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**SHENWAN HONGYUAN (H.K.) LIMITED**

申萬宏源(香港)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 218)

**FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**RESULTS**

The board of directors (the “Board”) of Shenwan Hongyuan (H.K.) Limited (the “Company”) are pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017 together with comparative figures for the previous financial year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

		<b>For the year ended 31 December</b>	
		<b>2017</b>	<b>2016</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
REVENUE	4	<b>545,964</b>	416,455
Other gains, net	4	<b>10,779</b>	1,267
Commission expenses		<b>(113,904)</b>	(68,790)
Employee benefit expenses		<b>(191,297)</b>	(139,382)
Depreciation		<b>(7,655)</b>	(5,040)
Interest expenses		<b>(11,771)</b>	(5,883)
Other expenses, net		<b>(115,899)</b>	(107,721)
PROFIT BEFORE TAXATION	5	<b>116,217</b>	90,906
Income tax	6	<b>(12,146)</b>	(8,632)
PROFIT FOR THE YEAR		<b><u>104,071</u></b>	<u>82,274</u>
Attributable to:			
Ordinary equity holders of the Company		<b>104,097</b>	82,275
Non-controlling interests		<b>(26)</b>	(1)
		<b><u>104,071</u></b>	<u>82,274</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (BASIC AND DILUTED)	7	<b><u>HK13.08 cents</u></b>	<u>HK10.33 cents</u>
DIVIDEND PER SHARE	8	<b><u>HK6 cents</u></b>	<u>HK4 cents</u>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
<b>PROFIT FOR THE YEAR</b>	<u><b>104,071</b></u>	<u>82,274</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR:</b>		
Items that may be reclassified to the consolidated statement of profit or loss in subsequent periods		
Release of exchange differences upon deemed disposal of a subsidiary	522	-
Exchange differences on translation of accounts of a subsidiary	<u>-</u>	<u>(522)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u><b>522</b></u>	<u>(522)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><b>104,593</b></u>	<u>81,752</u>
<b>Attributable to:</b>		
Ordinary equity holders of the Company	104,619	81,753
Non-controlling interests	<u>(26)</u>	<u>(1)</u>
	<u><b>104,593</b></u>	<u>81,752</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
<b><u>NON-CURRENT ASSETS</u></b>			
Property, plant and equipment		17,136	9,531
Stock and Futures Exchange trading rights		4,212	4,212
Other assets		31,226	32,430
Deferred tax assets		4,641	6,479
Total non-current assets		57,215	52,652
<b><u>CURRENT ASSETS</u></b>			
Investments at fair value through profit or loss		148,778	110,326
Account receivables	9	679,284	488,560
Loans and advances		2,290,889	1,792,161
Prepayments, deposits and other receivables		25,753	26,504
Tax recoverable		12,041	16,162
Bank balances held on behalf of clients		4,064,887	4,576,893
Cash and bank balances		407,457	387,713
Total current assets		7,629,089	7,398,319
<b><u>CURRENT LIABILITIES</u></b>			
Account payables	10	4,588,066	5,031,376
Other payables and accruals		86,087	48,509
Interest-bearing bank borrowings		845,000	278,590
Tax payable		2,467	542
Total current liabilities		5,521,620	5,359,017
NET CURRENT ASSETS		2,107,469	2,039,302
<i>TOTAL ASSETS LESS CURRENT LIABILITIES</i>		2,164,684	2,091,954
<b><u>NON-CURRENT LIABILITY</u></b>			
Deferred tax liability		1,161	197
NET ASSETS		2,163,523	2,091,757
<b><u>EQUITY</u></b>			
Equity attributable to ordinary equity shareholders of the Company			
Share capital		1,200,457	1,200,457
Other reserves		960,437	888,186
		2,160,894	2,088,643
Non-controlling interests		2,629	3,114
TOTAL EQUITY		2,163,523	2,091,757

**NOTES:**

**1. GENERAL INFORMATION**

The Company is a limited liability company incorporated in Hong Kong. The registered office of the Company is situated at Level 19, 28 Hennessy Road, Hong Kong.

The Group was involved in brokerage business, corporate finance business, asset management business, financing and loans business, and investment and other business.

