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 2018

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 2018 together with comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
		2018	2017
	Notes	**HK$'000**	HK$'000
REVENUE	*4*	**519,619**	545,964
Other gains, net	*4*	**2,173**	10,779
Commission expenses		**(89,909)**	(113,904)
Employee benefit expenses		**(193,710)**	(191,297)
Depreciation		**(8,677)**	(7,655)
Interest expenses		**(11,433)**	(11,771)
Other expenses, net		**(116,431)**	(115,899)
PROFIT BEFORE TAXATION	*5*	**101,632**	116,217
Income tax	*6*	**(5,406)**	(12,146)
PROFIT FOR THE YEAR		**96,226**	104,071
Attributable to:			
Ordinary equity holders of the Company		**96,228**	104,097
Non-controlling interests		**(2)**	(26)
		96,226	104,071
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (BASIC AND DILUTED)	*7*	**HK12.09 cents**	HK13.08 cents
DIVIDEND PER SHARE	*8*	**HK2 cents**	HK6 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
PROFIT FOR THE YEAR	**96,226**	104,071
OTHER COMPREHENSIVE INCOME FOR THE YEAR:		
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
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**-**	522
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**96,226**	104,593
Attributable to:		
Ordinary equity holders of the Company	**96,228**	104,619
Non-controlling interests	**(2)**	(26)
	96,226	104,593

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**13,150**	17,136
Stock and Futures Exchange trading rights		**4,212**	4,212
Other assets		**22,922**	31,226
Deferred tax assets		**4,624**	4,641
Total non-current assets		**44,908**	57,215
CURRENT ASSETS			
Investments at fair value through profit or loss		**602,272**	148,778
Account receivables	*9*	**457,414**	679,284
Other contract costs		**5,000**	-
Loans and advances		**1,208,091**	2,290,889
Prepayments, deposits and other receivables		**37,277**	25,753
Tax recoverable		**8,674**	12,041
Bank balances held on behalf of clients		**4,879,449**	4,064,887
Cash and bank balances		**620,571**	407,457
Total current assets		**7,818,748**	7,629,089
CURRENT LIABILITIES			
Account payables	*10*	**5,082,122**	4,588,066
Other payables and accruals		**82,185**	86,087
Interest-bearing bank borrowings		**469,920**	845,000
Contract liabilities		**13,144**	-
Tax payable		**7,232**	2,467
Total current liabilities		**5,654,603**	5,521,620
NET CURRENT ASSETS		**2,164,145**	2,107,469
TOTAL ASSETS LESS CURRENT LIABILITIES		***2,209,053***	*2,164,684*
NON-CURRENT LIABILITY			
Deferred tax liability		**943**	1,161
NET ASSETS		**2,208,110**	2,163,523
EQUITY			
Equity attributable to ordinary equity shareholders of the Company			
Share capital		**1,200,457**	1,200,457
Other reserves		**1,005,026**	960,437
		2,205,483	2,160,894
Non-controlling interests		**2,627**	2,629
TOTAL EQUITY		**2,208,110**	2,163,523

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 2018 and the financial information relating to the year ended 31 December 2017 included in this preliminary announcement of annual results 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 2017, 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 2018 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 2017 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 2017. 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. CHANGES IN 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. CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(a) HKFRS 9, Financial instruments
(b) HKFRS 15, Revenue from contracts with customers

(a) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	HK$'000
Retained earnings	
Recognition of additional expected credit losses on:	
– financial assets measured at amortised cost	(1,215)
Related tax	-
Net decrease in retained earnings at 1 January 2018	(1,215)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) HKFRS 9, Financial instruments (Continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and bank balances, bank balances held on behalf of clients, deposits and other receivables, account receivables from cash clients except for the overdue portion and other assets); and

- contract assets as defined in HKFRS 15;

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

Additional credit loss recognised at 1 January 2018 on:	*HK$'000*
- Other account receivables	1,215
Loss allowance at 1 January 2018 under HKFRS 9	1,215

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to HKFRS 15 on retained earnings and the related tax impact at 1 January 2018:

	HK$'000
Retained earnings	
Financial advisory and sponsorship fee income	(3,180)
Related tax	524
Impact at 1 January 2018	(2,656)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 15, Revenue from Contracts with Customers (Continued)

(i) Timing of revenue recognition (Continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

- fees received in advance amounting to HK$13,144,000 is now presented as "Contract liabilities" in the consolidated statement of financial position.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(c) The Group has adopted the following revised HKFRSs and interpretation issued by the HKICPA. However, the adoption of these revised HKFRSs and interpretation has had no material effect on these financial statements.

