



中策集團有限公司
China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)
(Stock Code: 235)



Interim
Report
2019



MIX
Paper from
responsible sources
FSC® C132597

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Abbreviations

In this interim report, the following abbreviations have the following meanings unless otherwise specified:

“Board”	Board of Directors of the Company
“Company”	China Strategic Holdings Limited
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“PRC”	People’s Republic of China
“RMB”	Renminbi
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” and “HK cent(s)”	Hong Kong dollars and cent(s)
“US\$”	United States dollars
“%”	per cent.

The Chinese version of this interim report is a translation of the English version and is for reference only, in case of any discrepancies or inconsistencies between the English version and the Chinese version, the English version shall prevail.



Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Dr. Or Ching Fai (*Chairman*)

Executive Directors

Mr. Sue Ka Lok (*Chief Executive Officer*)

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

Independent Non-executive Directors

Ms. Ma Yin Fan

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

AUDIT COMMITTEE

Ms. Ma Yin Fan (*Chairlady*)

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

REMUNERATION COMMITTEE

Mr. Chow Yu Chun, Alexander (*Chairman*)

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

NOMINATION COMMITTEE

Dr. Or Ching Fai (*Chairman*)

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

EXECUTIVE COMMITTEE

Mr. Sue Ka Lok (*Chairman*)

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok (*Chairman*)

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

COMPANY SECRETARY

Ms. Leung Siu King

REGISTERED OFFICE

Rooms 3206-3210, 32nd Floor

China Resources Building

26 Harbour Road

Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

Bank of Communications Co., Ltd., Hong Kong Branch

BNP Paribas Hong Kong Branch

LEGAL ADVISERS

Reed Smith Richards Butler

Stevenson, Wong & Co.

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited

(Stock Code: 235)

WEBSITE

<http://www.cshldgs.com>

Management Discussion and Outlook

BUSINESS REVIEW

For the six months ended 30 June 2019, the Group continued to principally engage in the business of investment in securities, trading of commodities and electronic components, money lending as well as securities brokerage.

For the period under review, largely due to the decrease in sales of the trading operation and interest income from debt investments, the Group's revenue declined by 46% to HK\$604,991,000 (30 June 2018: HK\$1,126,865,000), though the decreases were partly offset by the increase in interest income generated by the money lending business. In contrast to the profitable results posted in the prior period, the Group booked a loss attributable to owners of the Company of HK\$139,502,000 (30 June 2018: profit of HK\$437,199,000), which was mainly a result of the net fair value loss recorded for the listed equity securities portfolio held by the Group. The loss per share for the current interim period was HK0.82 cent (30 June 2018: earnings of HK2.57 cents).

Investment in Securities

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges and over-the-counter markets with good liquidity that can facilitate swift execution of securities transactions, and sometimes directly from target companies. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospect, industry and macroeconomic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in the form of capital appreciation and dividend/interest income. For securities investments other than for long-term holding, the Company mainly emphasises on return of investment in the form of trading gains.

At 30 June 2019, the Group's investment in securities operation held (i) a financial asset at fair value through profit or loss ("FVTPL") portfolio (constituted by non-current and current portions), comprising equity securities listed in Hong Kong and unlisted convertible securities, valued at HK\$1,784,912,000 (31 December 2018: HK\$2,092,411,000); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions), comprising listed debt securities in Hong Kong or overseas, valued at HK\$937,981,000 (31 December 2018: HK\$991,682,000). As a whole, the operation recorded a revenue of HK\$50,367,000 (30 June 2018: HK\$57,700,000) and a loss of HK\$253,713,000 (30 June 2018: profit of HK\$461,400,000).



Management Discussion and Outlook

Financial assets at FVTPL

At 30 June 2019, the Group held a financial asset at FVTPL portfolio amounting to HK\$1,784,912,000 measured at market/fair value. During the review period, the portfolio generated a revenue of HK\$13,919,000 (30 June 2018: HK\$7,656,000) representing dividends from equity securities of HK\$11,781,000 (30 June 2018: HK\$5,696,000) and interest income from equity-linked notes and convertible securities of HK\$2,138,000 (30 June 2018: HK\$1,960,000). The Group recognised a net loss on financial assets at FVTPL of HK\$304,339,000, which comprised net unrealised loss and net realised loss of HK\$298,834,000 and HK\$5,505,000 respectively (30 June 2018: net gain on financial assets at FVTPL of HK\$405,588,000, which comprised net unrealised gain and net realised gain of HK\$396,984,000 and HK\$8,604,000 respectively).

The net loss on financial assets at FVTPL recognised was mainly due to the net decrease in fair value of the Group's listed equity securities portfolio primarily owing to the volatile conditions of the Hong Kong stock market during the interim period. Such net decrease in fair value of the Group's listed equity securities portfolio mainly comprised the decrease in fair value of the Group's investment in listed shares of Evergrande Health Industry Group Limited, ("Evergrande Health", HKEX stock code: 708) which amounted to HK\$245,824,000 in the current interim period, in contrast to the increase in fair value of HK\$528,776,000 recognised in the corresponding period last year. Nevertheless, as the Group has started to invest in Evergrande Health since March 2015, despite the unrealised fair value loss recognised in the current period, up to 30 June 2019, the accumulative holding gain of this investment amounted to HK\$910,944,000 (as shown in the table below about the Group's top five investments). Evergrande Health is principally engaged in healthcare business in the PRC as well as the technology research and development, production and sales of new energy vehicles in the PRC and other countries. According to its latest published interim financial information, its healthcare business generated a revenue of RMB2.4 billion in the first half of 2019 and it has completed the layout of the new energy vehicle industry chain, and aims to become a major and powerful new energy vehicle group in the world. Although Evergrande Health recorded a loss for its interim results owing to the development of the new energy vehicle business, which is in its early investment stage and resulted in an increase in research and development and other related cost and interest payments, the Group is optimistic about the prospect of Evergrande Health in the medium to long term, subject to market conditions, the Group has no intention to realise this investment at present.