The Company is a subsidiary of Shenwan Hongyuan Holdings (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability. In the opinion of the directors, the ultimate holding company of the Company is Shenwan Hongyuan Group Co., Ltd., which was established in the People's Republic of China (the "PRC") and listed in Shenzhen Stock Exchange (stock code: 000166).

The unaudited financial information relating to the year ended 31 December 2017 and the financial information relating to the year ended 31 December 2016 included in this preliminary announcement of annual results 2017 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 2016, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2017 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on these financial statements for the year ended 31 December 2016. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

**2. PRINCIPAL ACCOUNTING POLICIES**

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

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Changes in accounting policy

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 7	Statement of cash flows: Disclosure initiative
Amendments to HKAS 12	Income taxes: Recognition of deferred tax assets for unrealised losses

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

## 3. OPERATING SEGMENT INFORMATION

An analysis of the Group's reportable segment results before tax for the year is as follows:

	Brokerage business HK\$'000	Corporate finance business HK\$'000	Asset management business HK\$'000	Financing and loans business HK\$'000	Investment business HK\$'000	Others HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2017</b>							
Segment revenue and other gains/(losses) from external customers	<u>248,080</u>	<u>98,694</u>	<u>9,531</u>	<u>174,036</u>	<u>15,623</u>	<u>10,779</u>	<u>556,743</u>
Segment results and profit/(loss) before taxation	<u>18,910</u>	<u>13,327</u>	<u>(5,245)</u>	<u>65,937</u>	<u>12,509</u>	<u>10,779</u>	<u>116,217</u>
	Brokerage business HK\$'000	Corporate finance business HK\$'000	Asset management business HK\$'000	Financing and loans business HK\$'000	Investment business HK\$'000	Others HK\$'000	Total HK\$'000
<b>For the year ended 31 December 2016</b>							
Segment revenue and other gains/(losses) from external customers	<u>217,429</u>	<u>46,834</u>	<u>3,238</u>	<u>148,975</u>	<u>(21)</u>	<u>1,267</u>	<u>417,722</u>
Segment results and profit/(loss) before taxation	<u>23,148</u>	<u>5,752</u>	<u>(9,463)</u>	<u>73,985</u>	<u>(3,783)</u>	<u>1,267</u>	<u>90,906</u>

### Geographical information

The Group's operations are substantially located in Hong Kong and substantially all non-current assets of the Group are located in Hong Kong. Therefore, no further analysis of geographical information is presented.

#### 4. REVENUE AND OTHER GAINS, NET

An analysis of revenue, which is also the Group's turnover, and other gains, net are as follows:

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue:</b>		
<b><u>Brokerage business:</u></b>		
Commission on securities dealing		
- Hong Kong securities	<b>167,924</b>	123,535
- Other than Hong Kong securities	<b>27,442</b>	25,412
Commission on futures and options contracts dealing	<b>19,439</b>	30,770
Handling fee and facilitating fee income	<b>13,288</b>	21,389
Research fee income and others	<b>19,987</b>	16,323
	<b>248,080</b>	217,429
<b><u>Corporate finance business:</u></b>		
Initial public offering, placing, underwriting and sub-underwriting commission	<b>75,427</b>	20,068
Financial advisory, compliance advisory, sponsorship fee income and others	<b>23,267</b>	26,766
	<b>98,694</b>	46,834
<b><u>Asset management business:</u></b>		
Management fee and investment advisory fee income	<b>9,531</b>	3,238
<b><u>Financing and loans business:</u></b>		
Interest income from loans to cash clients and margin clients	<b>123,748</b>	117,563
Interest income from initial public offering loans	<b>6,020</b>	186
Interest income from banks and others	<b>44,268</b>	31,226
	<b>174,036</b>	148,975
<b><u>Investment business:</u></b>		
Net realised and unrealised gains/ (losses) on financial assets:		
- Listed investments	<b>845</b>	(4,113)
- Unlisted investments	<b>9,453</b>	(384)
Dividend income and interest income:		
- Listed investments	<b>536</b>	306
- Unlisted investments	<b>4,789</b>	4,170
	<b>15,623</b>	(21)
	<b>545,964</b>	416,455
<b><u>Other gains, net:</u></b>		
Exchange gains, net	<b>10,779</b>	1,252
Gain on disposal of property, plant and equipment	<b>-</b>	15
	<b>10,779</b>	1,267