Amendments to HKAS 40	*Investment property: Transfer of investment property*
HK(IFRIC) 22	*Foreign currency transactions and advance consideration*

(d) HKFRSs that have been issued but are not yet effective

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
HKFRS 16	*Leases*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatment*[1]
Amendments to HKAS 28	*Long-term interest in associates and joint ventures*[1]
Annual Improvements to HKFRSs 2015-2017 cycle[1]	

[1] Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's financial statements.

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
For the year ended 31 December 2018							
Segment revenue and other gains/(losses) from external customers	**225,757**	**76,146**	**40,845**	**186,628**	**(9,757)**	**2,173**	**521,792**
Segment results and profit/(loss) before taxation	**20,712**	**10,230**	**3,437**	**76,242**	**(11,162)**	**2,173**	**101,632**

	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
For the year ended 31 December 2017							
Segment revenue and other gains/(losses) from external customers	248,080	98,694	9,531	174,036	15,623	10,779	556,743
Segment results and profit/(loss) before taxation	18,910	13,327	(5,245)	65,937	12,509	10,779	116,217

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:

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Revenue:		
Brokerage business:		
Commission on securities dealing		
- Hong Kong securities	**151,024**	167,924
- Other than Hong Kong securities	**32,755**	27,442
Commission on futures and options contracts dealing	**18,581**	19,439
Handling fee and facilitating fee income	**10,613**	13,288
Research fee income and others	**12,784**	19,987
	225,757	248,080
Corporate finance business:		
Initial public offering, placing, underwriting and sub-underwriting commission	**54,399**	75,427
Financial advisory, compliance advisory, sponsorship fee income and others	**21,747**	23,267
	76,146	98,694
Asset management business:		
Management fee and investment advisory fee income	**40,103**	9,531
Performance fee income	**742**	-
	40,845	9,531
Financing and loans business:		
Interest income from loans to cash clients and margin clients	**114,374**	123,748
Interest income from initial public offering loans	**4,979**	6,020
Interest income from banks and others	**67,275**	44,268
	186,628	174,036
Investment business:		
Net realised and unrealised (losses)/gains on financial assets:		
- Listed investments	**(1,541)**	845
- Unlisted investments	**(14,067)**	9,453
Dividend income and interest income:		
- Listed investments	**235**	536
- Unlisted investments	**5,616**	4,789
	(9,757)	15,623
	519,619	545,964
Other gains, net:		
Exchange gains, net	**2,217**	10,779
Loss on disposal of property, plant and equipment	**(44)**	-
	2,173	10,779

5. PROFIT BEFORE TAXATION

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

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Interest expenses on loans and overdrafts wholly repayable within five years	**11,433**	11,771
Minimum lease payments under operating leases in respect of land and buildings	**29,297**	28,663

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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	
	2018	2017
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**5,415**	8,905
Underprovision/(overprovision) in prior years	**110**	(212)
Current – Elsewhere	**82**	651
Deferred tax	**(201)**	2,802
Total tax charge	**5,406**	12,146

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 2018, the total number of the issued ordinary shares was 796,138,689 shares (2017: 796,138,689 shares).

	For the year ended 31 December	
	2018	2017
Profit attributable to ordinary equity holders of the Company (HK$'000)	**96,228**	104,097
Weighted average number of ordinary shares in issue (in thousands)	**796,139**	796,139
Earnings per share, basic and diluted (HK cents per share)	**12.09**	13.08

8. DIVIDEND

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Proposed final – HK2 cents (2017: HK6 cents) per ordinary share	**31,223**	47,768

Subsequent to 31 December 2018, an allotment of 765,000,000 new shares was approved in the extraordinary general meeting held on 31 January 2019.

The Board meeting held on 15 February 2019 has resolved to recommend the payment of a final dividend of HK2 cents per ordinary share to shareholders whose name appear on the register of members of the Company on 20 May 2019. A final dividend of HK$ 31,223,000 was proposed for the year ended 31 December 2018, which was calculated based on the total number of share of 1,561,138,689, including the allotment of 765,000,000 new shares approved on 31 January 2019.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as a liability at the end of the reporting period.