Management Discussion and Outlook

At 30 June 2019, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$1,784,912,000 are as below:

Category of companies	Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL portfolio %
Banking	9.94
Conglomerate	11.37
Healthcare	63.32
Infrastructure	8.11
Property	5.92
Others	1.34
	100.00

Management Discussion and Outlook

At 30 June 2019, the weightings of the Group's top five and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$1,784,912,000 (together with other information) are as below:

Company name	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	Approximate weighting to the carrying amount of the Group's total assets at 30 June 2019 %	% of shareholding interest %	Acquisition costs HK\$'000	*Acquisition costs during the period/carrying amount at 1 January 2019 HK\$'000	Market/fair value at 30 June 2019 HK\$'000	Accumulated unrealised gain (loss) recognised up to 30 June 2019 HK\$'000	Unrealised gain (loss) recognised during the six months ended 30 June 2019 HK\$'000	Dividend income recognised during the six months ended 30 June 2019 HK\$'000
				A	B	C	D = C - A	E = C - B	
Evergrande Health (HKEX stock code: 708)	63.32	19.14	1.55	219,312	1,376,080	1,130,256	910,944	(245,824)	-
The Cross-Harbour (Holdings) Limited (HKEX stock code: 32)	8.11	2.45	3.52	77,377	152,634	144,766	67,389	(7,868)	3,672
Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196)	7.60	2.30	3.01 [#]	178,194	174,083	135,703	(42,491)	(38,380)	7,018
Emperor International Holdings Limited (HKEX stock code: 163)	4.99	1.51	1.20	102,058	85,297	89,025	(13,033)	3,728	-
Get Nice Holdings Limited (HKEX stock code: 64)	4.46	1.35	3.10	78,000	75,000	79,500	1,500	4,500	-
Others	11.52	3.48	N/A	572,700	220,652	205,662	(367,038)	(14,990)	1,091
	<u>100.00</u>	<u>30.23</u>		<u>1,227,641</u>	<u>2,083,746</u>	<u>1,784,912</u>	<u>557,271</u>	<u>(298,834)</u>	<u>11,781</u>

* The amount represented the costs of the securities acquired during the six months ended 30 June 2019 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

The percentage of shareholding interest was calculated on the basis of 1,518,000,000 H shares of Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196) in issue at 30 June 2019.

Management Discussion and Outlook

The tables below set out the (i) unrealised gain (loss) recognised for the six months ended 30 June 2019 for the financial assets at FVTPL held by the Group at 30 June 2019 together with information on financial performance of the investee companies and their future prospects; and the (ii) realised gain (loss) on financial assets at FVTPL disposed of during the six months ended 30 June 2019. The Group is committed to closely monitor the financial performance of its financial asset at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, internal assessments on prospects of individual securities and publicly available information of investee companies.

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2019 for the financial assets at FVTPL held by the Group at 30 June 2019 together with information on financial performance of the investee companies and their future prospects

Industry	Abbreviation of investee company	[†] Principal activities of investee company	[*] Acquisition costs during the period/ carrying amount at 1 January 2019 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2019 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2019 HK\$'000	[‡] Investee company's financial performance	[§] Future prospects of the investee company
<i>Equity securities listed in Hong Kong</i>									
Banking	A [*]	Banking business	174,083	3.01	135,703	7.60	(38,380)	For the six months ended 30 June 2019, interest income, as its major source of revenue, increased by 16% to RMB10,318,812,000 and profit for the period increased by 5% to RMB2,510,034,000 as compared to the same period in 2018.	The investee company will adhere to "three stabilities, one improvement, one control, one decrease" as its recent guidance, focus on "reducing old loans and controlling new loans" and "three featured strategies", concentrate on comprehensive transformation and meticulous management, and accelerate the high quality development of the bank.
	B	Banking business	24,381	0.46	41,828	2.34	17,447	For the six months ended 30 June 2019, interest income, as its major source of revenue, increased by 6% to RMB22,290,578,000 and profit for the period increased by 11% to RMB3,144,191,000 as compared to the same period in 2018.	The investee company will adopt a business strategy of "strengthening internal operation and management and building a positive market image externally" to deeply promote strategic transformation, continuously optimise business models and constantly enhance market competitiveness, thus creating a new pattern of healthy, favourable and sustainable development.
			198,464		177,531	9.94	(20,933)		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2019 for the financial assets at FVTPL held by the Group at 30 June 2019 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	[†] Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2019 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2019 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2019 HK\$'000	[‡] Investee company's financial performance	[§] Future prospects of the investee company
Conglomerate	C [†]	Broking and securities margin financing, money lending, corporate finance and investments	75,000	3.10	79,500	4.46	4,500	For the year ended 31 March 2019, revenue decreased by 4% to HK\$561,905,000 and profit for the year decreased by 38% to HK\$232,096,000 as compared to 2018.	The investee company will keep seeking quality and upscale investment properties in both Asia and Europe, and also investment in securities with good potential, to enhance its investment portfolio and continue to provide a source of steady rental income and investment gains in the future.
	D	Operation of agriculture wholesale market in the PRC and provision of leasing space at the warehouse, icehouses and other facilities	41,581	0.27	36,653	2.05	(4,928)	For the six months ended 30 June 2019, revenue increased by 53% to RMB738,574,000 and its results experienced a turnaround and recorded profit for the period of RMB188,147,000.	Reported increase in revenue for the six months ended 30 June 2019. The investee company continues to use the proceeds from rights issue to enlarge its trading hall and rental areas and as general working capital for the existing business.
	E	International trading, financial guarantee services, finance lease services, property investment, financial advisory services and logistics services	14,875	1.20	15,750	0.88	875	For the year ended 31 March 2019, revenue increased by 39% to HK\$1,750,286,000 and its results experienced a turnaround and recorded profit for the year of HK\$17,156,000.	The investee company modifies its business positioning for the long-term substantiable growth by offering a portfolio of financial services, including alternative finance, investment banking, financial advisory and asset management, and strategic partnerships with the provincial and municipal governments across China, and the research and academic resources in China and overseas.
Others	-		42,277	N/A	23,519	1.32	(18,758)	-	-
			173,733		155,422	8.71	(18,311)		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2019 for the financial assets at FVTPL held by the Group at 30 June 2019 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	*Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2019 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2019 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2019 HK\$'000	# Investee company's financial performance	# Future prospects of the investee company
Healthcare	F*	Provision of "Internet+" community health management, international hospitals, elderly care and rehabilitation and investment in high technology new energy vehicle manufacturing	1,376,080	1.55	1,130,256	63.32	(245,824)	For the six months ended 30 June 2019, revenue increased by 132% to RMB2,648,402,000 while its results experienced a turnaround and recorded a loss for the period of RMB1,984,188,000.	Apart from continuously developing its healthcare business, the investee company has completed the layout of the new energy vehicle industry chain with an aim of becoming a major and powerful new energy vehicle group in the world.
			1,376,080		1,130,256	63.32	(245,824)		
Infrastructure	G*	Operation of motoring schools, tunnels and an electronic toll operations and treasury	152,634	3.52	144,766	8.11	(7,868)	For the six months ended 30 June 2019, revenue increased by 32% to HK\$333,771,000 and its results experienced a turnaround and recorded profit for the period of HK\$474,970,000.	Reported increase in revenue for the six months ended 30 June 2019 and offered stable dividend payout. The investee company will continue with its principal businesses.
			152,634		144,766	8.11	(7,868)		
Property	H*	Property investments, property development and hospitality	85,297	1.20	89,025	4.99	3,728	For the year ended 31 March 2019, revenue increased by 38% to HK\$4,352,386,000 while profit for the year decreased by 8% to HK\$3,327,762,000 as compared to 2018.	The investee company continues to replenish land parcels in a disciplined manner, paving the way for healthy growth in future. With its well-balanced portfolio, the investee company is confident of seizing the opportunities emerging from the new growth engines and driving solid recurrent rental income in the long-run.
	Others	-	17,775	N/A	16,531	0.93	(1,244)	-	-
			103,072		105,556	5.92	2,484		
Others	-	-	32,155	N/A	23,847	1.34	(8,308)	-	-
			32,155		23,847	1.34	(8,308)		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2019 for the financial assets at FVTPL held by the Group at 30 June 2019 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	[†] Principal activities of investee company	[*] Acquisition costs during the period/carrying amount at 1 January 2019 HK\$'000	% of shareholding interest	Market/fair value at 30 June 2019 HK\$'000	% to total market/fair value of the Group's financial asset at FVTPL portfolio	Unrealised gain (loss) recognised during the period ended 30 June 2019 HK\$'000	[‡] Investee company's financial performance	[§] Future prospects of the investee company
<i>Unlisted convertible securities</i>									
Conglomerate	I	Wind farms operation and wind power generation	47,608	N/A	47,534	2.66	(74)	For the six months ended 30 June 2019, revenue decreased by 2% to RMB202,839,000 and profit for the period decreased by 91% to RMB4,020,000 as compared to the same period in 2018.	The investee company will consolidate its resources and continue to accelerate the development in wind power business. By fully leveraging its wind farms, the investee company will actively seek for development opportunities and strive for a solid foothold in the renewable energy industry in the near future.
			47,608		47,534	2.66	(74)		
			2,083,746		1,784,912	100.00	(298,834)		