## 5. PROFIT BEFORE TAXATION

The Group's profit before tax is arrived at after charging:

	For the year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Interest expenses on loans and overdrafts wholly repayable within five years	11,771	5,883
Minimum lease payments under operating leases in respect of land and buildings	<u>28,663</u>	<u>28,309</u>

## 6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the appropriate current rates of tax prevailing in the jurisdiction in which the Group operates.

	For the year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	8,905	9,728
Overprovision in prior years	(212)	(1,915)
Current – Elsewhere	651	63
Deferred tax	<u>2,802</u>	<u>756</u>
Total tax charge	<u>12,146</u>	<u>8,632</u>

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Group had no potentially dilutive ordinary shares in issue during those years. As at 31 December 2017, the total number of the issued ordinary shares was 796,138,689 shares (2016: 796,138,689 shares).

	For the year ended 31 December	
	2017	2016
Profit attributable to ordinary equity holders of the Company (HK\$'000)	<u>104,097</u>	<u>82,275</u>
Weighted average number of ordinary shares in issue (in thousands)	<u>796,139</u>	<u>796,139</u>
Earnings per share, basic and diluted (HK cents per share)	<u>13.08</u>	<u>10.33</u>

**8. DIVIDEND**

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Proposed final – HK6 cents (2016: HK4 cents) per ordinary share	<u><b>47,768</b></u>	<u>31,846</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**9. ACCOUNT RECEIVABLES**

	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Account receivables arising from securities dealing:		
- Cash Clients	<b>216,836</b>	199,658
- Brokers and dealers	<b>107,018</b>	110,321
- Clearing houses	<b>338,763</b>	166,204
	<u><b>662,617</b></u>	<u>476,183</u>
Account receivables arising from corporate finance, advisory and other services:		
- Corporate Clients	<u><b>16,667</b></u>	<u>12,377</u>
	<u><b>679,284</b></u>	<u>488,560</u>

There was no provision for impairment of account receivables at 31 December 2017 (2016: Nil).



## 9. ACCOUNT RECEIVABLES (continued)

Save for the credit period allowed by the Group, the account receivables from cash clients shall be due on the settlement dates of the respective securities and futures contract transactions. In view of the fact that the Group's account receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Although the Group does not hold any collaterals or other credit enhancements over its account receivables from cash clients, the Group is allowed to dispose of the securities deposited by the customers with the Group to settle any overdue amounts. Overdue account receivables from cash clients of HK\$54,171,000 (2016: HK\$32,615,000) bear interest at interest rates mainly with reference to Hong Kong dollar prime rate (2016: with reference to the Hong Kong dollar prime rate).

An ageing analysis of account receivables from cash clients before provision for impairment based on the trade date is as follows:

	<b>As at 31 December 2017 HK\$'000</b>	<b>As at 31 December 2016 HK\$'000</b>
Within 1 month	<b>192,507</b>	178,457
1 to 2 months	<b>10,758</b>	4,975
2 to 3 months	<b>5,334</b>	3,547
Over 3 months	<b>8,237</b>	12,679
	<b><u>216,836</u></b>	<u>199,658</u>

The ageing of account receivables from clearing houses, brokers and dealers are within one month. They represent (1) pending trades arising from business of dealing in securities, which are normally due within a few days after the trade date, (2) deposits at clearing house arising from the business of dealing in securities, futures and options contracts and (3) cash and deposits balances at brokers and dealers. The ageing of account receivables from corporate clients arising from corporate finance, advisory and other services are mostly within one month.

Included in the account receivables balance as at 31 December 2017 were (1) a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK\$8,478,000 (2016: HK\$7,645,000) arising from brokerage services relating to the PRC capital markets, (2) a consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company of HK\$6,088,000 (2016: HK\$5,423,000) arising from supporting services relating to Hong Kong and overseas markets, which balances are unsecured, interest-free and repayable on the settlement date of the relevant transactions.