9. ACCOUNT RECEIVABLES

	As at 31 December 2018	As at 31 December 2017
	HK$'000	HK$'000
Account receivables arising from securities dealing:		
- Cash Clients	**156,778**	216,836
- Brokers and dealers	**103,199**	107,018
- Clearing houses	**174,036**	338,763
	434,013	662,617
Account receivables arising from corporate finance, advisory and other services:		
- Corporate Clients	**25,496**	16,667
	459,509	679,284
Less: Provision for impairment	**(1,000)**	-
Less: Provision for loss allowance	**(1,095)**	-
	457,414	679,284

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$35,052,000 (2017: HK$54,171,000) bear interest at interest rates mainly with reference to Hong Kong dollar prime rate (2017: 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:

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Within 1 month	**132,243**	192,507
1 to 2 months	**3,601**	10,758
2 to 3 months	**3,174**	5,334
Over 3 months	**17,760**	8,237
	156,778	216,836

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 2018 were (1) a receivable due from a wholly-owned subsidiary of the ultimate holding company of HK$3,933,000 (2017: HK$8,478,000) 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$6,002,000 (2017: HK$6,088,000) 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, and (3) a consultancy fee receivable due from the ultimate holding company arising from supporting services in connection with corporate finance business of HK$274,000 (2017: Nil), which balance is unsecured, interest-free and repayable on demand.

10. ACCOUNT PAYABLES

	As at 31 December 2018 HK$'000	As at 31 December 2017 HK$'000
Account payables		
- Clients	**5,012,850**	4,577,992
- Brokers and dealers	**15,969**	5,728
- Clearing houses	**53,303**	4,346
	5,082,122	4,588,066

Included in the account payables balance as at 31 December 2018 was a payable to a wholly-owned subsidiary of the ultimate holding company of the Company of HK$1,177,000 (2017: HK$449,000) 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 2018 was the amount of segregated client money held on behalf of an intermediate holding company of the Company of HK$209,163,000 (2017: HK$204,654,000). 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.

11. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of reporting period, the subscription agreement in relation to the subscription by Shenwan Hongyuan (International) Holdings Limited, an intermediate holding company of the Company, for the 765,000,000 new shares at the subscription price of HK$2.068 per subscription share is approved at the extraordinary general meeting held on 31 January 2019.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK2 cents per ordinary share in respect of 2018, to shareholders whose names appear on the register of members of the Company on 20 May 2019. The proposed dividend will be paid on or about 3 June 2019 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, 6 May 2019 to Friday, 10 May 2019, 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 2019 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, 3 May 2019; and

b. from Friday, 17 May 2019 to Monday, 20 May 2019, 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 Thursday, 16 May 2019.

MANAGEMENT DISCUSSION & ANALYSIS OF PERFORMANCE

2018 MARKET REVIEW

In 2018, U.S.A. outperformed the global economy, while other economies were in a weak situation. In U.S.A., the Trump administration's tax cut plan helped to continue the economy recovery, but some data shows that the economy slightly declined as at the end of the year. Coupled with rate rises of the U.S. Federal Reserve Board, the U.S. stock market demonstrated a relatively substantial reversal and technically fell into a bear market in the fourth quarter. In Europe, Italy's budget deficit, Brexit, Angela Merkel announced her decision not to seek re-election and France's protest movement casted a shadow over the Europe economy. The global trade friction was the biggest event that has plagued the global economy in 2018 and, however, its actual impact on global economy was still not fully revealed during the year. Although some emerging market countries with both fiscal and trade deficits experienced slumps in stock, debt and exchange markets in the first half of the year, this trend has not yet spread to other emerging market countries and some of them, such as Southeast Asia, still recorded a stable growth.

In 2018, the macro-economy of Chinese Mainland showed an uptrend followed by a decline. Net export and real estate investments boosted economic growth in the first half of the year, and then subsided in the second half of the year. Under the supply-side reform for more than three years, focus has shifted from addressing overcapacity to bolstering areas of weakness and therefore the price of some industrial products showed a relatively significant recovery. Consumption was weak throughout the year while the consumer goods industry, in terms of total retail sales of consumer goods, also showed an uptrend followed by a decline. At the same time, the performance of service industry was relatively stable and became a key pillar to stable economy.