[†] In the table above, investee company A, C, F, G and H stands for Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196), Get Nice Holdings Limited (HKEX stock code: 64), Evergrande Health (HKEX stock code: 708), The Cross-Harbour (Holdings) Limited (HKEX stock code: 32) and Emperor International Holdings Limited (HKEX stock code: 163) respectively.

[#] Extracted from published financial information of the investee companies.

^{*} The amount represented the costs of the securities acquired during the six months ended 30 June 2019 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Management Discussion and Outlook

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the six months ended 30 June 2019

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2019 HK\$'000	Sale proceeds of financial assets at FVTPL sold during the period ended 30 June 2019 HK\$'000	Realised gain (loss) recognised during the six months ended 30 June 2019 HK\$'000
<i>Equity securities listed in Hong Kong</i>					
Banking	A	Banking business	16,836	15,281	(1,555)
			16,836	15,281	(1,555)
Conglomerate	J	Property investment, property leasing and treasury management	14,311	15,459	1,148
	Others	–	11,905	6,807	(5,098)
			26,216	22,266	(3,950)
			43,052	37,547	(5,505)

Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the six months ended 30 June 2019 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.



Management Discussion and Outlook

Debt instruments at FVTOCI

At 30 June 2019, the Group's debt instrument at FVTOCI portfolio of HK\$937,981,000 was measured at market/fair value. During the period under review, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK\$36,448,000 (30 June 2018: HK\$50,044,000) representing interest income from debt securities. According to the maturity of the debt securities, part of the debt instruments at FVTOCI of HK\$3,910,000 was classified as current assets.

During the period under review, the Group invested HK\$26,141,000 for acquiring debt securities issued by a property company listed on the Stock Exchange.

At the period end, a net fair value gain on the debt instrument at FVTOCI portfolio amounting to HK\$57,897,000 was recognised as other comprehensive income (30 June 2018: expense of HK\$116,059,000). Such net fair value gain on debt investments held by the Group was mainly a result of the general expectation of the drop in market interest rates during the current interim period, which caused the market value of debt securities held by the Group to rise.

During the period under review, the Group disposed of debt securities amounting to HK\$133,839,000 and debt securities of HK\$3,900,000 were redeemed by an issuer. A gain on disposal and on redemption totalling HK\$1,291,000 was released from the Group's investment revaluation reserve and recognised as gains in the current period (30 June 2018: loss totalling HK\$659,000).

Management Discussion and Outlook

At 30 June 2019, the Group invested in debt securities of various aircraft leasing company, banking company and property company and their respective weightings to the market/fair value of the Group's debt instruments at FVTOCI of HK\$937,981,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's debt instrument at FVTOCI portfolio %	Yield to maturity on acquisition %	Acquisition costs HK\$'000	* Acquisition costs during the period/ carrying amount at 1 January 2019	Market/fair value at 30 June 2019 HK\$'000	Accumulated fair value gain (loss) recognised up to 30 June 2019 HK\$'000	Fair value gain recognised during the six months ended 30 June 2019 HK\$'000
				B			
<i>Debt securities listed in Hong Kong or overseas</i>							
Aircraft leasing	14.07	5.09	148,348	126,652	131,951	(16,397)	5,299
Banking	8.68	3.73 – 3.91	78,499	74,544	81,463	2,964	6,919
Property	77.25	4.68 – 14.41	755,055	685,800	724,567	(30,488)	38,767
	100.00		981,902	886,996	937,981	(43,921)	50,985

* The amount represented the costs of the securities acquired during the six months ended 30 June 2019 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

The yield to maturity on acquisition of the debt securities which were held by the Group at the period end ranging from 3.73% to 14.41% per annum.



Management Discussion and Outlook

Trading

The Group's trading business is mainly conducted through China Strategic Metal and Minerals Limited, a wholly owned subsidiary of the Company. During the period under review, the Group's trading operation continued to focus on trading of commodities including metal minerals, metal and coke products as well as electronic components. The operation recorded a decline in revenue by about 58% to HK\$392,379,000 (30 June 2018: HK\$939,082,000), and a decrease in profit of over 66% to HK\$2,255,000 (30 June 2018: HK\$6,810,000). The decreases in revenue and profit of the operation were principally due to the decline in volume of all commodities and products traded resulting mainly from the trade disputes between the United States and China, and the slowdown of the European economy in general, which adversely affected the business of the end customers of the operation. The management is stepping up its effort to explore new business opportunities in order to improve the results of the operation for the remainder of the year.

Money Lending

The Group's money lending business is conducted through CS Credit Limited and U Credit (HK) Limited, both are wholly owned subsidiaries of the Company. The operation continued to record encouraging results by posting a growth in revenue of 26% to HK\$156,357,000 (30 June 2018: HK\$123,833,000), and an increase in profit of 16% to HK\$140,475,000 (30 June 2018: HK\$121,214,000). Such increases were mainly due to the higher average amount of loans advanced to borrowers during the current period and the management's continuous effort in enlarging the operation's clientele base. During the period under review, an impairment allowance of HK\$14,471,000, which reflects the credit risk involved in collectability of certain loans determined under the Group's loan impairment policy, was recognised against the loan receivables. The loan portfolio held by the Group amounting to HK\$2,723,352,000 (after impairment allowance) at the period end (31 December 2018: HK\$2,509,386,000) with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio %	Interest rate per annum %	Maturity
Individual	35.03	8.50 – 18.00	Within 1 year
Individual	5.78	12.00	Over 1 year but within 2 years
Corporate	53.36	6.50 – 18.00	Within 1 year
Corporate	5.83	3.00 – 12.00	Over 1 year but within 2 years
	100.00		

Management Discussion and Outlook

At 30 June 2019, 85% (31 December 2018: 91%) of the loan portfolio is secured by collaterals, 9% (31 December 2018: 8%) is guaranteed by credible guarantors, and with the remaining 6% (31 December 2018: 1%) being unsecured.

