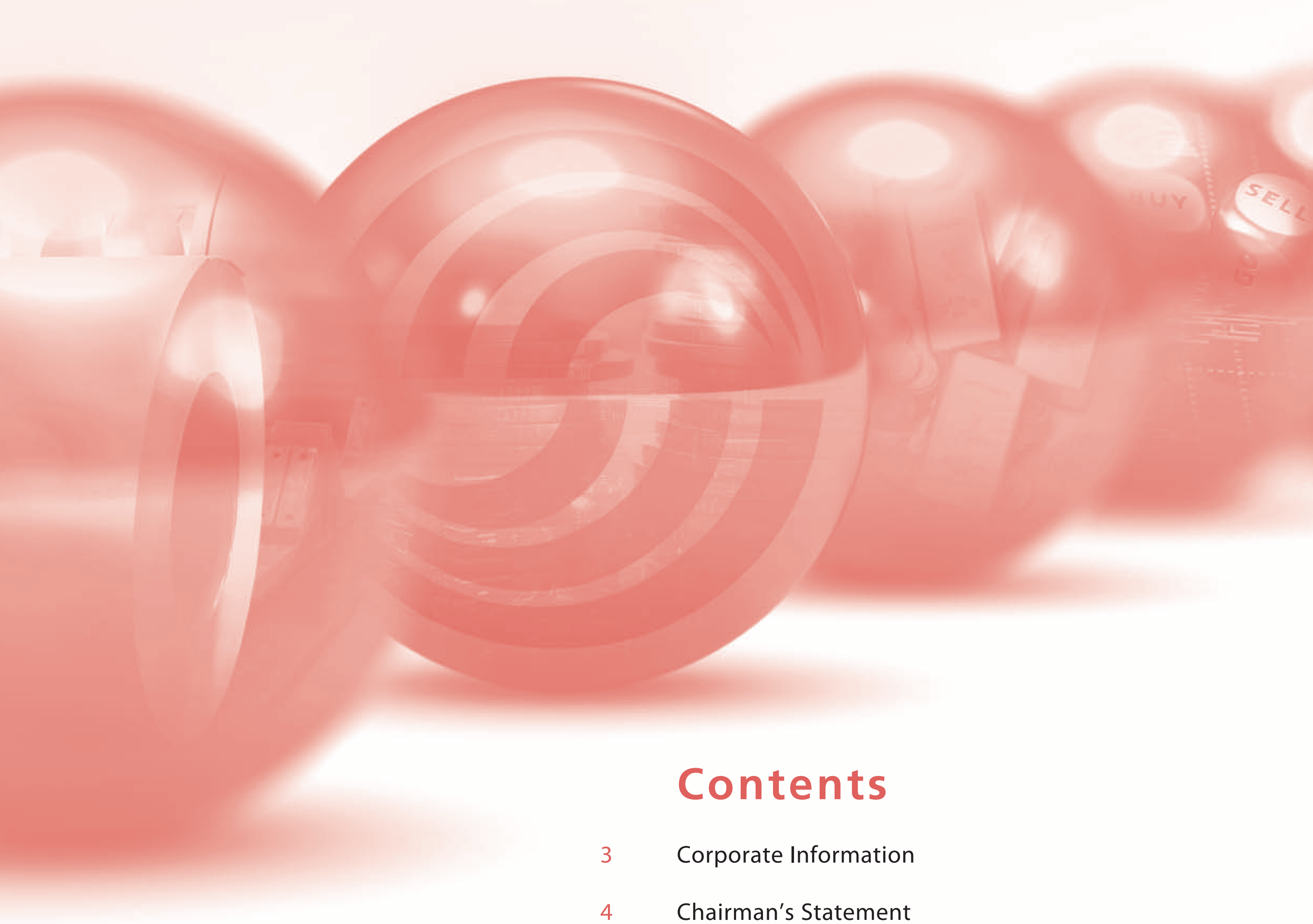
Annual Report 2019

中策集團有限公司

China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)



Contents

Abbreviations

In this annual 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 annual 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 Hong Kong 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
Registered Public Interest Entity Auditors

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 235)

WEBSITE

http://www.cshldgs.com

Chairman's Statement

On behalf of the Board, I hereby present to the shareholders the results of the Group for the year ended 31 December 2019.

RESULTS

During the year ended 31 December 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.

With the backdrop of the ongoing trade disputes between the United States and China, the uncertainties once emerged from the Brexit issue, the series of social events taking place in Hong Kong, and the volatile sentiments of the global and local investment markets throughout the year, 2019 was no doubt a very challenging year for the Group. The Group's financial performance was to a large extent adversely affected by these events resulting in revenue decreased to HK$779,962,000, dropped by 47% from that of last year (2018: HK$1,477,776,000) and recorded loss attributable to owners of the Company of HK$322,947,000, in contrast to the profit results achieved last year (2018: profit of HK$708,790,000). Basic loss per share for the year was HK1.90 cents (2018: basic earnings per share of HK4.17 cents).

The decrease in the Group's revenue was mainly due to the 63% drop in sales of its trading operation to HK$396,108,000 (2018: HK$1,072,587,000), whereas the Group's loss was largely resulted from the overall loss of its securities investments amounting to HK$336,341,000 that in contrast to the profit results booked last year (2018: profit of HK$735,422,000). The Group's money lending and securities brokerage operations continued to report profitable results of HK$128,293,000 (2018: HK$266,829,000) and HK$6,292,000 (2018: HK$7,484,000) respectively although both showed declines from last year.

The Group reported a total comprehensive expense attributable to owners of the Company of HK$276,193,000 (2018: total comprehensive income of HK$585,625,000) which included a net fair value gain on debt securities of HK$56,400,000 (2018: net fair value loss of HK$145,512,000).

PROSPECTS

Although the tension of the United States-China trade disputes has eased since the signing of the first phase trade agreement in January 2020, the outbreak of the COVID-19 pandemic that is sweeping across nations has posed great threats to the world major economies. To prevent the spread of the virus, many countries including China, United States, United Kingdom, Italy and Spain have imposed measures to restrict social activities and shut down their borders by different extent which adversely affected their economies. Investors are worried that there will be slowdown of growth in major economies or even a global recession such that market sentiments are extremely volatile. The Group's business outlook for 2020 is full of challenges and uncertainties as macroeconomic environment is badly affected by the COVID-19 pandemic, and it will take time to rebuild the investor confidence. Looking forward, the Group's management will continue to adopt a cautious and disciplined approach in managing the Group's businesses, and to seize business opportunities in a prudent manner aiming to create value for shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, investors, bankers, business associates and customers for their continuing support to the Group, to my fellow directors for their valuable services, and to all staff members for their contributions and hard work during the past year.

Dr. Or Ching Fai
Chairman

Hong Kong, 27 March 2020

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 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.

With the backdrop of the ongoing trade disputes between the United States and China, the uncertainties once emerged from the Brexit issue, the series of social events taking place in Hong Kong, and the volatile sentiments of the global and local investment markets throughout the year, 2019 was no doubt a very challenging year for the Group. The Group's financial performance was to a large extent negatively affected by these events, for the year under review, the Group's revenue declined by 47% to HK$779,962,000 (2018: HK$1,477,776,000), mainly due to the decrease in sales of the trading operation, and in contrast to the profit results achieved by the Group last year, the loss attributable to owners of the Company for the year was HK$322,947,000 (2018: profit of HK$708,790,000), largely a result of the net fair value loss recorded for the Group's listed equity securities investments and impairment loss recognised for the loan portfolio held by the Group.

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 31 December 2019, the Group's securities investments comprised (i) a financial asset at fair value through profit or loss ("FVTPL") portfolio, comprising equity securities listed in Hong Kong, valued at HK$1,454,098,000 (2018: HK$2,092,411,000, constituted by non-current and current portions); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions) comprising debt securities listed in Hong Kong or overseas, valued at HK$957,361,000 (2018: HK$991,682,000). As a whole, the Group's securities investments recorded a revenue of HK$100,664,000 (2018: HK$122,084,000) and a loss of HK$336,341,000 (2018: profit of HK$735,422,000).

Financial assets at FVTPL

At 31 December 2019, the Group held a financial asset at FVTPL portfolio amounting to HK$1,454,098,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK$27,319,000 (2018: HK$21,103,000) representing dividends from equity securities of HK$22,491,000 (2018: HK$17,067,000) and interest income from equity-linked notes and convertible securities of HK$4,828,000 (2018: HK$4,036,000). The Group recognised a net loss on financial assets at FVTPL of HK$436,888,000, which comprised net unrealised loss and net realised loss of HK$409,214,000 and HK$27,674,000 respectively (2018: net gain of HK$619,093,000, which comprised net unrealised gain and net realised gain of HK$595,709,000 and HK$23,384,000 respectively).

The net loss on financial assets at FVTPL recognised was mainly attributed 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 year. 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$338,008,000 during the year, in contrast to the increase in fair value of HK$868,197,000 recognised in last year.

The Group has started to invest in Evergrande Health since March 2015, despite the unrealised fair value loss recognised in the current year, up to 31 December 2019, the accumulative holding gain of this investment amounted to HK$818,760,000 (as shown in the table below about the Group's top five investments). At the year end, the Group held 133,600,000 ordinary shares in Evergrande Health which represented approximately 1.55% of its issued share capital, and the carrying value of the Group's investment in Evergrande Health amounted to HK$ 1,038,072,000 which represented approximately 20% of the Group's total assets. 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 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 and expected to record an increase in loss for its 2019 full year results according to its profit warning announcement dated 22 March 2020, given that the loss is expected to be primarily attributable to the development of the new energy vehicle business, which is in its investment stage and resulted in an increase in expenditure related to purchase of fixed assets and equipment, research and development and interest payments as elaborated in the announcement, the Group is optimistic about the prospect of Evergrande Health in the medium to long term. Subject to market conditions, the Group presently has no intention to realise this investment.

Management Discussion and Analysis

At 31 December 2019, the Group invested in Evergrande Health and different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$1,454,098,000 are as below:

Name/category of companies	**Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio**
	%
Evergrande Health	71.39
Banking	11.84
Conglomerate	7.05
Property	6.60
Others	3.12
	100.00

At 31 December 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$1,454,098,000 (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 31 December 2019	% of shareholding interest	Acquisition costs	*Acquisition costs during the year/carrying amount at 1 January 2019	Market/fair value at 31 December 2019	Accumulated unrealised gain (loss) recognised up to 31 December 2019	Unrealised gain (loss) recognised during the year ended 31 December 2019	Dividend income recognised during the year ended 31 December 2019
	%	%	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				A	B	C	D = C - A	E = C - B	
Evergrande Health (HKEX stock code: 708)	71.39	19.98	1.55	219,312	1,376,080	1,038,072	818,760	(338,008)	–
Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196)	8.86	2.48	3.01#	178,194	174,083	128,849	(49,345)	(45,234)	7,018
Emperor International Holdings Limited (HKEX stock code: 163)	5.55	1.55	1.27	107,295	90,534	80,753	(26,542)	(9,781)	4,575
Get Nice Holdings Limited (HKEX stock code: 64)	4.64	1.30	3.10	78,000	75,000	67,500	(10,500)	(7,500)	5,250
Shengjing Bank Co., Ltd (HKEX stock code: 2066)	2.98	0.83	0.31	54,599	24,381	43,257	(11,342)	18,876	879
Others	6.58	1.84	N/A	408,077	123,234	95,667	(312,410)	(27,567)	4,769
	100.00	27.98		1,045,477	1,863,312	1,454,098	408,621	(409,214)	22,491

* The amount represented the costs of the securities acquired during the year ended 31 December 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 financial year.

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 31 December 2019.

