised in profit or loss	<u><u>3,803</u></u>	<u><u>16,152</u></u>

(iv) Others

The total cash outflow relating to leases amounted to approximately HK\$4,594,000 (2022: approximately HK\$18,433,000).

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Financial assets mandatorily measured at fair value through profit or loss			
Debt securities			
— Listed in Hong Kong	<i>(i)</i>	60,726	266,513
— Listed outside Hong Kong	<i>(i)</i>	38,364	106,200
		<u>99,090</u>	<u>372,713</u>

Notes:

- (i) Fair values of the listed debt securities are determined with reference to the quoted price provided by brokers/financial institutions.
- (ii) There has been no change from the valuation technique used in the prior year.
- (iii) The Group has not pledged any debt securities as at 31 December 2023 to any parties as collateral for the facilities granted (31 December 2022: nil).

10. ACCOUNTS RECEIVABLE

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities			
— securities margin clients	<i>(a)</i>	533,509	536,138
— securities cash clients	<i>(b)</i>	209	199
— securities brokers	<i>(b)</i>	349	306
Accounts receivable arising from proprietary trading	<i>(b)</i>	156	42,540
Accounts receivable arising from the provision of corporate finance advisory services	<i>(b)</i>	150	4,845
		<u>534,373</u>	<u>584,028</u>
Less: impairment		<u>(533,695)</u>	<u>(536,302)</u>
		<u>678</u>	<u>47,726</u>

As at 31 December 2023, the gross amount of accounts receivable arising from contracts with customers amounted to approximately HK\$150,000 (2022: approximately HK\$4,845,000).

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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities:		
— Securities margin clients	533,509	536,138
Less: Impairment		
— Stage 1	—	—
— Stage 2	—	—
— Stage 3	(533,504)	(536,014)
	<u>5</u>	<u>124</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 as the ageing analysis does not give additional value in view of the nature of brokerage business.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the ECL allowance for accounts receivable arising from securities margin clients.

(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 2023 and 2022 by the Group's internal credit rating and year end classification:

2023

Internal rating grade	12-month	Lifetime ECL	Lifetime ECL	Total
	ECL	not credit-	credit-	
	(Stage 1)	impaired	impaired	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Excellent	5	–	–	5
Good	–	–	–	–
Non-performing	–	–	–	–
Individually impaired	–	–	533,504	533,504
	<u>5</u>	<u>–</u>	<u>533,504</u>	<u>533,509</u>

At 31 December 2023, for the gross receivables of stage 1 securities margin clients, fair value of marketable securities pledged was approximately HK\$210,000.

At 31 December 2023, for the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was approximately HK\$3,000.

2022

	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	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.

- (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 2022	–	–	536,389	536,389
Credited to profit or loss	–	–	(281)	(281)
Exchange alignment	–	–	(94)	(94)
As at 31 December 2022 and 1 January 2023	–	–	536,014	536,014
Credited to profit or loss	–	–	(1,793)	(1,793)
Amount written off	–	–	(705)	(705)
Exchange alignment	–	–	(12)	(12)
As at 31 December 2023	<u>–</u>	<u>–</u>	<u>533,504</u>	<u>533,504</u>

During the Year, as a result of court order, certain account receivable amount to approximately HK\$1,566,000 (2022: nil) and approximately HK\$705,000 (2022: nil) was recovered and written off, respectively. The Group write off accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

(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, proprietary trading and corporate finance advisory services other than securities margin clients of the Group are as follows:

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of brokerage services in securities			
— securities cash clients	(1)	209	199
— securities brokers	(2)	349	306
Accounts receivable arising from proprietary trading	(3)	156	42,540
Accounts receivable arising from the provision of corporate finance advisory services	(4)	150	4,845
		864	47,890
Less: impairment	(5)	(191)	(288)
		673	47,602