Before granting loans to potential customers, the Group uses credit assessment process to assess the potential borrowers' credit quality and defines the credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the period under review, revenue of the operation decreased by 6% to HK\$5,888,000 (30 June 2018: HK\$6,250,000) while its profit increased by 43% to HK\$4,457,000 (30 June 2018: HK\$3,109,000). The revenue of the operation was largely in line with the previous period while increase in its profit was mainly a result of better control of certain operating costs of the operation.

Overall Results

For the six months ended 30 June 2019, the Group recorded loss attributable to owners of the Company of HK\$139,502,000 (30 June 2018: profit of HK\$437,199,000) and also recorded total comprehensive expense attributable to owners of the Company of HK\$91,198,000 (30 June 2018: total comprehensive income of HK\$321,799,000). The loss results recorded by the Group were mainly due to the loss of the securities investment operation of HK\$253,713,000 (30 June 2018: profit of HK\$461,400,000), though the loss results were partly offset by the profit earned by the money lending, trading and securities brokerage operation of HK\$140,475,000 (30 June 2018: HK\$121,214,000), HK\$2,255,000 (30 June 2018: HK\$6,810,000) and HK\$4,457,000 (30 June 2018: HK\$3,109,000) respectively.



Management Discussion and Outlook

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2019, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and securities brokers, funds raised through issuance of interest bearing notes and shareholders' funds. At the period end, the Group had current assets of HK\$4,565,844,000 (31 December 2018: HK\$4,987,044,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$1,865,191,000 (31 December 2018: HK\$2,230,534,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$841,743,000 (31 December 2018: HK\$831,834,000), was at a ratio of about 5.4 (31 December 2018: 6.0). At 30 June 2019, the Group's trade and other receivables amounted to HK\$216,623,000 (31 December 2018: HK\$182,910,000) which mainly comprised bill receivables arising from the Group's trading activities, trade receivables from margin clients of the securities brokerage business, interest receivables from the Group's securities investments and unrestricted deposits placed with securities brokers in relation to securities investment activities. The Group had deferred tax assets amounting to HK\$4,335,000 (31 December 2018: nil) that was mainly related to the impairment allowance provided against the loan receivables. In addition, the Group had deferred tax liabilities of HK\$1,189,000 (31 December 2018: HK\$84,242,000) related to the net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses at the period end.

At 30 June 2019, the equity attributable to owners of the Company amounted to HK\$3,554,784,000 (31 December 2018: HK\$3,645,982,000) and was equivalent to an amount of approximately HK20.93 cents (31 December 2018: HK21.46 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK\$91,198,000 was mainly a result of the loss recognised by the Group during the interim period.

At 30 June 2019, the Group's borrowings represented bank borrowings and securities margin financing raised mainly for acquiring debt and equity securities and advances from banks drawn on bill receivables discounted with full recourse. The borrowings bore interest at floating rates, secured by certain debt and equity securities and relevant bill receivables and were repayable within one year or on demand. In December 2016, the Company issued 2-year unsecured notes with nominal value of HK\$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. During the second half of 2018, notes with nominal value of HK\$200,000,000 were redeemed and the Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020, bearing interest at 9.5% per annum and 10% per annum for the third and fourth year respectively. In addition, the Company issued a new tranche of 2-year unsecured notes in August 2018 with nominal value of HK\$200,000,000 bearing interest at 9.5% per annum and 10% per annum for the first and second year respectively.

Management Discussion and Outlook

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$2,349,162,000 (31 December 2018: HK\$2,416,401,000) divided by the equity attributable to owners of the Company of HK\$3,554,784,000 (31 December 2018: HK\$3,645,982,000), was about 66% (31 December 2018: 66%). The Group's finance costs increased to HK\$90,917,000 (30 June 2018: HK\$74,277,000) were primarily a result of the increase in average amount of borrowings and interest rates during the interim period.

With the amount of liquid assets on hand as well as credit facilities granted by banks and securities brokers, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in Hong Kong dollars and United States dollars. During the period under review, the Group had not experienced any significant exposure to exchange rate fluctuations, as such, the Group had not entered into any foreign currency forward contracts, currency swaps or other financial derivatives for hedging purposes.

Contingent Liability

At 30 June 2019, the Group had no significant contingent liability (31 December 2018: nil).

Pledge of Assets

At 30 June 2019, debt securities of HK\$937,981,000 (31 December 2018: HK\$828,005,000), equity securities of HK\$1,429,576,000 (31 December 2018: HK\$1,713,361,000), bill receivables of HK\$125,817,000 (31 December 2018: nil) and bank deposits of HK\$31,760,000 (31 December 2018: HK\$31,394,000) were pledged to secure credit facilities granted.

Capital Commitment

At 30 June 2019, the Group had no significant capital commitment (31 December 2018: nil).

Event After the Reporting Period

There has been no significant event affecting the Group since the end of the financial period.

HUMAN RESOURCES AND REMUNERATION POLICY

At 30 June 2019, the Group had 52 (30 June 2018: 56) employees including directors and staff costs (including directors' emoluments) for the current period amounted to HK\$11,024,000 (30 June 2018: HK\$14,550,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, training subsidy, discretionary bonus and participation in the Company's share option scheme.



Management Discussion and Outlook

PROSPECTS

In recent months, though the market uncertainties linked with the geopolitical risks in Korean peninsula have reduced, the persistence of ongoing trade disputes and settlement negotiations between the United States and China, and the instabilities in the European economy arising from the unresolved Brexit issue have posed negative impact to the sentiments of the global financial and investment markets. Moreover, the outbreak of a series of continuing marches in Hong Kong against the amendment bill to Fugitive Offenders Ordinance also created uncertainties in the local investment markets and the Group's business environment.

Against this backdrop, the investment and stock markets in Hong Kong have been very volatile and there are signs that the local economy may slow down. In order to alleviate the adverse impacts to the Group, the management has continued to adopt a cautious and disciplined approach in managing the Group's securities portfolio and have disposed of certain equity and debt securities during the interim period to reduce its exposure to market fluctuations. The Group's money lending business continued to deliver very encouraging results for the period, however, it is the intention of the management to manage this business under more stringent credit control and be more prudent in granting new loans in light of the possible slowdown of the local economy. In respect of the Group's trading business, the management is stepping up its effort to explore new business opportunities in order to improve the results of this operation. For the securities brokerage operation, its business has been progressing satisfactorily and subject to market conditions, the Group will continue to devote financial resources to develop this business.