The tables below set out the (i) unrealised gain (loss) recognised for the year ended 31 December 2019 for the financial assets at FVTPL held by the Group at 31 December 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 year ended 31 December 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 year ended 31 December 2019 for the financial assets at FVTPL held by the Group at 31 December 2019 together with information on financial performance of the investee companies and their future prospects

Company name/ industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount at 1 January 2019 HK$'000	% of shareholding interest %	Market/ fair value at 31 December 2019 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2019 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
Equity securities listed in Hong Kong									
Evergrande Health	A+	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	1,376,080	1.55	1,038,072	71.39	(338,008)	For the year ended 31 December 2019, revenue increased by 80% to RMB5,635,559,000 while loss for the year increased by 246% to RMB4,947,478,000 as compared to 2018.	Apart from continuously uphold its innovative services concept of integrating medical insurance with medical care, health management and elderly care, the investee company has established a full industry chain of new energy vehicles covering vehicle manufacturing, electric motor control, power batteries, vehicle sales, smart charging, shared mobility and other aspects.
			1,376,080		**1,038,072**	**71.39**	**(338,008)**		
Banking	B+	Banking business	174,083	3.01	128,849	8.86	(45,234)	For the year ended 31 December 2019, interest income, as its major source of revenue, increased by 14% to RMB21,557,567,000 and profit for the year increased by 9% to RMB3,373,220,000 as compared to 2018.	The investee company will continue to capture opportunities from macroeconomic development to (i) focus on developing "three featured business lines"; (ii) focus on emerging industries with regional characteristics to develop high-quality assets; and (iii) make better use of fintech to drive transformation and innovation around digitalisation.

(i) **Unrealised gain (loss) recognised for the year ended 31 December 2019 for the financial assets at FVTPL held by the Group at 31 December 2019 together with information on financial performance of the investee companies and their future prospects (continued)**

Company name/ industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount at 1 January 2019 HK$'000	% of shareholding interest %	Market/ fair value at 31 December 2019 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2019 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
	C+	Banking business	24,381	0.31	43,257	2.98	18,876	For the year ended 31 December 2019, interest income, as its major source of revenue, increased by 5% to RMB44,944,020,000 and profit for the year increased by 6% to RMB5,438,061,000 as compared to 2018.	The investee company will revolve around the development vision of "being a sound bank", unswervingly strengthen the construction of market-oriented systems and mechanisms, being innovative to drive the leapfrog development of each business, taking people-orientation as the first factor to activate productivity, and becoming a sound bank in new era with efficient operating mechanism, strong profitability and excellent reputation.
			198,464		**172,106**	**11.84**	**(26,358)**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2019 for the financial assets at FVTPL held by the Group at 31 December 2019 together with information on financial performance of the investee companies and their future prospects (continued)

Company name/ industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount at 1 January 2019 HK$'000	% of shareholding interest %	Market/ fair value at 31 December 2019 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2019 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
Conglomerate	D+	Broking and securities margin financing, money lending, corporate finance and investments	75,000	3.10	67,500	4.64	(7,500)	For the six months ended 30 September 2019, revenue decreased by 2% to HK$275,060,000 and profit for the period decreased by 13% to HK$109,067,000 as compared to the same period in 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 with a view to provide a source of steady rental income and investment gains in the future.
	E	International trading, financial guarantee services, finance lease services, property investment, financial advisory services and logistics services	14,875	1.20	14,525	1.00	(350)	For the six months ended 30 September 2019, revenue decreased by 57% to HK$357,152,000 and its results experienced a turnaround and recorded a loss for the period of HK$48,673,000 as compared to the same period in 2018.	Apart from its ongoing logistics project, the investee company is currently proceeding with other projects of promising prospects within the Shannxi Province as well as other province in the PRC.
	Others	-	32,127	N/A	20,427	1.41	(11,700)	-	-
			122,002		**102,452**	**7.05**	**(19,550)**		

(i) **Unrealised gain (loss) recognised for the year ended 31 December 2019 for the financial assets at FVTPL held by the Group at 31 December 2019 together with information on financial performance of the investee companies and their future prospects (continued)**

Company name/ industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount at 1 January 2019 HK$'000	% of shareholding interest %	Market/ fair value at 31 December 2019 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2019 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
Property	F+	Lease of properties, properties development and hotel and hotel related operations	90,534	1.27	80,753	5.55	(9,781)	For the six months ended 30 September 2019, revenue decreased by 19% to HK$1,238,031,000 and its results experienced a turnaround and recorded loss for the period of HK$439,866,000 as compared to the same period in 2018.	Apart from establishing a solid pipeline in residential properties which will provide promising contributions in the near to mid-term residential property sales, in response to the government's revitalisation scheme for industrial buildings, the investee company is proactively identifying potential projects which will help create additional value and balance its property portfolio in the long run.
	Others	-	17,775	N/A	15,321	1.05	(2,454)	-	-
			108,309		**96,074**	**6.60**	**(12,235)**		
Others	-	-	58,457	N/A	45,394	3.12	(13,063)	-	-
			58,457		**45,394**	**3.12**	**(13,063)**		
			1,863,312		**1,454,098**	**100.00**	**(409,214)**		

\+ In the table above, investee company A, B, C, D and F stands for Evergrande Health (HKEX stock code: 708), Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196), Shengjing Bank Co., Ltd. (HKEX stock code: 2066), Get Nice Holdings Limited (HKEX stock code: 64) 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 year ended 31 December 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 financial year.

Management Discussion and Analysis

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2019

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount at 1 January 2019 HK$'000	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2019 HK$'000	Realised gain (loss) recognised during the year ended 31 December 2019 HK$'000
Equity securities listed in Hong Kong					
Banking	**B**	Banking business	16,836	15,281	(1,555)
			16,836	**15,281**	**(1,555)**
Conglomerate	**G**	Property investment, property leasing and treasury management	14,311	15,459	1,148
	H	Wind farms development and operation, wind power generation, finance leasing and security trading	47,608	49,400	1,792
	Others	–	22,055	8,345	(13,710)
			83,974	**73,204**	**(10,770)**
Infrastructure	**I**	Operation of motoring schools, tunnels and an electronic toll collection system, and investment	152,634	144,242	(8,392)
			152,634	**144,242**	**(8,392)**
Others	**–**	–	20,280	13,323	(6,957)
			20,280	**13,323**	**(6,957)**
			273,724	**246,050**	**(27,674)**

\# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 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 financial year.

Debt instruments at FVTOCI

At 31 December 2019, the Group's debt instrument at FVTOCI portfolio of HK$957,361,000 was measured at market/fair value. During the year under review, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK$73,345,000 (2018: HK$100,981,000), representing interest income from debt securities. According to the maturity of the debt securities, part of the debt instruments at FVTOCI of HK$7,816,000 was classified as current assets.

During the year under review, the Group invested HK$66,667,000 (2018: HK$46,562,000) for acquiring debt securities issued by various property companies listed on the Stock Exchange.

At the year end, a net fair value gain on the debt instrument at FVTOCI portfolio amounting to HK$56,400,000 was recognised as other comprehensive income (2018: net fair value loss of HK$145,512,000). Such net fair value gain on debt investments was mainly a result of the general cut in market interest rates during the year which caused the market value of debt securities held by the Group to rise.

During the year under review, the Group disposed of debt securities amounting to HK$149,588,000 and debt securities of HK$7,800,000 were redeemed by an issuer. A gain on disposal and on redemption totalling HK$1,606,000 was released from the Group's investment revaluation reserve and recognised as gain during the year (2018: loss totalling HK$2,789,000).

At 31 December 2019, the Group invested in debt securities of an aircraft leasing company, a banking company and seven property companies and their respective weightings to the market/fair value of the Group's debt instruments at FVTOCI of HK$957,361,000 (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 %	Approximate weighting to the carrying amount of the Group's total assets at 31 December 2019 %	Yield to maturity on acquisition %	Acquisition costs *HK$'000*	* Acquisition costs during the year/ carrying amount at 1 January 2019 *HK$'000*	Market/fair value at 31 December 2019 *HK$'000*	Accumulated fair value gain (loss) recognised up to 31 December 2019 *HK$'000*	Fair value gain recognised during the year ended 31 December 2019 *HK$'000*
				A	B	C	D = C – A	E = C – B
Debt securities listed in Hong Kong or overseas								
Aircraft leasing	14.40	2.65	5.09	148,348	126,652	137,881	(10,467)	11,229
Banking	8.68	1.60	3.73 – 3.91	78,499	74,544	83,061	4,562	8,517
Property	76.92	14.17	4.75 – 12.50	776,247	707,828	736,419	(39,828)	28,591
	100.00	18.42		1,003,094	909,024	957,361	(45,733)	48,337

* The amount represented the costs of the securities acquired during the year ended 31 December 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 financial year.

The yield to maturity of debt securities acquired which were held by the Group at the year end ranging from 3.73% to 12.50% per annum.

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 year under review, the Group's trading operation continued to focus on trading of commodities including metal minerals, coke products and electronic components. The operation reported a decline in revenue by about 63% to HK$396,108,000 (2018: HK$1,072,587,000), and a decrease in profit of over 74% to HK$2,288,000 (2018: HK$8,740,000). The decreases in revenue and profit of the operation were principally due to the decline in volume of 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. Owing to unfavourable market conditions, the commodity trading business of the operation is on temporary halt while the electronic components business is continuing. The management is stepping up its effort to explore new business opportunities in order to improve the results of the operation and will resume the commodities trading business when market conditions improve.

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 recorded an increase in revenue of 2% to HK$273,977,000 (2018: HK$269,369,000) while profit decreased by 52% to HK$128,293,000 (2018: HK$266,829,000). The operation's revenue for the year was in line with that of last year as the size of the Group's loan portfolio remained at similar levels for the two years, whilst the decrease in the operation's profit was largely due to the impairment allowance of HK$142,289,000 (2018: nil) recognised for the year which primarily represented the credit risk involved in collectability of a default loan and certain other non-default loans determined under the Group's loan impairment policy. The Group is considering various actions for recovery of the default loan. At the year end, the balance of the impairment allowance was HK$154,089,000 (2018: HK$11,800,000), and the carrying value of the loan portfolio, after impairment allowance, amounted to HK$2,421,150,000 (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	40.61	8.50 – 18.00	Within 1 year
Corporate	58.74	3.00 – 18.00	Within 1 year
Corporate	0.65	8.125 – 14.50	Over 1 year but within 3 years
	100.00		

At 31 December 2019, 90% (2018: 91%) of the loan portfolio is secured by collaterals, 3% (2018: 8%) is guaranteed by guarantors, and with the remaining 7% (2018: 1%) being unsecured.

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

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited ("CS Wealth"), 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 year under review, revenue and profit of the operation decreased by 33% to HK$9,213,000 (2018: HK$13,736,000) and 16% to HK$6,292,000 (2018: HK$7,484,000) respectively. The decreases in revenue and profit were largely due to the lesser number of corporate shares placing and underwriting exercises participated by CS Wealth during the year which to a certain extent, caused by the volatile market conditions of Hong Kong stock market.

Overall Results

For the year ended 31 December 2019, the Group recorded loss attributable to owners of the Company of HK$322,947,000 (2018: profit attributable to owners of the Company of HK$708,790,000) and basic loss per share of HK1.90 cents (2018: basic earnings per share of HK4.17 cents). The Group reported total comprehensive expense attributable to owners of the Company of HK$276,193,000 (2018: total comprehensive income attributable to owners of the Company of HK$585,625,000) which included a net fair value gain on debt securities of HK$56,400,000 (2018: net fair value loss of HK$145,512,000). The loss results recorded by the Group were mainly attributed to the substantial overall loss recognised for the Group's securities investments of HK$336,341,000 (2018: profit of HK$735,422,000) and the decreases in profit generated by the Group's money lending, trading and securities brokerage operation amounting to HK$128,293,000 (2018: HK$266,829,000), HK$2,288,000 (2018: HK$8,740,000) and HK$6,292,000 (2018: HK$7,484,000) respectively.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 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 year end, the Group had current assets of HK$4,185,622,000 (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$1,589,891,000 (2018: HK$2,230,534,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$1,825,502,000 (2018: HK$831,834,000), was at a ratio of about 2.3 (2018: 6.0). At 31 December 2019, the Group's trade and other receivables amounted to HK$113,327,000 (2018: HK$182,910,000) which mainly comprised trade receivables from cash and margin clients of the securities brokerage business, deposits placed with securities brokers, and the outstanding principal of a note receivable. The Group had deferred tax assets amounting to HK$8,148,000 (2018: deferred tax liabilities of HK$84,242,000) which principally related to the allowance for expected credit losses for loan receivables (2018: the net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses) at the year end.

At 31 December 2019, the equity attributable to owners of the Company amounted to HK$3,369,789,000 (2018: HK$3,645,982,000) and was equivalent to an amount of approximately HK19.84 cents (2018: HK21.46 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK$276,193,000 was mainly a result of the loss recognised by the Group during the year.

At 31 December 2019, the Group's borrowings represented bank borrowings and securities margin financing raised mainly for acquiring debt and equity securities. The borrowings bore interests at floating rates, secured by certain debt and equity securities 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 (the "2016 Notes") bearing interest at 7% per annum and 8% per annum for the first and second year respectively. During the second half of 2018, the 2016 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. During the second half of 2019, the 2016 Notes with nominal value of HK$250,000,000 were further redeemed.