A consultancy fee receivable due from a wholly-owned subsidiary of the ultimate holding company arising from supporting services in connection with corporate finance business of HK\$1,135,000 was also included in the account receivables balance as at 31 December 2016, which balance is unsecured, interest-free and repayable on demand.

## 10. ACCOUNT PAYABLES

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
Account payables		
- Clients	4,577,992	4,816,857
- Brokers and dealers	5,728	31,461
- Clearing houses	4,346	183,058
	<u>4,588,066</u>	<u>5,031,376</u>

Included in the account payables balance as at 31 December 2017 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK\$449,000 (2016: HK\$2,260,000) arising from brokerage services relating to the PRC capital markets. This balance is unsecured, interest-free and payable on the settlement date of the relevant transactions.

Included in the account payables balance as at 31 December 2017 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK\$204,654,000 (2016: HK\$166,174,000). This balance is unsecured, bears interest at the bank deposit rate and is payable on demand.

All of the account payables are aged and due within one month or on demand.

## DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK6 cents per ordinary share in respect of 2017, to shareholders whose names appear on the register of members of the Company on 18 May 2018. The proposed dividend will be paid on or about 1 June 2018 subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

- a. from Monday, 7 May 2018 to Friday, 11 May 2018, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for attending and voting at the 2018 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 4 May 2018; and
- b. from Thursday, 17 May 2018 to Friday, 18 May 2018, both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Wednesday, 16 May 2018.

## MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

### 2017 MARKET REVIEW

In 2017, the global economy recovered synchronously for the first time since the 2008 financial crisis, but inflation was still mild. In USA, its domestic output gap gradually picked up and labour market was nearly at full employment since entering the Trump's presidency. During the year, the U.S. Federal Reserve Board raised the federal interest rate to 1.25%-1.5% on three occasions. Under the continuous easing monetary policy of European Central Bank, Europe experienced a relatively strong economic recovery. The negative impact of Brexit on British economy began to emerge and dragged down its economic growth, which fell behind the European countries. The modest recovery in Japan's economy was mainly due to its net export recovery but its downturn since the second half year might affect its future economic performance. Benefited by global economic recovery, resources exporting countries in emerging markets performed strongly while subcontracting-oriented exporting countries were affected more significantly by increasing trade protectionism in USA and Europe. The geopolitical risks in Europe, Middle East and Northeastern Asia regions were still controllable and posed no significant impact on global economy in 2017.

The recovery of Mainland China macroeconomy was obvious in the first quarter of 2017 despite a certain degree of slowdown in the second quarter, with the overall economy still remained resilient. The price of industrial products rebounded steadily in the first half of 2017 with relatively obvious orders and production upturn. Since the third and fourth quarters, the environmental protection pressure from northern China intensified the production restriction in upstream industries. While pushing raw materials prices up, it also suppressed the capacity utilization rate and investment of mid- to downstream enterprises. With supply-side reform intensifying, the balance sheets of upstream resources enterprises and industry leading enterprises showed obvious rebound and improved bank assets quality directly. For the whole year, both consumption and exports remained the main factors in driving the economic recovery.

The performance of Hong Kong market was outstanding in 2017 with Hang Seng Index closed at 29,919.15 points, up by 35.99% for the whole year, outperformed major global stock indexes. The Hang Seng China Enterprise Index closed at 11,709.30 points, increased by 24.64% annually. From the segment perspective, apart from telecommunication segment, all segments recorded an increase, of which, information technology, consumption technology and construction real estate industries saw the biggest boost. We believe its outstanding performance in 2017 was mainly benefited from the better than expected Mainland China economic improvement, the significant influx of international fund flow as well as the southbound fund flow from Mainland China. Hong Kong Stock Connect recorded a net inflow of HK\$339.9 billion for the whole year. The proportion of average daily turnover to Hong Kong stocks turnover also increased from 3.6% at the beginning of the year to 6.3% at the end of the year. The influence of Mainland China investors in Hong Kong market is escalating.

In 2017, the Mainland China market also presented an obvious differentiation with blue chip stocks, represented by SSE 50, performed superbly. However, the small-caps represented by GEM went down significantly after going up. We believe this was caused by two factors: firstly, the intensifying financial regulations drove the investors to support market leaders; secondly, the intensifying supply-side reform had benefited the improvement in profitability of industry leaders.