Looking forward, the Group will continue its business strategy, under prudent approach, of building an asset portfolio with good balance of recurring income streams and growth opportunities, to adopt measures to enhance its operational efficiencies and financial performance, and to seize business opportunities with attractive returns aiming to create value for our shareholders.

Report on Review of Interim Financial Information

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Strategic Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 21 to 55, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 August 2019



Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	3	604,991	1,126,865
Trading income		392,379	939,082
Dividend income		11,781	5,696
Interest income		189,423	173,246
Commission, underwriting fee and others		11,408	8,841
Purchases and related expenses		(390,440)	(932,251)
Other income	5	753	339
Other gain	6	161	393
Staff costs		(11,024)	(14,550)
Other expenses		(13,903)	(16,318)
Net (loss) gain on financial assets at fair value through profit or loss	7	(304,339)	405,588
Gain (loss) on disposal of debt instruments at fair value through other comprehensive income		1,182	(566)
Gain (loss) on redemption of debt instruments at fair value through other comprehensive income		109	(93)
Impairment losses under expected credit loss model, net of reversal	10	(15,362)	(1,700)
Finance costs	8	(90,917)	(74,277)
(Loss) profit before tax		(218,789)	493,430
Income tax credit (expense)	9	79,287	(56,231)
(Loss) profit for the period attributable to owners of the Company	10	(139,502)	437,199
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		(9,193)	–
Net fair value gain (loss) on debt instruments at fair value through other comprehensive income		57,897	(116,059)
Impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	891	–
Release on disposal of debt instruments at fair value through other comprehensive income		(1,182)	566
Release on redemption of debt instruments at fair value through other comprehensive income		(109)	93
Other comprehensive income (expense) for the period		48,304	(115,400)
Total comprehensive (expense) income for the period attributable to owners of the Company		(91,198)	321,799
(Loss) earnings per share attributable to owners of the Company			
– Basic	12	HK(0.82) cent	HK2.57 cents

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Notes	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	13	21,370	22,994
Right-of-use assets	13	14,465	–
Prepaid lease payments		–	2,471
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Debt instruments at fair value through other comprehensive income	14	934,071	987,860
Loan receivables	15	316,105	31,705
Financial assets at fair value through profit or loss	16	41,828	24,381
Deferred tax assets	17	4,335	–
Total non-current assets		1,338,102	1,075,339
Current assets			
Inventories		–	6,108
Prepaid lease payments		–	99
Debt instruments at fair value through other comprehensive income	14	3,910	3,822
Loan receivables	15	2,407,247	2,477,681
Trade and other receivables	18	216,623	182,910
Income tax recoverable		3,004	3,104
Financial assets at fair value through profit or loss	16	1,743,084	2,068,030
Pledged bank deposits	19	31,760	31,394
Bank balances and cash	19	160,216	213,896
Total current assets		4,565,844	4,987,044
Current liabilities			
Trade and other payables	20	88,969	109,820
Income tax payable		30,463	18,743
Borrowings	21	714,349	703,271
Lease liabilities		7,962	–
Total current liabilities		841,743	831,834
Net current assets		3,724,101	4,155,210
Total assets less current liabilities		5,062,203	5,230,549
Non-current liabilities			
Notes payable	22	1,502,141	1,500,325
Lease liabilities		4,089	–
Deferred tax liabilities	17	1,189	84,242
Total non-current liabilities		1,507,419	1,584,567
Net assets		3,554,784	3,645,982
Capital and reserves			
Share capital	23	3,012,877	3,012,877
Reserves		541,907	633,105
Total equity		3,554,784	3,645,982



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	(Accumulated losses) retained profits HK\$'000	Total HK\$'000
At 1 January 2018 (audited)	3,012,877	57,493	(10,013)	3,060,357
Profit for the period	–	–	437,199	437,199
Net fair value loss on debt instruments at fair value through other comprehensive income	–	(116,059)	–	(116,059)
Release on disposal of debt instruments at fair value through other comprehensive income	–	566	–	566
Release on redemption of debt instruments at fair value through other comprehensive income	–	93	–	93
Total comprehensive (expense) income for the period	–	(115,400)	437,199	321,799
At 30 June 2018 (unaudited)	3,012,877	(57,907)	427,186	3,382,156
At 1 January 2019 (audited)	3,012,877	(65,672)	698,777	3,645,982
Loss for the period	–	–	(139,502)	(139,502)
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income	–	(9,193)	–	(9,193)
Net fair value gain on debt instruments at fair value through other comprehensive income	–	57,897	–	57,897
Impairment loss on debt instruments at fair value through other comprehensive income	–	891	–	891
Release on disposal of debt instruments at fair value through other comprehensive income	–	(1,182)	–	(1,182)
Release on redemption of debt instruments at fair value through other comprehensive income	–	(109)	–	(109)
Total comprehensive income (expense) for the period	–	48,304	(139,502)	(91,198)
At 30 June 2019 (unaudited)	3,012,877	(17,368)	559,275	3,554,784

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net cash used in operating activities		(69,907)	(449,036)
Net cash from investing activities			
Purchase of debt instruments at fair value through other comprehensive income		(26,141)	(39,058)
Proceeds from disposal of debt instruments at fair value through other comprehensive income		133,839	50,134
Proceeds from redemption of debt instruments at fair value through other comprehensive income		3,900	62,400
Purchase of property, plant and equipment	13	(22)	(24)
Placement of pledged bank deposits		(366)	(257)
Interest received		438	326
		111,648	73,521
Net cash (used in) from financing activities			
New borrowings raised		172,526	440,606
Repayment of borrowings		(287,265)	(101,038)
Repayments of leases liabilities		(4,120)	–
Advances drawn on bill receivables discounted with full recourse		125,817	–
Interest paid		(89,096)	(70,663)
		(82,138)	268,905
Net decrease in cash and cash equivalents		(40,397)	(106,610)
Cash and cash equivalents at the beginning of the period		162,504	347,753
Cash and cash equivalents at the end of the period, represented by bank balances and cash – general accounts and cash	19	122,107	241,143



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 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 those financial statements. 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.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, and are presented in HK\$ which is the functional currency of the Company. All values are rounded to the nearest thousand (HK\$’000) unless otherwise indicated.