The Group's gearing ratio, calculated on the basis of total liabilities of HK$1,825,502,000 (2018: HK$2,416,401,000) divided by the equity attributable to owners of the Company of HK$3,369,789,000 (2018: HK$3,645,982,000), was about 54% (2018: 66%). The decrease in the Group's gearing ratio was mainly due to the partial redemption of the 2016 Notes and partial repayments made for margin financing during the year. The Group's finance costs increased to HK$171,095,000 (2018: HK$162,053,000) were primarily a result of the increase in the average amount of borrowings and interest rates during the year.

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

Pledge of Assets

At 31 December 2019, debt securities of HK$914,387,000 (2018: HK$828,005,000), equity securities of HK$1,352,744,000 (2018: HK$1,713,361,000) and bank deposits of HK$32,067,000 (2018: HK$31,394,000) were pledged to secure credit facilities granted.

Capital Commitment

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

Event After the Reporting Period

The outbreak of the COVID-19 pandemic that is affecting many nations, the global and local investment markets and the international trade flow has potential adverse impact on the Group's operations. The Directors considered it is difficult to predict the evolution and duration of the pandemic and that at the reporting date, the extent of its impact to the Group cannot be reliably quantified or estimated. The management will continue to closely monitor the situation and will take all necessary and appropriate measures to reduce the impact of the pandemic to the Group.

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2019, the Group had 46 (2018: 55) employees including directors of the Company and staff costs (including directors' emoluments) for the year amounted to HK$24,975,000 (2018: HK$31,278,000). 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.

PRINCIPAL RISK AND UNCERTAINTIES

The Group is principally engaged in the business of investment in securities, trading of metal minerals, coke products and electronic components, money lending as well as securities brokerage. The financial position, operations, businesses and prospects of the Group and its individual business segment are affected by the following significant risks and uncertainty factors:

Business Risk

The global economic conditions and the state of international financial and investment markets, including the economy, financial and investment markets of the United States, Mainland China and Hong Kong, of which the Group has no control, have significant influences on the business and financial performance of the Group. The management policy to mitigate this risk is to diversify the Group's businesses and to diversify its investments (where possible) within the same business, as in the case of the Group's securities investments.

Market Risk

The Group's money lending business, trading business of metal minerals, coke products and electronic components as well as securities brokerage business are all operating in a very competitive environment that put pressure on the revenue and profitability of these businesses. The management policy to mitigate this risk is to continue to put effort in enlarging the market share and enhancing the market competitiveness of these businesses by various means.

Financial Risk

The Group is exposed to financial risks relating to interest rate, securities price, foreign currency, credit and liquidity risk in its ordinary course of business. Further details of such risks and relevant management policies are set out in Note 37 to the consolidated financial statements.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2019, there were no significant dispute between the Group and its employees, customers and suppliers.

Biographical Details of Directors

The biographical details of Directors at 27 March 2020, the date of this annual report, are set out below:

NON-EXECUTIVE DIRECTOR

Dr. Or Ching Fai ("Dr. Or"), *Chairman*

Aged 70, joined the Company as an Executive Director and the Chief Executive Officer in November 2009 and was appointed the Chairman of the Board in March 2012. Dr. Or stepped down from his position as Chief Executive Officer in January 2018 and was re-designated as a Non-executive Director in April 2018. Dr. Or is the Chairman of the Nomination Committee and is also a director of certain subsidiaries of the Company. Dr. Or graduated from The University of Hong Kong in 1972 and was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr. Or is currently an executive director and the chairman of Esprit Holdings Limited (HKEX stock code: 330). Dr. Or is also an independent non-executive director of Chow Tai Fook Jewellery Group Limited (HKEX stock code: 1929) and Regina Miracle International (Holdings) Limited (HKEX stock code: 2199). He was the former vice chairman and chief executive of Hang Seng Bank Limited (HKEX stock code: 11), the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited (HKEX stock code: 293) and Hutchison Whampoa Limited (HKEX stock code: 13 (delisted)) until his retirement in May 2009. Dr. Or was also the former vice chairman and independent non-executive director of G-Resources Group Limited (HKEX stock code: 1051), an independent non-executive director of Industrial and Commercial Bank of China Limited (HKEX stock code: 1398) and Television Broadcasts Limited (HKEX stock code: 511), and the former deputy chairman and non-executive director of Aquis Entertainment Limited (ASX stock code: AQS) (a company listed on the Australian Securities Exchange Limited). All the aforementioned companies with HKEX stock code are/were listed on the Main Board of the Stock Exchange.

EXECUTIVE DIRECTORS

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

Aged 54, joined the Group in November 2014 and was appointed as an Executive Director in December 2014. He was the Company Secretary until May 2017 and was appointed the Chief Executive Officer in January 2018. Mr. Sue is the Chairman of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow of the Hong Kong Securities and Investment Institute, and a Chartered Secretary, a Chartered Governance Professional and a fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director of EPI (Holdings) Limited (HKEX stock code: 689), PT International Development Corporation Limited (HKEX stock code: 372) and PYI Corporation Limited (HKEX stock code: 498); a non-executive director of Birmingham Sports Holdings Limited (HKEX stock code: 2309); and a non-executive director and the chairman of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145). All the aforementioned companies are listed on the Main Board of the Stock Exchange and with Courage Investment is also listed on the Singapore Exchange Securities Trading Limited.

EXECUTIVE DIRECTORS (continued)

Ms. Lee Chun Yeung, Catherine ("Ms. Lee")

Aged 51, joined the Group in September 2014 and was appointed as an Executive Director in February 2015. Ms. Lee is a member of the Executive Committee and the Investment & Credit Committee. She is also a director of certain subsidiaries of the Company. Ms. Lee holds a Bachelor of Arts degree from Guangdong University of Foreign Studies (formerly known as Guangzhou Institute of Foreign Languages) and a Master of Business Administration degree from the University of South Australia. She has extensive experience in international trading of metal minerals and commodities. Ms. Lee had worked as an economist in a major commercial bank and a senior executive in a state-owned trading group in the PRC.

Mr. Chow Kam Wah ("Mr. Chow")

Aged 57, joined the Company as an Executive Director in July 2007. Mr. Chow is a member of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Chow holds a master's degree in accountancy from The Hong Kong Polytechnic University. He has over 15 years of managerial experience in finance and accounting. Mr. Chow is a certified practising accountant of the CPA Australia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yin Fan ("Ms. Ma")

Aged 56, joined the Company as an Independent Non-executive Director in September 2007. Ms. Ma is the Chairlady of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Ms. Ma obtained a bachelor's degree with honours in accounting from Middlesex University in the United Kingdom. She is also awarded the Master of Business Administration and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and The Hong Kong Polytechnic University respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas with more than 20 years of professional experience. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in the England and Wales, The Taxation Institute of Hong Kong, the Association of Chartered Certified Accountants, and a Chartered Secretary, a Chartered Governance Professional and a fellow of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Ma is an independent non-executive director of CST Group Limited (HKEX stock code: 985) and Youth Champ Financial Group Holdings Limited (formerly known as Grand Investment International Ltd.) (HKEX stock code: 1160). All the aforementioned companies are listed on the Main Board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Chow Yu Chun, Alexander ("Mr. Chow")

Aged 73, joined the Company as an Independent Non-executive Director in March 2011. Mr. Chow is the Chairman of the Remuneration Committee and a member of the Audit Committee. He has over 35 years of experience in commercial, financial and investment management in Hong Kong and Mainland China. Mr. Chow is an independent non-executive director of Playmates Toys Limited (HKEX stock code: 869) and Symphony Holdings Limited (HKEX stock code: 1223). All the aforementioned companies are listed on the Main Board of the Stock Exchange. Mr. Chow is also an independent non-executive director of Aquis Entertainment Limited (ASX stock code: AQS), a company listed on the Australian Securities Exchange Limited.

Mr. Leung Hoi Ying ("Mr. Leung")

Aged 69, joined the Company as an Independent Non-executive Director in September 2007. Mr. Leung is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Leung graduated from Guangdong Foreign Trade School in the PRC. He has over 15 years of experience in the trading business and business development. Mr. Leung is an independent non-executive director of CST Group Limited (HKEX stock code: 985), a company listed on the Main Board of the Stock Exchange.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 42 to the consolidated financial statements.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's businesses, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 4 to 20 of this annual report. In addition, discussions on the Group's environmental policies and performance are contained in the Environmental, Social and Governance Report on pages 41 to 49 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 56.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 138. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

DONATIONS

There is no charitable donation made by the Group during the year ended 31 December 2019.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 33 to the consolidated financial statements.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVE

At 31 December 2019, the Company had retained profits of HK$66,159,000 available for distribution to shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from the Group's five largest customers accounted for approximately 50% of the total revenue for the year and revenue from the largest customer accounted for approximately 18%. Purchases from the Group's five largest suppliers accounted for approximately 100% of the total purchases for the year and purchases from the largest supplier accounted for approximately 37%.

None of the directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Non-executive Director:

Dr. Or Ching Fai

Executive Directors:

Mr. Sue Ka Lok
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

In accordance with Article 116 of the Company's Articles of Association, Dr. Or Ching Fai, Ms. Lee Chun Yeung, Catherine and Mr. Chow Yu Chun, Alexander will retire at the forthcoming annual general meeting of the Company (the "2020 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2020 AGM.

DIRECTORS (continued)

The list of directors of the subsidiaries of the Company during the year and up to the date of this report is kept at the Company's registered office and available for inspection by the shareholders of the Company during office hours.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to the statutes, every director shall be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and other officers of the Company during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2020 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in Note 13 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

– Dr. Or Ching Fai resigned as an independent non-executive director of Television Broadcasts Limited (HKEX stock code: 511) on 1 January 2020.

– Mr. Chow Yu Chun, Alexander retired as an independent non-executive director of Top Form International Limited (HKEX stock code: 333) on 31 October 2019.

– Ms. Ma Yin Fan ceased to be a Certified Tax Advisor in Hong Kong with effect from 31 December 2019.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the related party disclosures as disclosed in Note 40 to the consolidated financial statements, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director has or had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

At 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme of the Company disclosed in Note 35 to the consolidated financial statements, at no time during the year 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 year.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 35 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 31 December 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 31 December 2019 as required pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The related party disclosures as disclosed in Note 40 to the consolidated financial statements fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits include provident fund scheme, medical insurance, share option scheme as well as discretionary bonus.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in Note 35 to the consolidated financial statements, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of any business of the Company was entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued shares is held by the public at the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2019 have been reviewed by the Audit Committee and duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2019 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2020 AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Dr. Or Ching Fai
Chairman

Hong Kong, 27 March 2020

Corporate Governance Report

The Company has recognised the importance of transparency and accountability, and believes that shareholders can benefit from good corporate governance. The Company aims to achieve good standard of corporate governance.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by 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 year ended 31 December 2019.

BOARD OF DIRECTORS

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximize the shareholders' value in the long-run, and have aligned the Group's goal and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. The directors are kept informed on timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

BOARD OF DIRECTORS (continued)

At 27 March 2020, the date of this annual report, the Board comprises seven directors, one is Non-executive Director, namely Dr. Or Ching Fai, the Chairman of the Company (the "Chairman"), three of which are Executive Directors, namely Mr. Sue Ka Lok, the Chief Executive Officer of the Company (the "CEO"), Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah, and three are Independent Non-executive Directors, namely Ms. Ma Yin Fan ("Ms. Ma"), Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying ("Mr. Leung"). The directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the directors are set out under the section headed "Biographical Details of Directors" on pages 21 to 23 of this annual report.

Both Ms. Ma and Mr. Leung are independent non-executive directors of CST Group Limited (HKEX stock code: 985). Save for the aforesaid, there is no other financial, business, family or other material/relevant relationship between the Chairman and the CEO and among members of the Board.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have an appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

The Directors have participated in continuous professional development by attending seminars, in-house briefings or reading materials on the related areas to develop and refresh their knowledge and skills. During the year ended 31 December 2019, all the Directors (including Dr. Or Ching Fai (Chairman), Mr. Sue Ka Lok (Chief Executive Officer), Ms. Lee Chun Yeung, Catherine, Mr. Chow Kam Wah, Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying) have complied with Code Provision A.6.5 of the CG Code and have provided the Company with their respective training records pursuant to the CG Code.