- (1) Accounts receivable arising from the ordinary course of business of brokerage services in securities cash clients were 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 services in securities are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors 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 brokers were unsecured, repayable on demand after settlement date and were not overdue.
- (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 a credit period of 7 days (2022: 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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	–	3,064
Overdue:		
Within 30 days	–	870
31–90 days	<u>132</u>	<u>780</u>
	<u><u>132</u></u>	<u><u>4,714</u></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 2022	–	–	164	3,364	3,528
Credited to profit or loss	–	–	(7)	(1,224)	(1,231)
Amount written off (note 1)	<u>–</u>	<u>–</u>	<u>–</u>	<u>(2,009)</u>	<u>(2,009)</u>
As at 31 December 2022 and 1 January 2023	–	–	157	131	288
Charged/(credited) to profit or loss (note 2)	<u>–</u>	<u>–</u>	<u>16</u>	<u>(113)</u>	<u>(97)</u>
As at 31 December 2023	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>173</u></u>	<u><u>18</u></u>	<u><u>191</u></u>

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the ECL allowance for accounts receivable other than securities margin clients.

Notes:

1. During the year ended 31 December 2022, accounts receivable amounted to approximately HK\$2,009,000 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.
2. During the year, recovery of account receivables arising from corporate finance advisory services resulted in a decrease in loss allowance of approximately HK\$113,000.

11. BOND PAYABLE

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, the Company repurchased and cancelled US\$10,000,000 (2022: US\$75,500,000) of 2021 USD Bonds. The remaining portion of US\$92,500,000 (2022: 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 2023 was approximately HK\$717,370,000.

Subsequent to 31 December 2023, the bond payable was fully settled in February 2024.

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

	2021 USD Bonds <i>HK\$'000</i>
Carrying amount at 1 January 2022	1,382,512
Imputed interest expenses for the year (<i>note 5(a)</i>)	3,856
Exchange difference	3,513
Principal repayment	<u>(592,381)</u>
Carrying amount at 31 December 2022 and 1 January 2023	797,500
Imputed interest expenses for the year (<i>note 5(a)</i>)	1,569
Exchange difference	1,851
Principal repayment	<u>(78,498)</u>
Carrying amount at 31 December 2023	<u><u>722,422</u></u>

	2023	2022
	HK\$'000	HK\$'000
Analyses as:		
Non-current portion	–	797,500
Current portion	<u>722,422</u>	<u>–</u>
	<u>722,422</u>	<u>797,500</u>

12. EVENT AFTER THE REPORTING PERIOD

As more fully explained in the Company's various announcements on 17 September 2023, 22 September 2023, 29 November 2023, 6 December 2023 and also 19 March 2024, the Company is being considered by the Stock Exchange that it failed to meet the requirement under Rule 13.24 of the Listing Rules to warrant the continuing listing of the shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Macro Environment

In 2023, the global economy entered a period of returning to normalcy with both opportunities and challenges. Mainland China's economy was in full swing, and demand rose as the global economy resumed growth. Meanwhile, the restructuring of the global supply chain, coupled with the continued interest rate hikes by central banks in the U.S. and Europe, has had a negative impact on some developing countries whose economic cycles are opposite to those of the U.S. and Europe. Global stock markets were generally positive, with the U.S. and Japanese ones performing particularly well, but China and Hong Kong stock markets were weak. Despite continued interest rate hikes, the U.S. dollar index had a series of ups and downs and ended the Year lower, the yen continued to depreciate, and on the contrary, gold rose amid fluctuations, even hitting a record high.

In 2023, the Chinese government implemented a series of proactive macroeconomic policies to revive the economy out of the shadow of the three-year pandemic and achieve resilient growth. In terms of fiscal policy, governments at all levels have increased tax incentives to maintain a stable supply chain. In terms of monetary policy, more attention was paid to cross-cycle and counter-cyclical adjustments, with a 50-point cut in the deposit reserve ratio during the Year to promote market vitality. China's economy grew by 5.2% in 2023, slightly better than the growth target of around 5%. Looking ahead, although the downturn pressure on the economy still exists, the basic trend of long-term economic improvement remains unchanged.