2. PRINCIPAL ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s audited consolidated financial statements for the year ended 31 December 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over income tax treatments
Amendments to HKFRS 9	Prepayment features with negative compensation
Amendments to HKAS 19	Plan amendment, curtailment or settlement
Amendments to HKAS 28	Long-term interests in associates and joint ventures
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application of HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial instruments” (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 "Leases" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 “Determining whether an arrangement contains a lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

At 1 January 2019, the Group recognised additional lease liabilities of HK\$15,926,000 and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 3.60% per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Application of new and amendments to HKFRSs and interpretation (continued)****2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)****2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)****As a lessee (continued)**

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed at 31 December 2018	18,930
Lease liabilities discounted at relevant incremental borrowing rate	16,121
Less: Lease with lease term ends within 12 months from the date of initial application	(195)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1 January 2019	15,926
Analysed as:	
Current portion	7,820
Non-current portion	8,106
	15,926



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of new and amendments to HKFRSs and interpretation (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 16 "Leases" (continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets at 1 January 2019 comprises the following:

	At 1 January 2019 HK\$'000
Right-of-use assets relating to operating lease recognised upon application of HKFRS 16	15,926
Reclassified from prepaid lease payments (<i>Note</i>)	2,570
	<u>18,496</u>
By class:	
Land and buildings	<u>18,496</u>

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$99,000 and HK\$2,471,000 respectively were reclassified to right-of-use assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Application of new and amendments to HKFRSs and interpretation (continued)****2.1 Impacts and changes in accounting policies of application of HKFRS 16 “Leases” (continued)****2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)****As a lessee (continued)**

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current assets			
Prepaid lease payments	2,471	(2,471)	–
Right-of-use assets	–	18,496	18,496
Current assets			
Prepaid lease payments	99	(99)	–
Current liabilities			
Lease liabilities	–	7,820	7,820
Non-current liabilities			
Lease liabilities	–	8,106	8,106

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position at 1 January 2019 as disclosed above.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

3. REVENUE

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

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Trading of coke products	388,604	587,296
Trading of metal minerals and metal	–	341,153
Sales of electronic components	3,775	10,633
Dividend income from securities investments	11,781	5,696
Interest income from securities investments	38,586	52,004
Interest income from securities margin financing business	1,255	–
Interest income from money lending business	149,582	121,242
Arrangement fee income from money lending business	6,775	2,591
Commission and handling income from securities brokerage business	3,526	3,057
Underwriting fee income from securities brokerage business	1,107	3,193
	604,991	1,126,865

During the periods under review, the revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS 15.

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments, based on information provided to the chief operating decision maker representing the Board, for the purposes of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

The Group's reportable and operating segments under HKFRS 8 are as follows:

- (i) Investment in securities
- (ii) Trading of metal minerals, metal, coke products and electronic components ("Trading")
- (iii) Money lending
- (iv) Securities brokerage

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. SEGMENT INFORMATION (continued)**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Six months ended 30 June 2019

	Investment in securities <i>HK\$'000</i> (Unaudited)	Trading <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Securities brokerage <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment Revenue					
External sales/sources	50,367	392,379	156,357	5,888	604,991
Results					
Segment results	(253,713)	2,255	140,475	4,457	(106,526)
Other income					150
Central administrative expenses					(21,496)
Finance costs					(90,917)
Loss before tax					(218,789)
Income tax credit					79,287
Loss for the period					(139,502)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

Six months ended 30 June 2018

	Investment in securities <i>HK\$'000</i> (Unaudited)	Trading <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Securities brokerage <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment Revenue					
External sales/sources	57,700	939,082	123,833	6,250	1,126,865
Results					
Segment results	461,400	6,810	121,214	3,109	592,533
Other income					9
Central administrative expenses					(24,835)
Finance costs					(74,277)
Profit before tax					493,430
Income tax expense					(56,231)
Profit for the period					437,199

Segment (loss) profit represents loss incurred/profit earned by each segment without allocation of certain other income, central administrative expenses, finance costs and income tax credit (expense).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

4. SEGMENT INFORMATION (continued)**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Segment assets		
Investment in securities	2,776,916	3,266,738
Trading	180,545	92,574
Money lending	2,735,243	2,520,823
Securities brokerage	142,515	140,862
Total segment assets	5,835,219	6,020,997
Property, plant and equipment	21,370	22,994
Right-of-use assets	14,465	–
Prepaid lease payments	–	2,570
Bank balances and cash	25,390	7,147
Other unallocated assets	7,502	8,675
Consolidated assets	5,903,946	6,062,383
Segment liabilities		
Investment in securities	596,999	797,038
Trading	126,478	2,390
Money lending	23,150	10,415
Securities brokerage	75,433	87,530
Total segment liabilities	822,060	897,373
Other payables	12,910	18,703
Lease liabilities	12,051	–
Notes payable	1,502,141	1,500,325
Consolidated liabilities	2,349,162	2,416,401

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than property, plant and equipment, right-of-use assets, prepaid lease payments, certain bank balances and cash and certain other assets; and
- all liabilities are allocated to operating segments other than certain other payables, lease liabilities and notes payable.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

5. OTHER INCOME

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	438	326
Others	315	13
	753	339

6. OTHER GAIN

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Exchange gain, net	161	393

7. NET (LOSS) GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Net unrealised (loss) gain on financial assets at FVTPL	(298,834)	396,984
Net realised (loss) gain on sales of financial assets at FVTPL	(5,505)	8,604
	(304,339)	405,588

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

8. FINANCE COSTS

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	954	1,211
Interest on bank borrowings	4,711	5,490
Interest on margin financing	12,526	4,094
Interest on notes payable (<i>Note 22</i>)	72,481	63,482
Imputed interest on lease liabilities	245	–
	90,917	74,277

9. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Tax credit (charge) comprises:		
Current tax	(17,294)	(11,734)
Deferred tax (<i>Note 17</i>)	96,581	(44,497)
Income tax credit (expense) recognised in profit or loss	79,287	(56,231)

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the period under review (six months ended 30 June 2018: 16.5%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

10. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Impairment on loan receivables	14,471	1,700
Impairment of debt instruments at FVTOCI	891	–
Impairment losses under expected credit losses model, net of reversal	15,362	1,700
Amortisation of prepaid lease payments	–	50
Depreciation of property, plant and equipment	1,646	1,645
Depreciation of right-of-use assets	4,031	–

11. DIVIDEND

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2018: nil). The Directors have determined that no dividend will be paid in respect of the interim period.

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
(Loss) earnings:		
(Loss) profit for the period attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	(139,502)	437,199

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

12. (LOSS) EARNINGS PER SHARE (continued)

	Six months ended 30 June	
	2019	2018
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	16,987,714	16,987,714

Diluted (loss) earnings per share for the six months ended 30 June 2019 and 2018 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

13. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the period, the Group acquired property, plant and equipment of HK\$22,000 (six months ended 30 June 2018: HK\$24,000).

During the current interim period, the Group did not enter into any new lease agreements for the right-of-use assets.