BOARD OF DIRECTORS (continued)

During the year ended 31 December 2019, four regular Board meetings and annual general meeting of the Company (the "2019 AGM") were held and the attendance of each director is set out as follows:

	Number of attendance	
	Board Meetings	**2019 AGM**
Non-executive Director		
Dr. Or Ching Fai	4/4	1/1
Executive Directors		
Mr. Sue Ka Lok	4/4	1/1
Ms. Lee Chun Yeung, Catherine	4/4	0/1
Mr. Chow Kam Wah	4/4	1/1
Independent Non-executive Directors		
Ms. Ma Yin Fan	4/4	1/1
Mr. Chow Yu Chun, Alexander	4/4	1/1
Mr. Leung Hoi Ying	4/4	0/1

CHAIRMAN AND CHIEF EXECUTIVE

The Group adopts a dual leadership structure in which the role of the Chairman is separated from that of the CEO. The Chairman is responsible for overseeing all Board functions, while the executive directors and senior management are under the leadership of the CEO to oversee the day-to-day operations of the Group and implement the strategies and policies approved by the Board.

The position of the Chairman of the Board is currently held by Dr. Or Ching Fai and the position of the CEO is currently held by Mr. Sue Ka Lok.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

According to the CG Code, the non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors (including the Independent Non-executive Directors) are appointed for a term of two years and shall determine upon expiry subject to renewal by mutual agreement prior to the expiry of the term. All the Non-executive Directors (including the Independent Non-executive Directors) are subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company as governed by the Company's Articles of Association.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying. Mr. Chow Yu Chun, Alexander is the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy, reviewing and recommending to the Board the annual remuneration policy and the remuneration of the directors. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-caliber team which is essential to the success of the Group. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met one time during the year ended 31 December 2019 to review and make recommendations to the Board on the discretionary bonus for executive directors and remuneration packages for directors. The attendance of each member is set out as follows:

Members	**Number of attendance**
Mr. Chow Yu Chun, Alexander	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Nomination Committee comprises three members, including one Non-executive Director, namely Dr. Or Ching Fai, and two Independent Non-executive Directors, namely Ms. Ma Yin Fan and Mr. Leung Hoi Ying. Dr. Or Ching Fai is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for identifying potential directors and making recommendations to the Board on the appointment or re-appointment of directors of the Company. Potential new directors are selected on the basis of their qualifications, skills and experience that he/she could add value to the management through his/her contributions in the relevant strategic business areas. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Nomination Committee met one time during the year ended 31 December 2019 to review the board diversity policy of the Company (the "Board Diversity Policy"), review the independence of independent non-executive directors, review the structure, size and composition of the Board; and review and make recommendation to the Board on the re-election of directors. The attendance of each member is set out as follows:

Members	Number of attendance
Dr. Or Ching Fai	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

BOARD DIVERSITY POLICY

The Company recognises the benefits of having a diverse Board to enhance the quality of its performance and has adopted the Board Diversity Policy. The Board Diversity Policy sets out that in determining the optimum composition of the Board, differences in skills, regional and industry experience, background, race, gender and other qualities of directors shall be considered. All Board appointments are made on merits, in the context of skills and experience the Board as a whole requires, with due regard for the benefits of diversity on the Board, and the Nomination Committee shall review and assess the Board composition and its effectiveness on an annual basis. When there is vacancy on Board, the Nomination Committee will recommend suitable candidates for appointment to the Board on merits, based on the terms of reference of the Nomination Committee, with due regard to the Company's own circumstances.

NOMINATION POLICY

The Board has adopted a nomination policy (the "Nomination Policy") setting out the principles which guide the Nomination Committee to identify and evaluate a candidate for nomination to (i) the Board for appointment; and (ii) the shareholders for election as a director of the Company. According to the Nomination Policy, in assessing the suitability of a proposed candidate, the Board shall take into account among other things, the following factors: (i) qualifications, professional experience, skills and knowledge relevant to the businesses of the Group; (ii) commitment in respect of available time and relevant interest; (iii) diversity perspectives as set out in the Board Diversity Policy; (iv) in case of independent non-executive directors, regulatory requirement for appointment of independent non-executive directors and the independence criteria as set out in the Listing Rules; and (v) any other factors that the Board considers appropriate.

For filling a casual vacancy or as an addition to the existing Board, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. On making recommendation, the Nomination Committee may submit to the Board for consideration a proposal comprising, inter alia, the personal profile of the proposed candidate, which contains at least the candidate's information required to be disclosed under Rule 13.51 of the Listing Rules. The Board shall be vested with power to make the final decision on all matters relating to the recommendation of candidates (i) for appointment and (ii) for standing for election at a general meeting as a director of the Company.

The Nomination Committee had reviewed the diversity of the Board of the Company during the year ended 31 December 2019 and will review the Board Diversity Policy and the Nomination Policy from time to time to ensure that the policies will be implemented effectively.

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2019 is set out in the "Independent Auditor's Report" on pages 50 to 55 of this annual report.

For the year ended 31 December 2019, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$1,900,000. During the year, HK$350,000 was paid as remuneration to Deloitte Touche Tohmatsu for performing a review on the Company's condensed consolidated financial statements for the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. Ms. Ma Yin Fan is the Chairlady of the Audit Committee.

The Audit Committee is mainly responsible for reviewing financial statements of the Company, discussing the risk management and internal control of the Group and meeting with the auditor of the Company. Any findings and recommendations of the Audit Committee will be submitted to the Board for consideration.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee. It is also authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2019 and the attendance of each member is set out as follows:

Members	**Number of attendance**
Ms. Ma Yin Fan	2/2
Mr. Chow Yu Chun, Alexander	2/2
Mr. Leung Hoi Ying	2/2

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed and discussed the audited consolidated financial statements of the Company for the year ended 31 December 2018 and recommended to the Board for approval;

2. reviewed and discussed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2019 and recommended to the Board for approval;

3. reviewed and discussed with the management and the auditor of the Company the accounting policies and practices which may affect the Group and the scope of the audit;

4. reviewed reports from the auditor of the Company regarding their audit on the Company's consolidated financial statements for the year ended 31 December 2018 and their review on the Company's condensed consolidated financial statements for the six months ended 30 June 2019;

5. reviewed the effectiveness of the risk management and internal control systems of the Group; and

6. reviewed and approved the remuneration and the terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the re-appointment of the Company's auditor.

EXECUTIVE COMMITTEE

The Executive Committee has been established since 31 March 2016. At the date of this annual report, the Executive Committee comprises three Executive Directors, namely Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Executive Committee. The Executive Committee is mainly responsible for overseeing the management and the administrative functions of the day-to-day operations of the Group and handling such other matters as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Executive Committee will meet as and when necessary to discuss the operating affairs of the Group.

INVESTMENT AND CREDIT COMMITTEE

The Investment & Credit Committee has been established since 31 March 2016. At the date of this annual report, the Investment & Credit Committee comprises three Executive Directors, namely Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Investment & Credit Committee. The Investment & Credit Committee is mainly responsible for overseeing and monitoring the activities of the securities investment operation and the money lending operation of the Group and handling such other matters relating to securities investments and money lending as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Investment & Credit Committee will meet as and when necessary to discuss the activities of the securities investments and money lending of the Group.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective risk management and internal control and reviewing their effectiveness to safeguard the shareholders' interests and the Group's assets. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The review covers financial, operational and compliance controls of the selected key operations of the Group.

During the year, the Company has taken risk management as a core part of its business activities and operations. The Company is taking steps to build a comprehensive risk management system that is aligned with the strategies and operations of the Company by standardizing its risk management procedures, adopting qualitative and quantitative measures to identify, evaluate and mitigate the identified risks. Furthermore, the Company has increased the level of synergy between risk management and internal audit by identifying the potential risks by reviewing the internal control systems, policies and/or procedures relating to the Group's business operations so as to promote the risk control capabilities.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

During the year, the Group had engaged an independent professional firm to provide risk management and internal controls assessment services to assist the Board and the Audit Committee to assess the risk management and internal control systems of the Group. The review included interviews with relevant management and key process owners and performing walkthrough tests to identify the major risk and significant deficiencies, and making recommendations for improving the internal control systems to the Audit Committee for further approval. The Audit Committee, together with the Board, have reviewed, considered and discussed the findings and recommendations of the Internal Controls Assessment Report prepared by the independent professional firm for the year ended 31 December 2019 (the "Report"). Having taken the recommendations in the Report into consideration, the Group will continue to improve its internal management and control systems. In addition, the independent professional firm had also performed a follow-up assessment on the findings as identified in the Internal Controls Assessment Report for the year ended 31 December 2018 to assess the remediation status.

The Board has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function during the year under review. The Board is not aware of any significant internal control and risk management weaknesses or inconsistencies with risk management policies, and considers the existing internal control and risk management systems effective and adequate for the year ended 31 December 2019. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exists to prevent the Company from breaching the statutory and Listing Rules disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Company and the Stock Exchange, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Ms. Leung Siu King ("Ms. Leung") was appointed as the Company Secretary on 16 May 2018. Ms. Leung is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Ms. Leung has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2019.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The annual general meeting (the "AGM") of the Company provides a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board committees are invited to attend the AGM. The chairman of the Board and the chairmen of all the Board committees, or in their absence, other members of the respective committees, are available to answer questions at the AGM. The auditor of the Company is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

Under Section 566 of the Hong Kong Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company. Besides, in relation to an annual general meeting which a company is required to hold, Section 615 of the Hong Kong Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all the shareholders having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the Company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholders making it, in a hard copy form or electronic form. Such request must be deposited at the registered office of the Company not later than six weeks before the relevant annual general meeting or if later, when the notice of annual general meeting is despatched.

As a channel to further promote effective communication, the Group maintains a website at http://www.cshldgs.com where the Company's annual and interim reports, notices, announcements and circulars are posted.

A printed copy of the Articles of Association of the Company has been published on the websites of the Company and the Stock Exchange. There had been no changes in the Company's constitutional documents during the year ended 31 December 2019.

Enquiries may be put to the Board through the Company Secretary at Rooms 3206–3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

DIVIDEND POLICY

According to the dividend policy adopted by the Company, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account among other things, the following factors: (i) the actual and expected financial performance of the Group; (ii) the retained earnings and distributable reserves of the Group; (iii) the expected working capital requirements and future expansion plans; (iv) liquidity position; and (v) any other factors that the Board deems appropriate. The declaration and payment of dividends by the Company shall be determined at the sole and absolute discretion of the Board and is also subject to compliance with all applicable laws and regulations including the Hong Kong Companies Ordinance and the Company's Articles of Association.

Environmental, Social and Governance Report

OVERVIEW

China Strategic Holdings Limited (hereinafter referred to as the "Company" or "we" or "our") is pleased to present our Environmental, Social and Governance (the "ESG") report, which summarised our ESG initiatives and accomplishments for the year ended 31 December 2019.

The Board has the overall responsibility for our ESG strategy and reporting in achieving green operations for sustainable development. The management is responsible for monitoring and managing ESG-related risks and the effectiveness of ESG management systems. In order to determine the ESG reporting scopes, we have discussed with various management personnel and listed out key stakeholders to identify and assess relevant ESG issues to the Company. The summary of material ESG issues, which are covered in this report, are listed below.

REPORT SCOPE AND BOUNDARIES

This report serves to provide details of the Company's ESG policies and initiatives of our business in investment in securities, trading, money lending and securities brokerage, which has been prepared and complied under the "comply or explain" provisions with reference to the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules. With regard to corporate governance aspect, please refer to the Corporate Governance Report on pages 30 to 40. In the course of the report preparation, we have adhered to the reporting principles of materiality, quantitative, balance and consistency set out in the ESG Reporting Guide. In addition, the source of data of the report is primarily based on our internal policies and documents as well as information provided by various key stakeholders.

STAKEHOLDERS' ENGAGEMENT

Understanding and taking actions towards stakeholders' concerns and expectations is essential towards our sustainability development. We ensure various communication channels are set up so that comments and feedbacks from major stakeholders are effectively and timely addressed.

The following table shows the main expectations and concerns of the major stakeholders, the key communications channels of receiving feedbacks and the corresponding management responses.