The performance of Hong Kong market was weak in 2018 with Hang Seng Index closed at 25,845.7 points, down by 13.6% for the whole year. The Hang Seng China Enterprises Index closed at 10,124.75 points, decreased by 13.5% annually. From the segment perspective, apart from utilities segment, all segments recorded a drop, of which, information technology, which had an excellent performance in 2017, experienced the largest decline. In view of Hong Kong market's performance in 2018, we believe that an obvious capital exodus of Chinese Mainland investors and net outflow of international capital were driven by China-U.S. trade friction, Chinese Mainland's economic slowdown and fluctuations in RMB exchange rates. Daily turnover of Hong Kong stock market dropped from over HK$100 billion at the beginning of the year to around HK$60 billion at the end of the year, in which the proportion of investment from Chinese Mainland investors to daily turnover of Hong Kong stock market decreased to approximately 4%.

In 2018, the performance of Chinese Mainland market was also weak and the SSE Composite Index decreased by more than 20% for the whole year. At the same time, foreign investments in China's stock market hit a record high with a total inflow of RMB294.2 billion from overseas to China's A-Share markets via Stock Connect throughout the year.

REVIEW OF OPERATIONS

For 2018, the overall business development of the Group was steady with a turnover of HK$520 million (2017: HK$546 million), representing a year-on-year decrease of 5%. Profit before tax reached HK$102 million, representing a year-on-year decrease of 13% from HK$116 million in 2017. Profit attributable to shareholders decreased by 8% from HK$104 million in 2017 to HK$96 million.

For brokerage business, due to stagnant market condition, revenue from brokerage business decreased by 9% year-on-year to HK$226 million in 2018 from HK$248 million in 2017. For corporate finance business, we successfully completed the sponsoring/lead placing agent of 1 IPO project, which was the Main Board listing of Hingtex Holdings Limited (1968). In 2018, revenue from corporate finance business decreased by 23% year-on-year to HK$76 million in 2018 from HK$99 million in 2017. The number of sponsoring/lead placing agent, underwriting participation/placement and financial advisory projects are 1, 12 and 12 respectively. Revenue from asset management business increased by 329% year-on-year to HK$40.85 million in 2018 from HK$9.53 million in 2017. Revenue from financing and loans business increased by 7% year-on-year to HK$187 million in 2018 from HK$174 million in 2017. The average margin loan balance in 2018 reached approximately HK$1.95 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$88.3 billion in 2017 to HK$107.4 billion in 2018. 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 Chinese Mainland market to increase the number of new accounts opened for Hong Kong stocks. In 2018, the Group had closely cooperated with 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 2018, 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 U.S.A. using QDII channel. The absolute amount of commission income from Hong Kong securities under the brokerage business decreased from HK$168 million in 2017 to HK$151 million in 2018, representing a year-on-year decrease of 10%, with its percentage to total income from brokerage business maintained at 68% in 2017. The percentage of brokerage income other than commission income from Hong Kong securities to total income from brokerage business maintained at 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. The percentage of trading volume in Hong Kong securities of our institutional sales team to the Group was 35% in 2018.

Financing and loans business

Hang Seng Index and Hang Seng China Enterprises Index and average daily turnover fell back in 2018. In order to maintain our clients' borrowing appetite, 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$1.95 billion in 2018, while overall interest income increased from HK$174 million in 2017 to HK$187 million in 2018, representing a year-on-year increase of 7%.

Corporate finance business

In 2018, the numbers of sponsoring and lead placing agent, underwriting participation placement and financial advisory projects which the Group completed in total were 1, 12 and 12 respectively. The Group successively participated in 12 underwriting placement projects, including placement of Hingtex Holdings Limited (1968), Mansion International Holdings Limited (8456), Pacific Millennium Packaging Group Corporation (1820), China Oriental Group Company Limited (581), Madison Holdings Group Limited (8057), SPT Energy Group Inc. (1251), Value Convergence Holdings Limited (821) and CNFinance Holdings Limited (CNF) as well as bonds placement of ABC International Holdings Limited, Sichuan Development Holding Co., Ltd., Chongqing Huayu Group and China Evergrande Group.