### REVIEW OF OPERATIONS

For 2017, the overall business development of the Group was sound with a turnover of HK\$546 million (2016: HK\$416 million), representing a year-on-year increase of 31%. Profit before tax reached HK\$116 million, representing a year-on-year increase of 28% from HK\$91 million in 2016. Profit attributable to shareholders increased by 27% from HK\$82 million in 2016 to HK\$104 million. Revenue of each business segment increased year-on-year.

For brokerage business, as a result of the significant year-on-year increase in stock market's average daily turnover due to good market sentiment, revenue from brokerage business increased by 14% year-on-year to HK\$248 million in 2017 from HK\$217 million in 2016. For corporate finance business, apart from considerable revenue generated from the outstanding performance of placement projects, we also successfully completed the sponsoring/lead placing agent of 2 IPO projects, including the GEM listings of In Technical Productions Holdings Limited (8446) and Furniweb Holdings Limited (8480). In 2017, revenue from corporate finance business increased by 111% year-on-year to HK\$99 million in 2017 from HK\$47 million in 2016. The number of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects are 2, 9 and 18 respectively. Revenue from asset management business increased by 194% year-on-year to HK\$9.53 million in 2017 from HK\$3.24 million in 2016. Revenue from financing and loans business increased by 17% year-on-year to HK\$174 million in 2017 from HK\$149 million in 2016. The average margin loan balance in 2017 reached approximately HK\$1.978 billion.

### **Brokerage business**

The brokerage business of the Group focuses on the stock and futures markets in Hong Kong as well as overseas non-Hong Kong stock markets. Throughout the year, the average daily turnover of Hong Kong Stock Exchange increased from HK\$66.9 billion in 2016 to HK\$88.3 billion in 2017. To seize the active market transactions opportunities and steady growth of Hang Seng Index, the Group proactively introduces clients to participate in overseas stock markets and global futures markets, thus reducing our reliance on a single market. In addition to expanding overseas stock markets and global futures markets, the Group continued to actively expand the domestic market to increase the number of new accounts opened for Hong Kong stocks. In 2017, the Group had closely cooperated with the International Business Division of Shenwan Hongyuan Securities Co., Ltd. to vigorously explore cross-border products, invested in overseas markets through QDII, satisfying domestic clients' demands to invest overseas. In 2017, the total size of fund was approximately US\$400 million, including domestic institutions and individual customers invested in overseas markets such as Hong Kong and USA using QDII channel. The absolute amount of commission income from Hong Kong securities under the brokerage business increased from HK\$124 million in 2016 to HK\$168 million in 2017, representing a year-on-year increase of 36%, with its percentage to total income from brokerage business increased from 57% in 2016 to 68% in 2017. The percentage of brokerage income other than commission income from Hong Kong securities to total income from brokerage business decreased from 43% in 2016 to 32% in 2017.

For institutional brokerage business, the Group further integrated its overseas offices and sales teams for centralising its management and joint marketing, and actively expanded the comprehensive institutional business, which included share placement and RQFII products marketing. The Group has introduced the equity capital market team to actively develop block trades from institutional clients and placement business since 2015. While in 2016, the Group further introduced the debt capital market team to actively develop the bond placement business. And in 2017, its equity capital market team further developed the US share placement business and achieved remarkable growth in terms of business scope and scale. The percentage of trading volume in Hong Kong securities of our institutional sales team to the Group was 31% in 2017.

## **Financing and loans business**

Due to the gradual recovery of Hang Seng Index and Hang Seng China Enterprises Index and average daily turnover in 2017, clients' borrowing appetite showed significant increase. Under this circumstance, the Group had taken timely measures to meet clients' demand for borrowings, and actively developed project loans that are linked with corporate finance business and institutional customers for the purpose of assuring the growth in interest income. In addition, the Group succeeded in negotiating with a number of banks on reducing the interest rate of funds borrowed to reduce interest expense. The average margin balance was approximately HK\$1.978 billion in 2017, while income increased from HK\$149 million in 2016 to HK\$174 million in 2017, representing a year-on-year increase of 17%.