STAKEHOLDERS' ENGAGEMENT (continued)

Stakeholders	Expectation and concerns	Communication channels	Management Responses
Shareholders	➢ Return on investment ➢ Interest protection ➢ Information transparency	➢ Annual general meetings ➢ Interim and annual reports ➢ Announcements and circulars	➢ Ensuring transparency and efficient communications through annual general meetings, regular interim and annual reports, announcements and circulars published in websites of the Stock Exchange and the Company
Employees	➢ Occupational health and safety ➢ Career development ➢ Employment rights	➢ Performance appraisals ➢ Employee handbook ➢ Poster	➢ Paying attention to occupational health and safety, creating a comfortable working environment ➢ Encouraging employees to participate in continuous education and professional trainings to enhance competency ➢ Holding team building function, and setting up contractual obligations to protect employment rights
Customers	➢ Integrity ➢ High quality services	➢ Meeting ➢ Corporate website	➢ Ensuring contractual obligations are in place ➢ Collecting customers' opinion from various channels in order to improve customer satisfaction
Government	➢ Compliance with laws and regulations ➢ Fulfil tax obligations	➢ Seminar ➢ Statutory filings and notification	➢ Upholding integrity and compliance in operations ➢ Paying tax on time in return contributing to the society
Suppliers	➢ Integrity	➢ Supplier assessment ➢ Meeting	➢ Ensuring contractual obligations are in place ➢ Performing supplier selection with due care

MATERIALITY MATRIX

In order to determine the importance of the ESG issues, we have conducted a comprehensive materiality assessment by sorting out the ESG issues that are most material and relevant to our business and operation, from the perspective of the stakeholders and senior management.

There are 14 important ESG issues identified through materiality assessment and prioritised as below in the materiality matrix. The vertical axis of the materiality matrix is "Internal Assessment (Impact on Business)" and the horizontal axis is "External Assessment (Impact on Stakeholders)". The ESG issues fall within the upper right quadrant are considered to be the most important for disclosure. The management's responses to these important ESG issues have been elaborated in more details in the following sections of this report.

MATERIALITY MATRIX (continued)

Materiality Matrix

Internal Assessment (Impact on Business)	Low	Medium	High
High	◆ Anti-discrimination measures ◆ Labour rights protection	◆ Training and development ◆ Employee's hiring and retention	➢ Anti-corruption policy ◆ Occupational health and safety
Medium	➢ Community contribution	✧ Greenhouse gas emissions	➢ Operational compliance ➢ Client's privacy measures and protection
Low	◆ Prevention of forced labour ✧ Non-hazardous water management	✧ Water consumption ✧ Energy savings	

External Assessment (Impact on Stakeholders)

✧ Environmental ◆ Employee ➢ Operation

ENVIRONMENTAL

With the growing concern for global climate changes, we believe that acknowledging our carbon footprints is the basic responsibility owed to the public. During the year, we are not aware of any non-compliance in relation to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste. As our businesses are carried out in office, our major environmental impacts are the greenhouse gas emission generated by office electricity and fuel consumption of our cars and vessels. Therefore, our operation initiatives are to reduce the emission of carbon dioxide generated by our business activities.

Emissions and Energy Consumption

Our vision focuses on eliminating excessive usage of resources. We continuously look for ways to reduce energy consumption in order to minimise the impact to the environment resulted from emissions. During the year, we directly consumed 40.47 tonnes (2018: 47.85 tonnes) Carbon Dioxide Equivalent (CO_2e) of greenhouse gas emission. The Nitrogen Oxides (NOx), Particulate Matter (PM) and Sulphur Oxides (SOx) emitted by our cars and vessels accounted for 3,278g (2018: 3,559g), 241g (2018: 262g) and 214g (2018: 272g) respectively. Our cars and vessels usage are mainly attributed to our business travels and activities with our customers.

Emissions and Energy Consumption (continued)

During the year, the greenhouse gas emission from the operation has been calculated and measured as follows:

Scope 1 - Direct Emission	Gasoline Consumption (in liter)			Carbon Dioxide Equivalent Emission (in tonnes)		
	2019	2018	Change	2019	2018	Change
Company's cars	10,533	11,580	–9%	28.52	31.36	–9%
Company's vessels	4,000	6,300	–37%	11.95	16.49	–28%
Total direct emission	**14,533**	**17,880**	**–19%**	**40.47**	**47.85**	**–15%**
Intensity (per employee)	**316**	**325**	**–3%**	**0.88**	**0.87**	**+1%**

Scope 2 - Indirect Emission	Electricity Consumption (in kWh)			Carbon Dioxide Equivalent Emission (in tonnes)		
	2019	2018	Change	2019	2018	Change
Acquired electricity	61,106	63,186	–3%	48.27	49.92	–3%
Total indirect emission	**61,106**	**63,186**	**–3%**	**48.27**	**49.92**	**–3%**
Intensity (per employee)	**1,328**	**1,149**	**+16%**	**1.05**	**0.91**	**+15%**

We adopt energy conservation approach in the office such as keeping the air-conditioners at around 25 degrees Celsius, switching off unused office electric appliances, reducing the stand-by time of printers and other office equipment, and introduce energy savings policies to the employees. On the other hand, we select electric appliances that come with energy efficiency labels under the Mandatory Energy Efficiency Labelling Scheme by the Electrical and Mechanical Services Department, such as refrigerators and lamps, if possible. We also encourage our employees to hold video conference call, if feasible, to avoid carbon footprints contributed by means of transportation.

Water Consumption

We do not face any water supply problem as it is provided by municipal to the office building. On the other hand, we order drinking water from external supplier monthly and hence no electricity is generated associated with water consumption. During the year, we have consumed a total of 3,280 liters (2018: 3,510 liters) of water.

Water Consumption (continued)

Water Consumption (in liters)	**2019**	**2018**	**Change**
Distilled water	3,280	3,510	–7%
Total water consumption	**3,280**	**3,510**	**–7%**
Intensity (per employee)	**71**	**64**	**+11%**

Although we do not have full controls over the water supply, we recognise the scarcity of resources the environment could offer and we always encourage our staff to cherish water usage, such as reducing unnecessary water consumption in toilets and pantries.

Waste Reduction

Owing to the nature of the Company's businesses, our operations do not generate any hazardous waste and use of packaging materials. Instead, the majority of non-hazardous waste we produced are paper and our daily garbage. During the year, we used a total of 255 reams (2018: 264 reams), 0.65 tonne (2018: 0.7 tonne) of paper. In addition to our energy conservation practices, we have put in measures to encourage our staff in reducing waste production, such as putting the used papers in the recycle bin, recycling of toners and ink cartridges by returning to vendors, encouraging double-sided printing, using recycled papers for the financial reports printing and promoting "green office" concepts in the office.

The Environment and Natural Resources

The principal business activities of the Company do not have significant impact on the environment and natural resources. We encourage staff to adopt environmentally responsible behaviours and to raise awareness of environmental protection. As mentioned in the above sections, we have implemented various measures (such as energy saving, water conservation and waste recycling) to reduce energy consumption, protect water resources and reduce waste.

SOCIAL

It is recognised that building a loyal and competent workforce is the key to long-term success of the Company.

Employment and Labour Practices

Employment

We care about the health and well-being of our employees. We provide a fair, healthy and safe working environment for our employees to work with, embracing new ideas and always looking for changes to strive for a better and efficient business. We place great respect to our employees from different cultures. Diversity is the key to the success of our business.

We are a fair opportunity employer and have established fair treatment policy to govern equal opportunity for employment to all individuals, regardless of the ethnic group, gender, religious affiliation, or other protected status or classification. The policy applies to all phases of the employment relationship, including but not limited to, hiring, promoting and terminating employees.

Employment and Labour Practices (continued)

Workforce Overview

At 31 December 2019, we have a total number of 46 employees (2018: 55 employees) located in Hong Kong. In terms of gender, the male to female ratio was 4:6. In terms of age, around 30% of the employees aged 40 or below, 33% of the employees aged 41-50 and the remaining 37% of the employees aged over 51. In terms of employment type, the clerical staff to non-clerical staff ratio was 6:1. The demographics of our workforce are as follows:

Year	Gender		Age				Type	
	Male	Female	Under 30	31-40	41-50	Above 51	Clerical Staff	Non-clerical Staff
2019	19	27	2	12	15	17	39	7
2018	24	31	8	14	15	18	45	10
Change	–21%	–13%	–75%	–14%	–	-6%	–13%	–30%

Working Hours, Promotion, Termination, Compensation and Other Benefits

We value our relationship with employees. In this regards, we closely monitor employees' turnover and understand the reasons behind the departure through exit interview so that we can address employee concerns and implement the right retention measures accordingly. Besides, termination of employees was arranged in accordance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "Employment Ordinance") and other requirements. During the year, there was no dismissal and all employees left the Company voluntarily, totalling 9 employees (2018: 2 employees).

Physical and mental health of our employees is vital to the Company. We adopt a five-day work week for work-life balance. Other benefits include causal Friday, subsidy for related training course, insurance packages, maternity and compensation leave, education and traveling allowance in addition to Mandatory Provident Fund Scheme, sick leave and annual leave. Bonus and salaries increment would be fairly assessed based on a number of criteria (working experience, seniority, contribution to the Company, etc.) within the annual performance appraisal.

We will continue to optimise the annual appraisal, remuneration and welfare procedures, improve the office environment and organise different recreational activities to boost staff satisfaction and nurture their sense of belonging.

Employment and Labour Practices (continued)

Health and Safety

Our operation is mostly carried out in an office setting and no labour intensive work is involved. The occupational health and safety risk is deemed relatively low. That being said, however, one of our core values is to protect and promote the health, safety and well-being of the individual in the working environment. We have been continuously taking care of employees' health and safety as their priority, which creates a comfortable and hassle-free environment.

In terms of daily operations, we put up posters/leaflets in the office area to raise the awareness of office or personal safety, such as proper postures to be maintained and exercise for using computer for long hours. During the reporting period, no case of injury was reported. In case of injuries/incidents occurred, that would be properly recorded and investigated to prevent from future occurrence. We have established Business Continuity Plan (BCP) for macro events such as fire, electrical failure or flood and water damage to specify steps to be taken during these emergencies. We possess insurance policy that is in compliance with the Employment Ordinance and at common law for injuries at work for every employee. The insurance has been extended to cover against loss of or damage to the office contents, business interruption, money, and public liability within the office premises.

Development and Training

We made great efforts in helping employees' personal development and growth. We provide training materials and encourage our directors, senior executives to participate in external professional trainings, which complied with the Code Provision A.6.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

As a professional securities brokerage company that requires extensive knowledge in the securities brokerage area, we provide trainings in the areas including securities trading, securities brokerage, and financial analysis for relevant staff. In addition, updates of regulatory requirements and standards have been made available to them.

For on-board training, the department head would provide handouts and on-board guidance to new joiners as required by the Human Resource Manual. If new director joins, a guidebook as set forth by the Hong Kong Institute of Directors would be distributed. Regularly, materials such as circulars, consultation papers issued by the Stock Exchange would be made available for the staff to circulate and learn more about it. In addition to basic business knowledge job training provided to the staff, many of our employees are members of certifications which require professional trainings to be done annually.

During the year, the percentages of male and female employees received training were 26% (2018: 35%) and 33% (2018: 23%) respectively. On average, the training hours completed by male and female employees were 125 hours (2018: 145 hours) and 125 hours (2018: 180 hours) respectively.

We will continuously encourage and provide various trainings at our availability to meet the expectations and necessities of our employees.

Employment and Labour Practices (continued)

Labour Standards

We value human rights. Child or forced labour is strictly prohibited in accordance with the applicable laws and regulations. We conduct thorough background checks and reference checks during our hiring process to prevent this from happening as stated in the Human Resources Manual. During the year, we have complied with the Employment Ordinance and no person under 18 was employed in respect of child or forced labour. We also support human rights consistent with the Universal Declaration of Human Rights and will consider carefully before trading with, or investing in, countries which are governed by regimes that do not adhere to the Universal Declaration of Human Rights.

Operating Practices

Supply Chain Management

We convey our standards and expectations in respect of environmental issues and labour practices to our suppliers and business partners, with the expectation that they will uphold standards that are similar to our own.

We have established supplier management policy to govern the supplier assessment process. Prior to stepping into contracting stage with our key business partners, we conduct assessment based on a variety of criteria including attitude towards environmental and social issues, to evaluate the quality as well as moral standards of business partners and contractors. Further, management oversees business projects with due care in pursuit of mitigating any issues that contradict with our standards on environmental and social issues.

Product Responsibility

Recalls, complaints received for service and products – We are proud of the high quality services provided to our customers. During the year, we did not receive any complaints on the services we provided.