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At	At
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Listed investments, at fair value:		
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.90% to 11.75% (31 December 2018: 3.90% to 10.75%) per annum and maturity dates ranging from 22 January 2020 to 23 January 2027 (31 December 2018: 13 February 2019 to 23 January 2027)	937,981	991,682
Analysed as:		
Current portion	3,910	3,822
Non-current portion	934,071	987,860
	937,981	991,682

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

At 30 June 2019, debt instruments at FVTOCI are stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

Debt instruments at FVTOCI are listed bonds with the credit loss allowance measured on 12-month expected credit loss (“ECL”) basis as the credit risk on financial instrument has not increased significantly since initial recognition. The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of the bonds given by rating agencies or credit spread and yield to maturity of bonds issued within similar industries, macroeconomic factors affecting the respective industry of each issuer, corporate historical default and loss rate and exposure of default of each bond investment.

The Group provided impairment allowance of HK\$891,000 (six months ended 30 June 2018: nil) for the current interim period.

15. LOAN RECEIVABLES

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Fixed-rate loan receivables	2,749,623	2,521,186
Less: impairment allowance	(26,271)	(11,800)
	2,723,352	2,509,386
Analysed as:		
Current portion	2,407,247	2,477,681
Non-current portion	316,105	31,705
	2,723,352	2,509,386
Analysed as:		
Secured	2,311,857	2,283,895
Guaranteed	245,939	209,537
Unsecured	165,556	15,954
	2,723,352	2,509,386

At 30 June 2019, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 18% (31 December 2018: 3% to 18%) per annum and from 6 August 2019 to 2 May 2021 (31 December 2018: from 18 January 2019 to 2 May 2021) respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

15. LOAN RECEIVABLES (continued)

An analysis of the Group's fixed-rate loan receivables by the respective contractual maturity dates is as follows:

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Fixed-rate loan receivables:		
Within one year	2,407,247	2,477,681
In more than one year but not more than two years	316,105	28,409
In more than two years but not more than five years	–	3,296
	2,723,352	2,509,386

The Group provided impairment allowance of HK\$14,471,000 (six months ended 30 June 2018: HK\$1,700,000) for the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (i)</i>)	1,737,378	2,044,803
Unlisted investments, at fair value:		
– Convertible securities with fixed interests of 10% (31 December 2018: 8%) per annum and maturity date at 15 December 2019 (31 December 2018: 15 June 2019) (<i>Note (ii)</i>)	47,534	47,608
	1,784,912	2,092,411
Analysed as:		
Current portion	1,743,084	2,068,030
Non-current portion	41,828	24,381
	1,784,912	2,092,411

Notes:

- (i) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.
- (ii) The fair values of the unlisted convertible securities were determined based on the binomial option pricing model with some key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by reference to listed bonds with similar rating.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

17. DEFERRED TAX ASSETS (LIABILITIES)

The movement of deferred tax assets (liabilities) for the period is as follows:

	Allowance for ECL HK\$'000	Tax losses HK\$'000	Temporary difference related to net unrealised gain/loss on financial assets at FVTPL and debt instruments at FVTOCI HK\$'000	Total HK\$'000
At 1 January 2018 (audited)	–	–	(34,853)	(34,853)
Credited (charged) to the profit or loss	1,947	101,216	(171,726)	(68,563)
Credited to the other comprehensive income	2,588	–	16,586	19,174
At 31 December 2018 and 1 January 2019 (audited)	4,535	101,216	(189,993)	(84,242)
Credited to profit or loss (Note 9)	2,388	50,565	43,628	96,581
Credited (charged) to the other comprehensive income	147	–	(9,340)	(9,193)
At 30 June 2019 (unaudited)	7,070	151,781	(155,705)	3,146

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Deferred tax assets	4,335	–
Deferred tax liabilities	(1,189)	(84,242)
	3,146	(84,242)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Trade receivables of securities brokerage business:		
– Cash clients (<i>Note (i)</i>)	8,827	11,022
– Margin clients (<i>Note (i)</i>)	27,009	21,625
Bill receivables discounted with full recourse (<i>Note (ii)</i>) (<i>Note 21</i>)	125,817	–
Interest receivables (<i>Note (iii)</i>)	18,404	19,837
Other receivables (<i>Note (iv)</i>)	36,566	10,426
Convertible securities receivables (<i>Note (v)</i>)	–	120,000
	216,623	182,910

Notes:

- (i) For securities brokerage business, the normal settlement terms of trade receivables from cash clients are two days after trade date. The trade receivables from cash and margin clients with total carrying amount of HK\$35,836,000 (31 December 2018: HK\$32,647,000) was not past due at the end of the reporting period.

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call which the clients have to make good the shortfall. At 30 June 2019, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK\$127,487,000 (31 December 2018: HK\$133,139,000).

For credit review of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period.

In order to minimise credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables have been assessed based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. At 30 June 2019, the trade receivables balances were within the credit period, the directors of the Company considered that the lifetime ECL allowance is insignificant at 30 June 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

18. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (ii) The amounts represent bill receivables discounted to bank with full recourse with a maturity period of less than 180 days (31 December 2018: nil). The Group recognises the full amount of the discounted proceeds as liabilities as set out in Note 21.

The following was the Group's financial assets at 30 June 2019 (31 December 2018: nil) that was transferred to bank by discounting the receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (Note 21). These financial assets are carried at amortised cost in the Group's condensed consolidated statement of financial position.

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Carrying amount of transferred assets	125,817	–
Carrying amount of associated liabilities	(125,817)	–
Net position	–	–

- (iii) Interest receivables of HK\$18,404,000 (31 December 2018: HK\$19,837,000) due from bond issuers and banks at the end of the reporting period. The management considers that the credit risk of such receivables is limited because the counterparties are banks and bond issuers of good reputation.
- (iv) Included in other receivables were unrestricted deposits of HK\$28,456,000 (31 December 2018: HK\$6,157,000) placed with securities brokers in relation to securities investment activities. The remaining balance of other receivables represented mainly dividend receivables, prepayment and deposit for office use.
- (v) Convertible securities receivables represented the outstanding principal of a convertible bond subscribed by the Group, which was due for repayment before the prior year end as the Group had not exercised the conversion option. During the current interim period, the full amount of the receivables was settled.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

19. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Bank balances and cash:		
General accounts and cash <i>(Note (i))</i>	122,107	162,504
Client accounts <i>(Note (ii))</i>	38,109	51,392
	160,216	213,896

Notes:

- (i) The accounts comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carried interest ranging from 0.01% to 2.71% (31 December 2018: 0.04% to 2.50%) per annum.
- (ii) The Group's securities brokerage business receives and holds money deposited by clients during the course of conducting its regulated activities in its ordinary course of business. Such clients' monies are maintained in a segregated bank account. The Group has recognised the corresponding account payable to respective clients.