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 Chinese Mainland, the Group has become a research specialist in the Chinese Mainland securities and prepares detailed company analytical reports for client circulation. In 2018, the securities research team of the Group issued a total of over 6,000 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 needs of research service required by our clients are further escalated.

In 2018, a total of 36 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 39 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 businesses.

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 size of the total asset under management increased from approximately HK$4.364 billion at the end of 2017 to approximately HK$6.909 billion at the end of 2018. Revenue from asset management business increased by 329% year-on-year from HK$9.53 million in 2017 to HK$40.85 million in 2018.

CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. As at 31 December 2018, the total number of the issued ordinary shares was 796,138,689 shares (2017: 796,138,689) and total equity attributable to shareholders was approximately HK$2.21 billion (2017: HK$2.16 billion).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2018, the Group had a cash holding of HK$621 million (2017: HK$407 million) and investments at fair value through profit or loss of HK$602 million (2017: HK$149 million). As at 31 December 2018, the Group's total unutilised banking facilities amounted to HK$3,186 million (2017: HK$2,971 million), of which HK$1,814 million (2017: HK$2,322 million) could be drawn down without the need of notice period or completion of condition precedent.

As at 31 December 2018, the Group had outstanding short-term bank borrowings amounting to HK$470 million (2017: HK$845 million). The liquidity ratio (current assets to current liabilities) and gearing ratio (borrowings to net asset value) as at 31 December 2018 were 138% (2017: 138%) and 21% (2017: 39%) 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 2018.

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 2018, 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$35 million (2017: HK$54 million). The balance of margin financing amounted to HK$1,208 million as at 31 December 2018 (2017: HK$2,291 million), of which 38% (2017: 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 2018.

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 2018.

EMPLOYEES

As at 31 December 2018, the total number of full-time employees was 258 (2017: 267). The total staff costs for the year amounted to approximately HK$194 million (2017: HK$191 million).

FUTURE PLAN & PROSPECTS

Looking from an international perspective, we expect opportunities to emerge from the global economy crisis in 2019. With gradually declining influence of tax reform bonus on the U.S. economy, if the Trump’s key infrastructure plan has not been approved by Congress, the U.S. economic growth is likely to slow down. The number and magnitude of interest rate rises of the Federal Reserve is also probably less than those in 2018. European Central Bank’s rate hike cycle is possible to begin in the mid of 2019, however, numerous unresolved political issues in Europe will still drag down its economic development. Some emerging markets, which suffered from U.S. Federal Reserve Board's rate hike cycle, may have positive changes in 2019, for those accepting industrial transfer, such as Southeast Asia, will maintain strong economic growth.

Looking from the Chinese Mainland’s perspective, we consider that the six aspects of stability, namely employment, finance, foreign trade, foreign capital, investment and expectations, established at the meeting of the Political Bureau held in July 2018 are still the keynote of economic work throughout the year. In respect of monetary policy, it should be focused on unblocking monetary transmission routes. Proactive fiscal policies, especially the proactive central fiscal policies, will become the main driving force for the economy in 2019. Under the influence of the above, we believe that the infrastructure investments, including new infrastructure such as 5G and Internet of Things and traditional infrastructure such as railway and urban railroad, will show significant rebound in 2019. It is expected that the regulations on real estate industry will have specific adjustments in response to different regions. Throughout the year, Chinese Mainland’s economy will show a growth from low to high. The expected annual GDP economic growth rate is approximately 6.4%.

We remain cautiously optimistic about the Hong Kong market in 2019. 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 Chinese assets, such as Hong Kong stocks and China stocks (A-shares), are also at low levels. Proactive fiscal policies will benefit the infrastructure-related segments. Implementing policies including tax and fee reduction will also create favorable conditions for consumer sector, in particular to service industry which offers a wide range of job opportunities.

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, 10 May 2019. 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. 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") throughout the year ended 31 December 2018.

REVIEW BY AUDIT COMMITTEE

The final results for the year ended 31 December 2018 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 2018 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, 15 February 2019

As at the date of this announcement, the Board of the Company comprises 9 directors, of which Mr. Zhu Minjie, Mr. Chen Xiaosheng, Mr. Zhang Jian, 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. Chen Liqiang are the independent non-executive directors.