Intellectual property right – We value our intangible assets as much as our tangibles. We protect our business against intellectual property theft by refusing the use of illegal software or anything without copyright/patents. We support the use of legal and intangible assets with trademarks while protecting ourselves from exposure to cyber security threats.

Quality assurance process – As a responsible service provider of our securities brokerage operation, we strike to maximise our customers' satisfaction. To ensure our quality and services provided and as required by the Securities and Futures Commission (the "SFC") for our securities brokerage services, we keep our voice record over the telephone and the relevant documentation record for a period of 6 months and not less than 7 years, respectively in pursuant to paragraph 3.9 of the Code of Conduct for Persons Licensed by or Registered with the SFC and section 10 of the Securities and Futures (Keeping of Records) Rules. The designated responsible officer would be in charge of overviewing the quality assurance process. For our trading businesses, the merchandises traded are strictly complied with international standards.

Operating Practices (continued)

Product Responsibility (continued)

Confidentiality – Confidentiality is one of our core values. Personal data is always handled diligently and confidentially. According to the code of conduct, employees should not disclose any confidential information obtained through business relationships to third parties without proper and specific authority unless there is a legal or professional right or duty to do so.

Anti-Corruption

Maintaining an ethical working environment is one of our core values and therefore, we adopt a zero-tolerance approach for all kinds of corruption, bribery, extortion cases. We place great emphasis on Anti-Money Laundering ("AML") and Counter-Financing of Terrorism ("CFT") and therefore established an "AML/CFT Policy" in accordance with the guidelines set out by SFC and the Companies Registry to govern the AML/CFT controls system for securities brokerage service and money lending business. All of our staff are well aware of such policy and strictly complied with relevant laws and regulations during the reporting period. No legal cases regarding corruption were charged against the Company or its employees.

Community Investment

Community involvement

We emphasise community involvement and therefore we encourage our employees to actively participate in charitable activities and voluntary services. Our employees actively joined the blood donation events held by Red Cross regularly, and some charity events such as marathon races. We will continuously encourage our employees to participate in more volunteer activities and services in the coming year.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 137, which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses ("ECL") for debt instruments at fair value through other comprehensive income ("FVTOCI")	
We identified ECL for debt instruments at FVTOCI as a key audit matter due to the determination of loss allowances for debt instruments at FVTOCI using the ECL model involves significant estimates and judgements, including determination of whether there is significant increase in credit risk since initial recognition, use of assumptions in determination of probability of default and loss given default, incorporation of forward looking information. As disclosed in Note 22 to the consolidated financial statements, the fair value of debt instruments at FVTOCI are HK$957,361,000 at 31 December 2019 and the impairment allowance of HK$859,000 for the current year. The determination of the loss allowances is dependent on the external macro environment and the credit rating of each debt securities. The management takes into consideration historical data from the international rating agency. The Group had engaged an independent professional valuer to perform ECL assessment.	Our procedures in relation to ECL for debt instruments at FVTOCI on the financial instruments included: • Understanding and assessing the design and implementation of key internal controls of the credit grading process and measurement of loss allowances; • Evaluating methodology and assumptions used by management in determining ECL; • Engaging our internal specialists to review of significant management judgements and assumptions, including (i) the criteria for significant increase in credit risk made by assessing credit rating migration between origination date and reporting date; (ii) reasonableness of probability default, recovery rate and loss given default; and (iii) the use of economic variables and relative weighting for forward-looking scenarios; • Evaluating the disclosures regarding the impairment assessment of debt instruments at FVTOCI in Notes 4 and 37 to the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for ECL and impairment assessment on loan receivables	
We identified the ECL assessment and impairment assessment on loan receivables as a key audit matter due to management judgement was required in making an assessment of the adequacy of the ECL assessment and impairment provision for loan receivables rising from the money lending business. As detailed in Note 23 to the consolidated financial statements, the Group's loan receivables at 31 December 2019 amounted to HK$2,421,150,000. In determining the impairment of loan receivables, the recoverability of the loan receivables was assessed by the management taking into account the credit quality and value of collateral pledged to the Group. ECL for loan receivables are based on management's estimate of the credit loss to be incurred, which is estimated by taking into account of the credit loss experience, ageing of overdue balances, cash flows that are expected from the realisation of collateral, customer's repayment history and financial condition of borrowers.	Our procedures in relation to management's impairment assessment of loan receivables included: • Understanding and evaluating the entity's key controls on how the management estimates the credit loss allowance for loan receivables; • Evaluating management's assessment of the internal credit rating of the loan receivables by reference to past due status, past collection history and financial condition of the borrowers; • Understanding management's basis and judgement in determining credit loss allowance on loan receivables at 31 December 2019, including the identification of credit-impaired loan receivables, estimated loss rates applied to each customer, collaterals pledged to the Group; and • Evaluating the disclosures regarding the impairment assessment of loan receivables in Notes 4 and 37 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Tsang Yiu Chung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 27 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**779,962**	1,477,776
Trading income		**396,108**	1,072,587
Dividend income		**22,491**	17,067
Interest income		**345,393**	370,403
Commission, underwriting fee and other income		**15,970**	17,719
Purchases and related expenses		**(394,137)**	(1,063,835)
Other income	7	**1,130**	776
Other gain	8	**266**	945
Staff costs		**(24,975)**	(31,278)
Impairment losses on loan receivables and debt instruments at fair value through other comprehensive income		**(143,148)**	(384)
Other expenses		**(28,599)**	(32,543)
Net (loss) gain on financial assets at fair value through profit or loss	9	**(436,888)**	619,093
Gain (loss) on disposal of debt instruments at fair value through other comprehensive income		**1,309**	(2,696)
Gain (loss) on redemption of debt instruments at fair value through other comprehensive income		**297**	(93)
Finance costs	10	**(171,095)**	(162,053)
(Loss) profit before tax		**(415,878)**	805,708
Income tax credit (expense)	11	**92,931**	(96,918)
(Loss) profit for the year attributable to owners of the Company	12	**(322,947)**	708,790
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		**(8,899)**	19,174
Net fair value gain (loss) on debt instruments at fair value through other comprehensive income		**56,400**	(145,512)
Release on disposal of debt instruments at fair value through other comprehensive income		**(1,309)**	2,696
Release on redemption of debt instruments at fair value through other comprehensive income		**(297)**	93
Impairment loss on debt instruments at fair value through other comprehensive income		**859**	384
Other comprehensive income (expense) for the year		**46,754**	(123,165)
Total comprehensive (expense) income for the year attributable to owners of the Company		**(276,193)**	585,625
(Loss) earnings per share attributable to owners of the Company			
– Basic	16	**HK(1.90) cents**	HK4.17 cents

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	17	**19,788**	22,994
Right-of-use assets	18	**10,434**	–
Prepaid lease payments	19	**–**	2,471
Goodwill	20	**4,000**	4,000
Club debentures	21	**1,928**	1,928
Debt instruments at fair value through other comprehensive income	22	**949,545**	987,860
Loan receivables	23	**15,826**	31,705
Financial assets at fair value through profit or loss	24	**–**	24,381
Deferred tax assets	32	**8,148**	–
Total non-current assets		**1,009,669**	1,075,339
Current assets			
Inventories	25	**–**	6,108
Prepaid lease payments	19	**–**	99
Debt instruments at fair value through other comprehensive income	22	**7,816**	3,822
Loan receivables	23	**2,405,324**	2,477,681
Trade and other receivables	26	**113,327**	182,910
Income tax recoverable		**3,182**	3,104
Financial assets at fair value through profit or loss	24	**1,454,098**	2,068,030
Pledged bank deposits	27	**32,067**	31,394
Bank balances and cash	27	**169,808**	213,896
Total current assets		**4,185,622**	4,987,044
Current liabilities			
Trade and other payables	28	**78,479**	109,820
Income tax payable		**21,048**	18,743
Borrowings	29	**464,698**	703,271
Notes payable	30	**1,253,171**	–
Lease liabilities	31	**8,106**	–
Total current liabilities		**1,825,502**	831,834
Net current assets		**2,360,120**	4,155,210
Total assets less current liabilities		**3,369,789**	5,230,549

Consolidated Statement of Financial Position

At 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Non-current liabilities			
Notes payable	30	**–**	1,500,325
Deferred tax liabilities	32	**–**	84,242
Total non-current liabilities		**–**	1,584,567
Net assets		**3,369,789**	3,645,982
Capital and reserves			
Share capital	33	**3,012,877**	3,012,877
Reserves		**356,912**	633,105
Total equity		**3,369,789**	3,645,982

The consolidated financial statements on pages 56 to 137 have been approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

Dr. Or Ching Fai	**Sue Ka Lok**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital HK$'000	Investment revaluation reserve HK$'000	(Accumulated losses) retained profits HK$'000	Total HK$'000
At 1 January 2018 (restated)	3,012,877	57,493	(10,013)	3,060,357
Profit for the year	–	–	708,790	708,790
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income	–	19,174	–	19,174
Net fair value loss on debt instruments at fair value through other comprehensive income	–	(145,512)	–	(145,512)
Release on disposal of debt instruments at fair value through other comprehensive income	–	2,696	–	2,696
Release on redemption of debt instruments at fair value through other comprehensive income	–	93	–	93
Impairment loss on debt instruments at fair value through other comprehensive income	–	384	–	384
Total comprehensive (expense) income for the year	–	(123,165)	708,790	585,625
At 31 December 2018	3,012,877	(65,672)	698,777	3,645,982
Loss for the year	**–**	**–**	**(322,947)**	**(322,947)**
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income	**–**	**(8,899)**	**–**	**(8,899)**
Net fair value gain on debt instruments at fair value through other comprehensive income	**–**	**56,400**	**–**	**56,400**
Release on disposal of debt instruments at fair value through other comprehensive income	**–**	**(1,309)**	**–**	**(1,309)**
Release on redemption of debt instruments at fair value through other comprehensive income	**–**	**(297)**	**–**	**(297)**
Impairment loss on debt instruments at fair value through other comprehensive income	**–**	**859**	**–**	**859**
Total comprehensive income (expense) for the year	**–**	**46,754**	**(322,947)**	**(276,193)**
At 31 December 2019	**3,012,877**	**(18,918)**	**375,830**	**3,369,789**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Operating activities			
(Loss) profit for the year		**(322,947)**	708,790
Adjustments for:			
Finance costs		**171,095**	162,053
Bank interest income		**(833)**	(674)
Amortisation of prepaid lease payments	12	**–**	99
Depreciation of property, plant and equipment	12	**3,293**	3,290
Depreciation of right-of-use assets	12	**8,062**	–
Impairment losses on loan receivables and debt instruments at fair value through other comprehensive income		**143,148**	384
(Gain) loss on disposal of debt instruments at fair value through other comprehensive income		**(1,309)**	2,696
(Gain) loss on redemption of debt instruments at fair value through other comprehensive income		**(297)**	93
Net unrealised loss (gain) on financial assets at fair value through profit or loss		**409,214**	(595,709)
Income tax (credit) expense		**(92,931)**	96,918
Operating cash flows before movements in working capital		**316,495**	377,940
Decrease in inventories		**6,108**	533
Increase in trade and other receivables		**(1,017)**	(6,278)
Increase in loan receivables		**(54,053)**	(463,186)
Decrease (increase) in financial assets at fair value through profit or loss		**179,699**	(302,141)
Decrease in trade and other payables		**(30,965)**	(89,394)
Decrease in bank balances – client accounts		**17,377**	58,554
Cash from (used in) operations		**433,644**	(423,972)
Income tax paid		**(6,131)**	(29,379)
Net cash from (used in) operating activities		**427,513**	(453,351)
Investing activities			
Purchase of debt instruments at fair value through other comprehensive income		**(66,667)**	(46,562)
Proceeds from disposal of debt instruments at fair value through other comprehensive income		**149,588**	126,089
Proceeds from redemption of debt instruments at fair value through other comprehensive income		**7,800**	62,400
Proceeds from redemption of convertible securities		**120,000**	–
Interest received		**833**	674
Placement of pledged bank deposits		**(673)**	(573)
Purchase of property, plant and equipment	17	**(87)**	(48)
Net cash from investing activities		**210,794**	141,980