As a global financial centre, Hong Kong is gradually returning to normal after the impact of the pandemic and the volatility of the global markets over the past few years. During the Year, the Hong Kong Government has launched the "Happy Hong Kong" and "Hong Kong Nights Vibes" local campaigns, and the "Tell Good Stories of Hong Kong" campaign overseas, as well as a series of measures to "attract talents". The Hong Kong Stock Exchange launched a series of reforms in 2023, allowing specialised technology companies to apply for listing in Hong Kong, introducing the "Hong Kong Dollar-Renminbi Dual Counter", with the GEM reforms taking effect in January 2024, and introducing measures such as streamlining the board transfer mechanism. Additionally, Hong Kong vigorously promoted the development of the twin engines of innovation and finance in 2023, including measures to attract key innovation and technology enterprises to set up their operations in Hong Kong, strengthen

cooperation with new markets in areas such as the Middle East and the ASEAN region, and deepen interconnections with the Mainland China's financial markets. Leveraging on the strengths of the robust capital market and the various regulatory reforms and enhancements, Hong Kong's financial markets will continue to remain vibrant.

Hong Kong Stock Market

At the beginning of 2023, the Hang Seng Index recorded a yearly high of 22,700 points during the trading session at the end of January, up nearly 15% from the end of 2022, driven by expectations that the economic outlook will improve significantly. The Hang Seng Index fell by only 4.4% in the first half of the Year, despite negative impact from heightened geopolitical risks and the weakening of the Renminbi, partially hedged by the positive factors of the resolution of the debt ceiling issue in the U.S. and the expectation that the Fed would pause in its interest rate hikes. In July, the meeting of the Political Bureau of the Central Committee greatly boosted market confidence in China's economy, with the Hang Seng Index rising by more than 6% in just a month. However, a renewed property crisis in August dragged the Hang Seng Index down by nearly 8.5% in a month. At the end of October, the Hang Seng Index was still down by about 6.9% from the end of August while remaining broadly stable in the following 2 months, but it recorded a yearly low of 15,972 points in the mid-December trading session. The Hang Seng Index ended 2023 at 17,047 points, down 13.8% for the Year; the HSCEI closed at 5,768 points at the end of December 2023, down 14.0% from the end of 2022; and the Hang Seng TECH Index closed at 3,764 points at the end of December 2023, down 8.8% from the end of 2022. Meanwhile, investment and financing activities were relatively quiet due to the cautious global markets and uncertainties surrounding the outlook for interest rates.

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\$15.9 million (2022: *loss before tax of approximately HK\$241.2 million*), representing a decrease in loss before tax of approximately HK\$225.3 million or approximately 93.4% as compared to last year. The following are the items with significant fluctuations:

The Group recorded net gains from proprietary trading turning from deficits to profit during the Year which amounted to approximately HK\$25.6 million (2022: *net losses of approximately HK\$115.3 million*).

The Group's finance costs for the Year amounted to approximately HK\$31.8 million (2022: *approximately HK\$57.6 million*), representing a decrease of approximately HK\$25.8 million or approximately 44.8% as compared to last year.

Brokerage and Margin Financing

The revenue generated from the Group's brokerage and margin financing business during the Year amounted to approximately HK\$0.1 million (2022: *approximately HK\$2.3 million*).

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

In order to enhance cost efficiency, the Group has ceased the direct operation of futures and options business since December 2021 and has suspended the direct operation of brokerage business of "Securities Brokerage and Margin Business Segment" since 20 May 2022. Besides, its insurance brokerage business was discontinued on 20 July 2022, with a view to focusing existing resources on business strengths.

During the Year, the global investment market faced multiple challenges including rising interest rates, high inflation, and slowing economic growth, which, combined with the sluggish market sentiment on trading and investment, caused Hong Kong's Hang Seng Index to fall from 19,781 points at the close of 2022 to 17,047 points at the close of 29 December 2023, representing a decline of nearly 14%. This marked the fourth consecutive year of decline in history. Despite a gradual and slight reduction in market volatility, the persistent market downturn has discouraged investors from entering the market, resulting in an overall decrease in commission income from retail investors for the industry as a whole. The change in the Group's business strategy resulted in a significant drop in revenue from brokerage and margin financing business during the Year as compared to last year.

Corporate Finance

The Group's corporate finance business includes sponsor services, underwriting and placement services, financial advisory services to corporate clients, from which the Group recorded a revenue for the Year of approximately HK\$5.5 million (2022: *approximately HK\$11.0 million*), representing a decrease of approximately HK\$5.5 million or approximately 50.0%.