## **Corporate finance business**

Shenwan Hongyuan Capital (H.K.) Limited ("Shenwan Hongyuan Capital"), a wholly-owned subsidiary of the Group, is mainly engaged in the sponsoring, financial advisory and securities underwriting businesses. In 2017, the numbers of sponsoring and lead placing agent, underwriting participation placement and financial advisory projects which the Group completed in total were 2, 9 and 18 respectively. The Group successively participated in 9 underwriting placement projects, including placement of China Oriental Group Company Limited (581), Hong Hua Group Limited (196), China NT Pharma Group Company Limited (1011), China SanJiang Fine Chemicals Company Limited (2198) and iClick Interactive Asia Group Limited (ICLK), bonds placement of Xiuhu Zhongbao Corporation Limited and Wuhan State-Owned Assets Management Limited and the placements of 2 sponsoring and lead placing agent projects mentioned above.

## **Securities research business**

Our securities trading and brokerage businesses are professionally supported by a securities research team of the Group. With the support of our parent company, which is one of the leading securities companies in Mainland China, the Group has become a research specialist in the Mainland China securities and prepares detailed company analytical reports for client circulation. In 2017, the securities research team of the Group issued a total of over 7,000 research reports, covering macroeconomics, market strategy and different industries, providing thorough and incisive analysis for clients regarding Hong Kong stock and A Shares in China. After Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect started, the research service needs required by our clients are further escalated.

In 2017, a total of 55 analysts either in person or invited Hong Kong listed companies to meet with our clients from Hong Kong, Asia and Europe and America and had completed 92 international road shows for the whole year. We believe such visits were beneficial to the collaboration between our parent company and us and posed positive impact on the research and corporate finance business.

## **Asset management business**

Shenwan Hongyuan Asset Management (Asia) Limited ("Shenwan Hongyuan Asset Management"), a subsidiary of the Group, is engaged in asset management business. Shenwan Hongyuan Asset Management fully utilised on RQFII innovative policy to vigorously conduct cross-border asset management business. The total asset management size increased from approximately HK\$4.116 billion at the end of 2016 to approximately HK\$4.364 billion at the end of 2017. Revenue from asset management business increased by 194% year-on-year from HK\$3.24 million in 2016 to HK\$9.53 million in 2017. In addition, our Singapore subsidiary successfully obtained the RQFII qualifications in the third quarter of 2017 with a RQFII quota of RMB2 billion, and the first feeder fund was set up for the purpose of providing diversified global assets allocation channels for investors.

## **CAPITAL STRUCTURE**

During the year, there was no change to the share capital of the Company. As at 31 December 2017, the total number of the issued ordinary shares was 796,138,689 shares (2016: 796,138,689) and total equity attributable to shareholders was approximately HK\$2.16 billion (2016: HK\$2.09 billion).

## **LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO**

As at 31 December 2017, the Group had a cash holding of HK\$407 million (2016: HK\$388 million) and investments at fair value through profit or loss of HK\$149 million (2016: HK\$110 million). As at 31 December 2017, the Group's total unutilised banking facilities amounted to HK\$2,971 million (2016: HK\$4,117 million), of which HK\$2,322 million (2016: HK\$2,771 million) could be drawn down without the need of notice period or completion of condition precedent.

As at 31 December 2017, the Group had outstanding short-term bank borrowings amounting to HK\$845 million (2016: HK\$279 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2017 were 138% (2016: 138%) and 39% (2016: 13%) respectively.

The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

## **SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL**

During the year, the Group did not hold any significant investment and did not have any material acquisition or disposal.

## **CHARGES ON THE GROUP'S ASSET**

No asset of the Group was subject to any charge as at 31 December 2017.

## **RISK MANAGEMENT**

The Group has properly put in place credit management policies which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The policies are reviewed and updated regularly.