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Financing activities			
New borrowings raised		**329,901**	693,433
Repayments of borrowings		**(568,474)**	(420,918)
Interest paid		**(168,625)**	(146,393)
Repayment of lease liabilities		**(7,820)**	–
Redemption of notes issued	*30*	**(250,000)**	(200,000)
Net proceeds from issue of notes	*30*	**–**	200,000
Net cash (used in) from financing activities		**(665,018)**	126,122
Net decrease in cash and cash equivalents		**(26,711)**	(185,249)
Cash and cash equivalents at the beginning of the year		**162,504**	347,753
Cash and cash equivalents at the end of the year		**135,793**	162,504
Represented by:			
Bank balances and cash			
– General accounts and cash	*27*	**135,793**	162,504

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

China Strategic Holdings Limited is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange. The registered office and principal place of business of the Company is Rooms 3206-3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in HK$, which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 42 to the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 in the current year has had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases"

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

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.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

At 1 January 2019, the Group recognised additional lease liabilities 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.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

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 incremental borrowing rate applied is 3.60% per annum.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed at 31 December 2018	18,930
Lease liabilities discounted at relevant incremental borrowing rates	16,121
Less: Lease with lease term ending 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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

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

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	15,926
Reclassified from prepaid lease payments *(Note)*	2,570
	18,496
By class:	
Land and buildings	18,496

Note: Prepayments for leasehold lands in the PRC for own use properties 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the 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 consolidated statement of financial position

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	HK$'000	*HK$'000*	*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 year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position at 1 January 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance contracts[1]
Amendments to HKFRS 3	Definition of a business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest rate benchmark reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in Note 2)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2)

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.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and building that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

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 assets, 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 are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Right-of-use assets (continued)

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 are 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 consolidated statement of financial position.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in Note 2) (continued)

Lease liabilities (continued)

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building (prior to 1 January 2019)

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using the exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on property, plant and equipment and right-of-use assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment and right-of-use assets other than goodwill (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in revenue.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net (loss) gain on financial assets at fair value through profit or loss" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, pledged bank deposits, bank balances and cash, loan receivables and debt instruments at FVTOCI) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using simplified approach with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations; and
- adverse change in the fair value of the pledged assets on loan receivables.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions or the counterparty can meet the financial commitment.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, borrowings, notes payable and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition/substantial modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL and impairment loss for loan receivables

The Group performed impairment assessment for loan receivables under ECL model on an individual basis. ECL for loan receivables are based on management's estimate of ECL model to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue balances, cash flows that are expected from the realisation of collateral, customers' repayment history and financial condition of borrowers, all of which involve a significant degree of management judgement.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's financial assets are disclosed in Notes 23 and 37 respectively.

At 31 December 2019, the carrying amounts of loan receivables was HK$2,421,150,000 (2018: HK$2,509,386,000) with impairment of HK$142,289,000 recognised during the year (2018: nil).

Provision of ECL for debt instruments at FVTOCI

The Group performed impairment assessment for debt instruments at FVTOCI under ECL model individually. The determination of the loss allowances is dependent on the external macro environment and the credit rating of each debt securities. The management takes into consideration historical data from the international rating agency.

The provision of ECL involves significant estimates and judgements, including determination of whether there is significant increase in credit risk since initial recognition, use of assumptions in determination of probability of default and loss given default, incorporation of forward looking information. The information about the ECL and the Group's financial assets are disclosed in Notes 22 and 37 respectively.

At 31 December 2019, the carrying amounts of debt instruments at FVTOCI was HK$957,361,000 (2018: HK$991,682,000) with impairment of HK$859,000 recognised during the year (2018: HK$384,000).

5. REVENUE

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

	2019 HK$'000	2018 HK$'000
Trading of coke products	388,604	701,680
Trading of metal minerals	–	352,625
Sales of electronic components	7,504	18,282
Dividend income from securities investments	22,491	17,067
Interest income from securities investments	78,173	105,017
Interest income from securities margin financing business	1,912	356
Interest income from money lending business	265,308	265,030
Arrangement fee income from money lending business	8,669	4,339
Commission and handling income from securities brokerage business	6,194	6,567
Underwriting fee income from securities brokerage business	1,107	6,813
	779,962	1,477,776

Disaggregation of revenue from contracts with customers and reconciliation of total revenue:

For the year ended 31 December 2019

Segments	Investment in securities HK$'000	Trading HK$'000	Money lending HK$'000	Securities brokerage HK$'000	Total HK$'000
Types of goods and services					
Commission, underwriting fee and other income	–	–	8,669	7,301	15,970
Trading income					
Coke products	–	388,604	–	–	388,604
Electronic components	–	7,504	–	–	7,504
Revenue from contracts with customers	–	396,108	8,669	7,301	412,078
Dividend income	22,491	–	–	–	22,491
Interest income	78,173	–	265,308	1,912	345,393
Total revenue	100,664	396,108	273,977	9,213	779,962

5. REVENUE (continued)

For the year ended 31 December 2018

Segments	Investment in securities HK$'000	Trading HK$'000	Money lending HK$'000	Securities brokerage HK$'000	Total HK$'000
Types of goods and services					
Commission, underwriting fee and other income	–	–	4,339	13,380	17,719
Trading income					
Iron ore	–	352,625	–	–	352,625
Coke products	–	701,680	–	–	701,680
Electronic components	–	18,282	–	–	18,282
Revenue from contracts with customers	–	1,072,587	4,339	13,380	1,090,306
Dividend income	17,067	–	–	–	17,067
Interest income	105,017	–	265,030	356	370,403
Total revenue	122,084	1,072,587	269,369	13,736	1,477,776

During the years ended 31 December 2019 and 2018, the revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS 15.

The Group recognises revenue from trading of metal minerals, coke products and electronic components. The Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer and it is primarily responsible for fulfilment of the promise to provide the goods. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers. For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days (2018: 30 to 180 days).

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Underwriting fee income is recognised at a point in time when the transactions are executed and services are completed. Other service income are recognised when the related services are rendered.

All the Group's contracts with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations at 31 December 2018 and 31 December 2019 is not disclosed.

This is consistent with the revenue information disclosed for each operating segment.

6. 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 represented by 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 operating segments under HKFRS 8 are as follows:

1. Investment in securities
2. Trading of metal minerals, coke products and electronic components ("Trading")
3. Money lending
4. Securities brokerage

Segment revenue and results

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

For the year ended 31 December 2019

	Investment in securities *HK$'000*	Trading *HK$'000*	Money lending *HK$'000*	Securities brokerage *HK$'000*	Total *HK$'000*
Segment revenue					
External sales/sources	100,664	396,108	273,977	9,213	779,962
Results					
Segment results	(336,341)	2,288	128,293	6,292	(199,468)
Other income					152
Central administrative expenses					(45,467)
Finance costs					(171,095)
Loss before tax					(415,878)
Income tax credit					92,931
Loss for the year					(322,947)
Other segment information					
Net loss on financial assets at FVTPL	436,888	–	–	–	436,888
Gain on disposal of debt instruments at FVTOCI	1,309	–	–	–	1,309
Gain on redemption of debt instruments at FVTOCI	297	–	–	–	297
Impairment loss on loan receivables	–	–	142,289	–	142,289
Impairment loss on debt instruments at FVTOCI	859	–	–	–	859

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For the year ended 31 December 2019

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2018

	Investment in securities *HK$'000*	Trading *HK$'000*	Money lending *HK$'000*	Securities brokerage *HK$'000*	Total *HK$'000*
Segment revenue					
External sales/sources	122,084	1,072,587	269,369	13,736	1,477,776
Results					
Segment results	735,422	8,740	266,829	7,484	1,018,475
Other income					9
Central administrative expenses					(50,723)
Finance costs					(162,053)
Profit before tax					805,708
Income tax expense					(96,918)
Profit for the year					708,790
Other segment information					
Net gain on financial assets at FVTPL	619,093	–	–	–	619,093
Loss on disposal of debt instruments at FVTOCI	2,696	–	–	–	2,696
Loss on redemption of debt instruments at FVTOCI	93	–	–	–	93
Impairment loss on debt instruments at FVTOCI	384	–	–	–	384

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment (loss) profit represents the loss incurred/profit earned by each segment without allocation of certain other income, central administrative expenses (including amortisation of prepaid lease payments, depreciation of property, plant and equipment and right-of-use assets), finance costs and income tax credit (expense).

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2019 HK$'000	2018 HK$'000
Segment assets		
Investment in securities	2,528,601	3,266,738
Trading	43,474	92,574
Money lending	2,435,497	2,520,823
Securities brokerage	124,337	140,862
Total segment assets	5,131,909	6,020,997
Property, plant and equipment	19,788	22,994
Right-of-use assets	10,434	–
Prepaid lease payments	–	2,570
Bank balances and cash	24,211	7,147
Other unallocated assets	8,949	8,675
Consolidated assets	5,195,291	6,062,383
Segment liabilities		
Investment in securities	472,389	797,038
Trading	334	2,390
Money lending	14,394	10,415
Securities brokerage	61,514	87,530
Total segment liabilities	548,631	897,373
Other payables	15,594	18,703
Notes payable	1,253,171	1,500,325
Lease liabilities	8,106	–
Consolidated liabilities	1,825,502	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, notes payable and lease liabilities.

6. SEGMENT INFORMATION (continued)

Geographical information

The Group's operations are located in Hong Kong and the PRC.

Information about the Group's revenue from external customers/sources by geographical location of the customers/sources is presented based on the location of the customers/sources. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers/sources		**Non-current assets** *(Note)*	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**388,470**	647,474	**28,925**	24,000
The PRC	**128,705**	128,622	**3,225**	3,393
Europe	**–**	701,680	**–**	–
Singapore	**262,787**	–	**–**	–
	779,962	1,477,776	**32,150**	27,393

Note: Non-current assets excluded goodwill, debt instruments at FVTOCI, loan receivables, financial assets at FVTPL and deferred tax assets.

Information about major customers

Revenue from customers of trading business contributing over 10% of the total revenue of the Group for the corresponding years are as follows:

	2019	2018
	HK$'000	*HK$'000*
Customer A	**137,066**	–[1]
Customer B	**125,817**	–[1]
Customer C	**125,722**	–[1]
Customer D	**–[1]**	407,873
Customer E	**–[1]**	293,807
Customer F	**–[1]**	231,602

[1] No revenue generated from the customers during the year/prior year.

7. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	833	674
Others	297	102
	1,130	776

8. OTHER GAIN

	2019 HK$'000	2018 HK$'000
Exchange gain, net	266	945

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

	2019 HK$'000	2018 HK$'000
Net unrealised (loss) gain on financial assets at FVTPL	(409,214)	595,709
Net realised (loss) gain on sales of financial assets at FVTPL	(27,674)	23,384
	(436,888)	619,093

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on advances drawn on bill receivables discounted with full recourse	1,290	1,272
Interest on bank borrowings	30,140	24,871
Interest on notes payable *(Note 30)*	139,245	135,910
Interest on lease liabilities *(Note 18)*	420	–
	171,095	162,053

11. INCOME TAX CREDIT (EXPENSE)

	2019	2018
	HK$'000	*HK$'000*
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	**(8,586)**	(28,414)
Overprovision in prior years		
– Hong Kong Profits Tax	**228**	59
	(8,358)	(28,355)
Deferred tax *(Note 32)*	**101,289**	(68,563)
Income tax credit (expense) recognised in profit or loss	**92,931**	(96,918)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

The tax charge for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit before tax	**(415,878)**	805,708
Tax at the domestic income tax rate of 16.5%	**(68,620)**	132,942
Tax effect of expenses not deductible for tax purpose	**1,973**	2,073
Tax effect of income not taxable for tax purpose	**(20,402)**	(44,675)
Overprovision in prior years	**(228)**	(59)
Tax effect of tax loss not recognised	**2,476**	7,641
Income tax at concessionary rate	**(165)**	(165)
Utilisation of tax losses previously not recognised	**(7,965)**	(839)
Income tax (credit) expense for the year	**(92,931)**	96,918

12. (LOSS) PROFIT FOR THE YEAR

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

	2019	2018
	HK$'000	*HK$'000*
Staff costs		
– directors' emoluments *(Note 13)*	**7,457**	11,586
– other staff salaries, wages and other benefits	**16,537**	18,755
– retirement benefit scheme contributions, excluding directors	**981**	937
Total staff costs	**24,975**	31,278
Auditor's remuneration	**1,972**	1,949
Amortisation of prepaid lease payments	**–**	99
Depreciation of property, plant and equipment	**3,293**	3,290
Depreciation of right-of-use assets	**8,062**	–
Cost of inventories recognised as expenses	**373,765**	968,894

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13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2018: seven) directors, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, were as follows:

	2019					2018				
	Fee	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary bonus	Total	Fee	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary bonus	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors										
– Dr. Or Ching Fai *(Note)*	-	-	-	-	-	-	2,700	-	-	2,700
– Mr. Sue Ka Lok	-	2,115	181	-	2,296	-	1,935	147	1,500	3,582
– Ms. Lee Chun Yeung, Catherine	-	1,138	76	-	1,214	-	1,101	72	380	1,553
– Mr. Chow Kam Wah	-	1,229	18	-	1,247	-	1,191	18	380	1,589
	-	4,482	275	-	4,757	-	6,927	237	2,260	9,424
Non-executive director										
– Dr. Or Ching Fai *(Note)*	2,150	-	-	-	2,150	1,612	-	-	-	1,612
Independent non-executive directors										
– Ms. Ma Yin Fan	200	-	-	-	200	200	-	-	-	200
– Mr. Chow Yu Chun, Alexander	200	-	-	-	200	200	-	-	-	200
– Mr. Leung Hoi Ying	150	-	-	-	150	150	-	-	-	150
	550	-	-	-	550	550	-	-	-	550
Total	2,700	4,482	275	-	7,457	2,162	6,927	237	2,260	11,586

Note: Re-designated from an Executive Director to a Non-executive Director on 1 April 2018.