During the Year, the Group recorded revenue from sponsor services amounted to approximately HK\$3.7 million, representing a year-on-year decrease of approximately HK\$2.5 million or approximately 40.3% from that of approximately HK\$6.2 million last year. Southwest Securities (HK) Capital Limited, a wholly-owned subsidiary of the Company, acted as the sole sponsor of Sanergy Group Limited for the completion of the listing and offer project in January 2023.

Revenue from underwriting and placement services is mainly derived from the Group's offshore bond issuance business. During the Year, the Group's revenue from underwriting and placing services amounted to approximately HK\$1.3 million, representing a year-on-year decrease of approximately HK\$2.8 million or approximately 68.3% from that of approximately HK\$4.1 million last year, mainly due to the sharp decrease in the total issuance of USD-denominated bonds in 2023 as a result of successive interest rate hikes to the highest point by the Federal Reserve, and a market shift from USD-denominated offshore bonds to RMB-denominated pearl bonds/dim sum bonds. Furthermore, the frequent implementation of policies by offshore bond regulators has led to a decrease in enterprises' willingness to acquire bonds. During the Year, the Debt Capital Markets Department ("**DCM Department**") has participated in and completed two pearl bonds, both of which were denominated in Renminbi, with Southwest Securities (HK) Brokerage Limited, a wholly-owned subsidiary of the Company, acting as the joint global coordinator (lead underwriter). As at 31 December 2023, the DCM Department has a number of bond issues in progress that are expected to be completed in the coming year.

In the future, with the continuous development of the Group's bond business, relying on the extensive client base of the domestic parent company, Southwest Securities Co., Ltd. ("**Southwest Securities**"), the numerous branches and the strong support from the State-owned Assets Supervision and Administration Commission of Chongqing Province, the DCM Department will fully utilize the advantages of Southwest Securities and take advantage of the combined domestic and overseas business to further develop the offshore bond issuance business.

Asset Management

During the Year, the Group's asset management business recorded no revenue (2022: HK\$Nil).

The Group's asset management business mainly provides services, including investment management, investment advisory and external asset management services.

During the Year, Southwest Securities (HK) Asset Management Limited, a wholly-owned subsidiary of the Company (“**SW Asset Management**”), acted as a fund investment advisor, advising clients on a range of asset classes and other investment products for their portfolios, including funds, bonds, convertible securities, equity securities and real estate. In order to diversify the Group’s income sources from asset management business, SW Asset Management has started to develop external asset management services during the Year, which will provide comprehensive portfolio management and wealth management services to professional investors.

The Group’s asset management business line actively explored differentiation and development with characteristics, promoted the optimisation of strategies and the transformation of business model, and changed its business positioning. The Group will actively recruit talents to strengthen its management capabilities, expand its distribution channels, invest resources to expand its business coverage and enrich its product range. As the 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 gains of approximately HK\$25.6 million (2022: *net losses of approximately HK\$115.3 million*) during the Year.

Despite the macro backdrop of continued interest rate hikes by the Federal Reserve, the Group was able to achieve its expected investment results by continuing its investment strategy since the second half of 2022, strengthening its risk control management, and focusing on high-level fixed income investments. Additionally, the Group sold bonds to lock in profits when their prices recovered.

Other Income and Gains

During the Year, the Group’s other income and gains amounted to approximately HK\$24.9 million (2022: *approximately HK\$8.1 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\$25.6 million (2022: *approximately HK\$42.6 million*).

In accordance with the Group's operational and development strategy, each department was staffed with only the necessary manpower, resulting in a corresponding reduction in staff costs. The Group will make flexible adjustments to its staffing levels in alignment with changes in the market business environment and in accordance with the Group's business operation planning and resource deployment as and when appropriate.

Fee and Commission Expenses

The Group's fee and commission expenses during the Year amounted to approximately HK\$0.2 million (2022: *approximately HK\$3.8 million*).

Fee and commission expenses mainly include commissions paid for brokerage business, proprietary trading business and corporate finance business transactions. The decrease in commission expenses was mainly due 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\$31.8 million (2022: *approximately HK\$57.6 million*).