The management closely monitors the market condition so that precautionary measures will be taken to eliminate any risk that the Group may encounter. As at 31 December 2017, the advances to customers were overdue account receivables from cash clients and margin financing. The balance of overdue account receivables from cash client amounted to HK\$54 million (2016: HK\$33 million). The balance of margin financing amounted to HK\$2,291 million as at 31 December 2017 (2016: HK\$1,792 million), of which 27% (2016: 27%) was attributable to corporate customers with the rest attributable to individual customers.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES**

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's revenue. A material portion of such overseas transactions is denominated in United States dollars and Renminbi. The pegged exchange rate between United States dollars and Hong Kong dollars kept the Group's exchange risk exposure to a minimum and thus, no hedging was required. Exchange gains and/or losses are dealt with in the consolidated statement of profit or loss. The Group has endeavored to closely monitor its foreign currency positions and take necessary measures when the situations so justify.

## **CONTINGENT LIABILITIES**

There were no material contingent liabilities as at 31 December 2017.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Except the future plans as disclosed in the paragraph of "Future Plan & Prospects", the Group had no other future plans for material investments or capital assets as at 31 December 2017.

## **EMPLOYEES**

As at 31 December 2017, the total number of full-time employees was 267 (2016: 275). The total staff costs for the year amounted to approximately HK\$191 million (2016: HK\$139 million).

## **FUTURE PLAN & PROSPECTS**

Looking from an international perspective, we expect the global economy will maintain its synchronous recovery momentum in 2018 with possible upward inflation. We believe the upward exposure will mainly come from the second U.S. economic expansion facilitated by Trump's tax reform. However, President Trump's proposed tariffs on imported steel and aluminium may trigger trade wars among countries globally, and Brexit or the pre-matured tightening monetary policies of European Central Bank will bring significant downward risks. The emerging markets will still perform well, with resources exporting countries still benefiting from the upward trend in bulk commodity price.

Looking from the Mainland China perspective, we believe high-quality development remained this year's main tasks. Under such circumstances, they may put real estate investments and infrastructure investments under pressure. The benefits brought by redundant production capacity trim down will increase the market share of leading enterprises, which in turn will drive up enterprise investments and we expect the investment growth in manufacturing industry should perform well in 2018. However, due to production restriction in the second half of 2017 and the high base in the first half year, we believe the economic performance in the first half of 2018 will be relatively weak.

We remain cautiously optimistic about the Hong Kong market in 2018. The current valuation of Hong Kong market as a whole is still at a relatively low level and stock positions of global institutional investors of Hong Kong stocks are also at low levels. With the sustained global and Mainland China economic recovery, corporate profits will continue to drive Hong Kong stocks upwards, and its sustained stable valuation in 2017 provides room for expansion. In addition, a series of reforms on Hong Kong market will officially kick start in 2018, which include the piloting H shares full circulation and the listing of new economy enterprises in Hong Kong. We believe this will stimulate Hong Kong market's vitality in terms of system and industry structure perspective and will lay a solid foundation for a healthier Hong Kong market.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of the Company will be held on Friday, 11 May 2018. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting, which will be published and issued to the shareholders in due course.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

To better the Company's transparency and accountability to the shareholders, the Company is, so far as practicable, committed to maintaining high standard of corporate governance. Save for the deviation from the Code Provision A.6.7 which is explained as below, the Company has met all the code provisions stipulated in Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Code"), of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2017.

Code Provision A.6.7 specifies that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other business engagements at that relevant time, an independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 12 May 2017.

## **REVIEW BY AUDIT COMMITTEE**

The final results for the year ended 31 December 2017 of the Group have been reviewed by the audit committee.



## **PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT**

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) at <http://www.hkexnews.hk> and the Company’s website at <http://www.swhyhk.com>. The 2017 annual report will be dispatched to the shareholders and will be published on the websites of HKEx and the Company in due course.

On behalf of the Board  
**Zhu Minjie**  
*Chairman*

Hong Kong, 7 March 2018

*As at the date of this announcement, the Board of the Company comprises 8 directors, of which Mr. Zhu Minjie, Mr. Chen Xiaosheng, Mr. Guo Chun and Mr. Qiu Yizhou are the executive directors, Mr. Zhang Lei is the non-executive director, Mr. Ng Wing Hang Patrick, Mr. Kwok Lam Kwong Larry and Mr. Zhuo Fumin are the independent non-executive directors.*