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. Deposit amounting to HK\$28,675,000 (31 December 2018: HK\$28,311,000) was pledged to a bank to comply with the minimum deposit requirement for the issuance of letters of credit and deposit amounting to HK\$3,085,000 (31 December 2018: HK\$3,083,000) was pledged to another bank to secure the credit facility for settlement of the securities brokerage activities. The pledged bank deposits will be released upon settlement of the relevant letters of credit and termination of the credit facility in relation to settlement of the securities brokerage activities and are therefore classified as current assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

20. TRADE AND OTHER PAYABLES

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Trade payables of securities brokerage business:		
– Cash clients	67,223	76,933
– Hong Kong Securities Clearing Company Limited ("HKSCC")	7,637	10,366
Trade payables of trading business	–	2,049
Accrued charges and other payables	1,572	7,450
Interest payables	12,537	13,022
	88,969	109,820

For securities brokerage business, the normal settlement terms of trade payables to cash clients and HKSCC are two days after trade date.

For trading business, the following is an aged analysis of trade payables, presented based on the invoice dates, at the end of the reporting period:

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
0 - 180 days	–	2,049

The average credit period is within 30 days for both periods.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

21. BORROWINGS

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
Short-term secured bank borrowing (Note (i))	225,740	288,600
Securities margin financing (Note (ii))	362,792	414,671
Advances drawn on bill receivables discounted with full recourse (Note (iii))	125,817	–
	714,349	703,271

Notes:

- (i) The amount carried interest at London Interbank Offered Rate plus certain basis points per annum and was repayable within one year. The loan agreement of the secured bank borrowings contains a repayment on demand clause. The borrowings were secured by certain debt securities.
- (ii) The amount carried interest at Hong Kong prime rate plus certain basis points per annum and secured by certain debt and equity securities held in a securities margin account.
- (iii) The amount represented the Group's borrowings secured by the bill receivables discounted to bank with full recourse (Note 18), and the amount was repayable within one year.

Notes to the Condensed Consolidated Financial Statements

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22. NOTES PAYABLE

The movement of the unsecured notes payable for the period is as follows:

	At 30 June 2019 HK\$'000 (Unaudited)	At 31 December 2018 HK\$'000 (Audited)
At the beginning of the period/year	1,500,325	1,492,168
Redemption of notes (Note (i))	–	(200,000)
Issue of notes (Note (ii))	–	200,000
Effective interest charged (Note 8)	72,481	135,910
Interest paid/payable	(70,665)	(127,753)
At the end of the period/year	1,502,141	1,500,325
Analysed as:		
Current portion	–	–
Non-current portion	1,502,141	1,500,325
	1,502,141	1,500,325

Notes:

- (i) In December 2016, the Company issued 2-year unsecured notes with nominal value of HK\$1,500,000,000 denominated in Hong Kong dollars. The interest for the notes was 7.00% per annum and 8.00% per annum for the first and second year respectively. The effective interest rate of the notes was 8.57% per annum.

In December 2018, notes with nominal value of HK\$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020. The interest for the notes is 9.50% per annum and 10.00% per annum for the third and fourth year respectively. The effective interest rate of the notes is 9.74% per annum. The notes carry option for the Company to early redeem the notes, by giving not less than 15 days' nor more than 30 days' notice to the noteholders on the third anniversary date and/or 16 June 2020, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption.

- (ii) In August 2018, the Company issued a new tranche of 2-year unsecured notes with nominal value of HK\$200,000,000 denominated in Hong Kong dollars. The interest for the notes is 9.50% per annum and 10.00% per annum for the first and second year respectively. The effective interest rate of the notes is 9.74% per annum. The notes carry option for the Company to early redeem the notes by giving early redemption notice to the noteholders on the first anniversary date, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption.



Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

23. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Share capital HK\$'000
Issued and fully paid ordinary shares:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	16,987,714	3,012,877

24. PLEDGE OF ASSETS

At 30 June 2019, debt securities of HK\$937,981,000 (31 December 2018: HK\$828,005,000), equity securities of HK\$1,429,576,000 (31 December 2018: HK\$1,713,361,000) and bill receivables of HK\$125,817,000 (31 December 2018: nil) were pledged for borrowings by way of floating charge respectively.

In addition, as disclosed in Note 19, the Group's credit facilities for issuance of letters of credit and settlement of the securities brokerage activities were secured by the Group's bank deposits of HK\$31,760,000 (31 December 2018: HK\$31,394,000) in aggregate.

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Notes to the Condensed Consolidated Financial Statements

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25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)**Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)**

Financial assets	Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	30 June 2019 HK\$'000	31 December 2018 HK\$'000			
1) Financial assets at FVTPL					
Listed equity securities	1,737,378	2,044,803	Level 1	Quoted bid prices in active markets	N/A
Unlisted convertible securities	47,534	47,608	Level 3	Binomial option pricing model with the key inputs of risk free rate, expected volatility, dividend yield and discount rate obtained by reference to listed bonds with similar rating	Note
2) Debt instruments at FVTOCI					
Listed debt securities	937,981	991,682	Level 1	Quoted bid prices in active markets	N/A

Note: For the unlisted convertible securities, the most significant unobservable input is the discount rate. If the discount rate to the valuation model was 0.5% higher/lower while the other variables were held constant, the total carrying amount of the unlisted convertible securities would decrease/increase by HK\$52,000 and HK\$52,000 (31 December 2018: HK\$24,000 and HK\$54,000) respectively. During the period, a net loss on fair value change of HK\$74,000 (six months ended 30 June 2018: net gain on fair value change of HK\$1,575,000) is recognised through profit or loss.

Fair value measurements and valuation process

The directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

The directors of the Company consider that the carrying amounts of financial assets and liabilities recognised in the condensed consolidated financial statements approximate their fair values.



Notes to the Condensed Consolidated Financial Statements

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26. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors, who are the key management personnel of the Group, is as follows:

	Six months ended 30 June	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)
Short-term benefits	2,046	4,638
Post-employment benefits	83	79
	2,129	4,717

The remuneration of directors is determined by the Remuneration Committee having regard to the competence, performance and experience of the individuals and prevailing market terms.

Other Information

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (30 June 2018: nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2019, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 10 June 2011. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the Company and/or subsidiaries of the Company.

No share options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2019 and 2018 and no share options were outstanding at 30 June 2019 and 2018.

Further details of the Share Option Scheme were set out in the Company's 2018 Annual Report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Share Option Scheme as mentioned above, at no time during the six months ended 30 June 2019 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.



Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 30 June 2019, the following interests of more than 5% of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued shares
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	1,680,000,000 (Note)	9.89%
Pioneer Success Development Limited ("Pioneer Success")	Beneficial owner	1,680,000,000 (Note)	9.89%

Note: These shares were held by Pioneer Success, which in turn was wholly owned by Mr. Suen. Mr. Suen was the sole director of Pioneer Success. Accordingly, Mr. Suen and Pioneer Success were deemed to be interested in 1,680,000,000 shares of the Company under the SFO.

The interests of Mr. Suen and Pioneer Success in 1,680,000,000 shares of the Company referred to above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company at 30 June 2019 as required pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2019.

Other Information

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2019 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the auditor is set out on page 20 of this Interim Report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

Dr. Or Ching Fai
Chairman

Hong Kong, 23 August 2019