The finance costs were mainly interest expenses on bond payable. In February 2021, the Group issued bonds of US\$178 million for a term of three years to repay the bond payable of US\$200 million due in mid-April 2021. Last year, the Group completed the repurchase of US\$75.5 million 2021 USD Bonds. During the Year, the Group completed the repurchase of US\$10 million 2021 USD Bonds. Finance costs fell by approximately HK\$25.8 million or approximately 44.8%. The details of the repurchase of 2021 USD Bonds were set out in the announcement of the Company dated 20 April 2023.

FUTURE PROSPECTS

In 2023, Hong Kong's stock market came under pressure due to the Federal Reserve's interest rate hike and geopolitical factors, resulting in the Hang Seng Index falling to a near decade low. Furthermore, Hong Kong's capital market also faced a number of challenges and pressures. Looking back to 2023, the Hong Kong Stock Exchange has launched a series of new initiatives and reforms, including interconnection and interoperability, listing rules reform, and expansion of external exchanges and cooperation, with a view to enhancing the attractiveness of Hong Kong's market to financing enterprises and investors. If the Federal Reserve starts to cut interest rates in the future, the global capital market, including the Hong Kong stock market, will benefit and global currency liquidity will improve. The series of

reform measures implemented for the Hong Kong stock market in 2023 will have a positive impact on the market in 2024. The overall improvement of the Hong Kong stock market still hinges on the restoration of investor confidence, market sentiment and the further recovery of the Mainland China economy. To adapt to the market, the Company is currently focusing on controlling risks and reducing costs, actively introducing business teams and strategic investors, gradually adjusting its business structure and realising a comprehensive restructuring, with a view to seizing the opportunity of the market rebound to enhance its profitability and overall competitiveness.

FINANCIAL REVIEW

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2023, the Group had total cash and bank balances of approximately HK\$604.0 million (2022: *approximately HK\$378.1 million*), while net current liabilities amounted to approximately HK\$38.0 million (2022: *net current assets approximately HK\$774.5 million*). The current ratio as a ratio of current assets to current liabilities was approximately 0.9 times (2022: *approximately 24.8 times*). The gearing ratio was approximately (1,948.4)% (2022: *approximately (3,773.5)%*). 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 2023, the Group had no outstanding bank loans (2022: *Nil*) and had an aggregate banking facilities of HK\$nil (2022: *HK\$80.0 million*). In the case of certain banking facilities of HK\$nil (2022: *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 (2022: *Nil*).

Material Acquisitions, Disposals and Significant Investments

During the Year, there were no material acquisitions and disposals, nor were there any significant investments (2022: *Nil*).

Contingent Liabilities

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

Commitments

During the Year, the Group had no material capital commitment (2022: Nil).

Exposure to Fluctuations in Exchange Rates and Related Hedges

As at 31 December 2023, the Group had no material exposure to fluctuations in exchange rates (2022: Nil).

EMPLOYEES

As at 31 December 2023, the Group had a total of 33 employees (*as at 31 December 2022: 45 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.

SIGNIFICANT EVENTS OR TRANSACTIONS DURING AND AFTER THE YEAR

Major Disposals

During the period from 29 September 2023 to 4 October 2023, the Company disposed of, in aggregate, the notes issued by Bi Hai Co., Ltd., a wholly-owned subsidiary of Yunnan Provincial Investment Holdings Group Co., Ltd, in the principal amount of US\$3,000,000 at a total consideration (together with the accrued interests) of approximately US\$2,809,969 in the open market. Details of the said disposals were disclosed in the Company's announcements dated 4 October 2023 and 5 October 2023 and circular dated 13 November 2023.

On 20 October 2023, the Company disposed of the bonds issued by GF Financial Holdings BVI Ltd., a wholly-owned subsidiary of GF Holdings (Hong Kong) Corporation Limited, in the principal amount of US\$2,650,000 at a total consideration (together with the accrued interests) of approximately US\$2,531,595 in the open market. Details of the said disposal was disclosed in the Company's announcement dated 24 October 2023 and circular dated 13 November 2023.

On 8 November 2023, the Company disposed of the bonds issued by Central Plaza Development Ltd., a wholly-owned subsidiary of Beijing Capital Land Ltd. (which is a joint stock company incorporated in the PRC with limited liability and whose H shares (former stock code: 2868) were currently delisted on the Main Board of the Stock Exchange), in the principal amount of US\$5,500,000 at a total consideration (together with the accrued interests) of approximately US\$4,885,161 in the open market. Details of the said disposal was disclosed in the Company's announcement dated 9 November 2023 and circular dated 30 November 2023.

On 10 January 2024, the Company disposed of the notes issued by Industrial and Commercial Bank of China Limited, a joint stock company incorporated in the PRC with limited liability and whose H shares (stock code: 1398) are listed on the Main Board of the Stock Exchange, in the principal amount of US\$3,600,000 at a total consideration (together with the accrued interests) of approximately US\$3,618,653 in the open market. Details of the said disposal was disclosed in the Company's announcement dated 11 January 2024 and circular dated 9 February 2024.

On 12 January 2024, the Company disposed of the notes issued by China Cinda Finance (2015) I Limited, a wholly-owned subsidiary of China Cinda Asset Management Co., Ltd (which is a joint stock company incorporated in the PRC with limited liability and whose H shares (stock code: 1359) are listed on the Main Board of the Stock Exchange), in the principal amount of US\$2,500,000 at a total consideration (together with the accrued interests) of approximately US\$2,476,392 in the open market. Details of the said disposal was disclosed in the Company's announcement dated 12 January 2024 and circular dated 9 February 2024.

SSII Loan

On 31 January 2024 (after trading hours), the Company as the borrower and Southwest Securities International Investment Limited (“**SSII**”) as the lender entered into a loan agreement, pursuant to which SSII as the lender agreed to offer an unsecured term loan in the amount of no more than HK\$120,000,000 or equivalent to the Company as the borrower (the “**SSII Loan**”). As SSII is the controlling shareholder of the Company which is interested in approximately 74.10% of the issued share capital of the Company, the provision of the SSII Loan constituted a connected transaction of the Company under the Listing Rules. As the SSII Loan was on normal commercial terms or better and was not secured by the assets of the Group, the transaction was fully exempted from reporting, announcement, shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules. For details of the SSII Loan, please refer to the announcement of the Company dated 31 January 2024.

Save as disclosed above, there was no significant events affecting the Group after the Year and up to the date of this announcement.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2022: *Nil*).

CORPORATE GOVERNANCE

The Company has complied with all code provisions set out in the Corporate Governance Code contained in Appendix C1 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 C3 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

In April 2023, the Company had completed an on-market repurchase and cancellation of US\$10,000,000 in aggregate principal amount of the 2021 USD Bonds (Former Bond Stock Code: 40594), representing approximately 5.62% of the aggregate principal amount of the 2021 USD Bonds. Immediately after the completion of the cancellation, the aggregate outstanding principal amount of the 2021 USD Bonds was US\$92,500,000, representing approximately 51.97% of the aggregate principal amount of the original 2021 USD Bonds issued. The USD 2021 Bonds were fully redeemed on the maturity date (i.e. 9 February 2024). For details of the repurchase of the 2021 USD Bonds, please refer to the Company’s announcement dated 20 April 2023. Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities 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 audit of the consolidated financial statements of the Group for the Year.

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 2023, 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\$15,943,000 for the year ended 31 December 2023, had net current liabilities of approximately HK\$37,990,000 and capital deficiency of approximately HK\$37,077,000 as at 31 December 2023, which was mainly attributable to the bond payable of approximately HK\$722,422,000 that would be due for repayment on 9 February 2024, while its cash and bank balances amounted to only approximately HK\$603,964,000 as at 31 December 2023.

As stated in Noted 1(b), these events 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 2023.

SCOPE OF WORK OF SHINEWING

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 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 audited 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 2023 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
Huang Changsheng
Executive Director and Chief Executive Officer

Hong Kong, 22 March 2024

As at the date of this announcement, the executive director of the Company is Mr. Huang Changsheng (Chief Executive Officer); and the independent non-executive directors of the Company are Mr. Meng Gaoyuan, Mr. Liang Jilin and Mr. Cao Ping.