For the year ended 31 December 2018, the payment of discretionary bonus to executive directors was made under the recommendation of the Remuneration Committee and was at the discretion of the Board, determined with reference to the director's performance and the Group's performance for the year.

The emoluments of the executive directors shown above were mainly for their services in connection with the management of the affairs of the Group. The emoluments of the non-executive director and independent non-executive directors shown above were mainly for their services as directors of the Company.

During the year, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments for the both years.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2018: four) of them were executive directors or non-executive director of the Company whose emoluments are included in Note 13 above. The emolument of the remaining one (2018: one) individual was as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries and other benefits	**1,040**	1,040
Retirement benefit scheme contributions	**52**	52
	1,092	1,092

The emolument was within the following band:

	Number of individuals	
	2019	2018
HK$1,000,001 - HK$1,500,000	**1**	1

15. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting periods.

16. (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:

	2019	2018
	HK$'000	*HK$'000*
(Loss) earnings:		
(Loss) profit for the year attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	**(322,947)**	708,790

	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 years ended 31 December 2019 and 2018 are not presented as there were no dilutive potential ordinary shares in issue during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and fixtures HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Total HK$'000
Cost						
At 1 January 2018	2,125	4,271	442	3,258	25,773	35,869
Additions	–	7	41	–	–	48
At 31 December 2018	2,125	4,278	483	3,258	25,773	35,917
Additions	–	63	24	–	–	87
Disposals	–	–	(2)	–	–	(2)
At 31 December 2019	**2,125**	**4,341**	**505**	**3,258**	**25,773**	**36,002**
Accumulated depreciation						
At 1 January 2018	1,135	3,455	177	1,226	3,640	9,633
Provided for the year	68	182	56	407	2,577	3,290
At 31 December 2018	1,203	3,637	233	1,633	6,217	12,923
Provided for the year	68	184	57	407	2,577	3,293
Eliminated on disposals for the year	–	–	(2)	–	–	(2)
At 31 December 2019	**1,271**	**3,821**	**288**	**2,040**	**8,794**	**16,214**
Carrying values						
At 31 December 2019	**854**	**520**	**217**	**1,218**	**16,979**	**19,788**
At 31 December 2018	922	641	250	1,625	19,556	22,994

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease
Furniture and fixtures	5% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%
Vessels	10%

At 31 December 2019 and 2018, the buildings of the Group are situated on land in the PRC.

18. RIGHT-OF-USE ASSETS

	Leased properties *HK$'000*
Carrying amount	
At 31 December 2019	**10,434**
At 1 January 2019	18,496
Depreciation	
Provided for the year	8,062
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	1,939
Total cash outflow for leases	10,179

For both years, the Group leases offices for its operations. Lease contracts are entered into for fixed term of two years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

19. PREPAID LEASE PAYMENTS

	2018 *HK$'000*
Analysed as:	
Current asset	99
Non-current asset	2,471
	2,570

The Group's prepaid lease payments represent payments for land use rights in the PRC. Prepaid lease payments were reclassified to right-of-use assets upon application of HKFRS 16.

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For the year ended 31 December 2019

20. GOODWILL

For the purpose of impairment testing, goodwill is allocated to the securities brokerage business, being one of the Group's cash generating units identified according to segment information.

The recoverable amount of the securities brokerage business was based on its value in use and was determined by the management of the Group. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 11.88% (2018: 12.97%). Cash flows after the five-year period were assumed to have no growth.

The key assumption for the value in use calculation includes profit forecast. Such estimation is based on the historical performance and management's expectation of the development of the Group's securities brokerage business under the current market conditions. No impairment on goodwill was made for the year ended 31 December 2019. Management believes that any reasonably possible change in the assumption would not cause the aggregate carrying amount of the cash generating unit exceeds the aggregate recoverable amount of it.

21. CLUB DEBENTURES

The club debentures represent the club membership of three (2018: three) private clubs in Hong Kong. The directors are of opinion that it is not necessary to make any impairment on the club debentures since the quoted prices are higher than their carrying values.

22. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	*HK$'000*
Listed investments, at fair value:		
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.90% to 12.25% (2018: 3.90% to 10.75%) per annum and maturity dates ranging from 19 July 2020 to 23 January 2027 (2018: 13 February 2019 to 23 January 2027)	**957,361**	991,682
Analysed as:		
Current portion	**7,816**	3,822
Non-current portion	**949,545**	987,860
	957,361	991,682

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

During the year ended 31 December 2019, the Group invested HK$66,667,000 for acquiring debt securities issued by companies listed in Hong Kong and subsequently, divested part of its investments in the amount of HK$148,279,000 with cumulative gain of HK$1,309,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. In addition, debt securities in the amount of HK$7,503,000 was redeemed with cumulative gain of HK$297,000 previously accumulated in the investment revaluation reserve being reclassified to profit or loss accordingly upon redemption.

At 31 December 2019, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

The Group provided impairment allowance of HK$859,000 (2018: HK$384,000) for the current year.

At 31 December 2019, debt securities of HK$914,387,000 (2018: HK$828,005,000) were pledged as security for credit facilities granted to the Group.

All debt instruments at FVTOCI were denominated in US$.

Details of impairment assessment are set out in Note 37.

23. LOAN RECEIVABLES

	2019 HK$'000	2018 HK$'000
Fixed-rate loan receivables	**2,575,239**	2,521,186
Less: impairment allowance	**(154,089)**	(11,800)
	2,421,150	2,509,386
Analysed as:		
Current portion	**2,405,324**	2,477,681
Non-current portion	**15,826**	31,705
	2,421,150	2,509,386
Analysed as:		
Secured	**2,189,142**	2,283,895
Guaranteed	**66,647**	209,537
Unsecured	**165,361**	15,954
	2,421,150	2,509,386

At 31 December 2019, the range of interest rates and maturity dates attributed to the Group's performing loan receivables was 3% to 18% (2018: 3% to 18%) per annum and from 4 March 2020 to 17 May 2021 (2018: 18 January 2019 to 2 May 2021) respectively.

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	2019 HK$'000	2018 HK$'000
Fixed-rate loan receivables:		
Within one year	**2,405,324**	2,477,681
In more than one year but not more than two years	**15,826**	28,409
In more than two years but not more than five years	**–**	3,296
	2,421,150	2,509,386

Details of impairment assessment are set out in Note 37.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	*HK$'000*
Listed investments, at fair value:		
– Equity securities listed in Hong Kong *(Note (i))*	**1,454,098**	2,044,803
Unlisted investments, at fair value:		
– Convertible securities with fixed interest of 10% (2018: 8%) per annum and maturity date at 15 December 2019 (2018: 15 June 2019) *(Note (ii))*	**–**	47,608
	1,454,098	2,092,411
Analysed as:		
Current portion	**1,454,098**	2,068,030
Non-current portion	**–**	24,381
	1,454,098	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 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 referencing to listed bonds with similar rating.

At 31 December 2019, equity securities of HK$1,352,744,000 (2018: HK$1,713,361,000) were pledged as security for credit facility granted to the Group.

25. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Electronic components	**–**	6,108

26. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables of securities brokerage business:		
– Cash clients *(Note (i))*	**8,994**	11,022
– Margin clients *(Note (i))*	**18,571**	21,625
Other receivables *(Note (ii))*	**36,362**	30,263
Convertible securities receivables *(Note (iii))*	**–**	120,000
Note receivable *(Note (iv))*	**49,400**	–
	113,327	182,910

Notes:

(i) At 31 December 2019, trade receivables from contracts with customers amounted to HK$27,565,000 (2018: HK$32,647,000).

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 carrying amounts of HK$27,565,000 (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 31 December 2019, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK$343,979,000 (2018: HK$133,139,000).

26. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(ii) Included in other receivables were unrestricted deposits of HK$9,672,000 (2018: HK$6,157,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represents mainly dividends receivable, prepayment and deposits for office use.

(iii) At 31 December 2018, convertible securities receivables represented the outstanding principal of a convertible bond subscribed by the Group, which was due for repayment before the year end as the Group had not exercised the conversion option. The amount of the convertible securities receivables was fully settled during the year.

(iv) The amount represented the outstanding principal of a convertible note subscribed by the Group, which was originally due for repayment on 15 December 2019. Pursuant to a deed entered into between the relevant parties on 10 February 2020, the conversion rights under the note are removed and ceased to be convertible into shares of the issuer. The repayment date of the outstanding principal of the note of HK$49,400,000 was extended from 15 December 2019 to 15 May 2020 and bearing interest at the rate of 12% per annum. Further details of the note receivable are set out in the Company's announcement dated 10 February 2020.

For the years ended 31 December 2019 and 2018, the Group performed impairment assessment on trade and other receivables and concluded that the probability of defaults of the counterparties were insignificant and accordingly, no impairment was recognised on trade and other receivables at the end of both the reporting periods. Details of impairment assessment are set out in Note 37.

27. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	2019	2018
	HK$'000	*HK$'000*
Bank balances and cash:		
– General accounts and cash *(Note (i))*	**135,793**	162,504
– Client accounts *(Note (ii))*	**34,015**	51,392
	169,808	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% (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 client's monies are maintained in a segregated bank account. The Group has recognised the corresponding account payables to respective clients.

The amounts of the Group's bank balances and cash and pledged bank deposits denominated in currencies other than functional currencies of the Group are set out below:

	2019	2018
	HK$'000	*HK$'000*
RMB	**444**	432
US$	**91,557**	62,153

Pledged bank deposits represented deposits pledged to banks to secure the banking facilities granted to the Group. At 31 December 2019, deposit amounting to HK$28,977,000 (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$3,090,000 (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.

28. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	HK$'000
Trade payables of securities brokerage business:		
– Cash clients	58,823	76,933
– Hong Kong Securities Clearing Company Limited ("HKSCC")	2,540	10,366
Trade payables of trading business	–	2,049
Accrued charges and other payables	4,470	7,450
Interest payables	12,646	13,022
	78,479	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:

	2019	2018
	HK$'000	HK$'000
0 - 180 days	–	2,049

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

29. BORROWINGS

	2019	2018
	HK$'000	*HK$'000*
Short-term secured bank borrowings *(Note (i))*	**228,860**	288,600
Margin financing *(Note (ii))*	**235,838**	414,671
	464,698	703,271

Notes:

(i) The amount carried interest at London Interbank Offered Rate ("LIBOR") 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 margin securities account.

30. NOTES PAYABLE

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

	2019	2018
	HK$'000	*HK$'000*
At the beginning of the year	**1,500,325**	1,492,168
Redemption of notes *(Note (i))*	**(250,000)**	(200,000)
Issue of notes *(Note (ii))*	**–**	200,000
Effective interest charged *(Note 10)*	**139,245**	135,910
Interest paid/payable	**(136,399)**	(127,753)
At the end of the year	**1,253,171**	1,500,325
Analysed as:		
Current portion	**1,253,171**	–
Non-current portion	**–**	1,500,325
	1,253,171	1,500,325

30. NOTES PAYABLE (continued)

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, nominal value of HK$200,000,000 was 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. During the year ended 31 December 2019, part of the remaining notes with nominal value of HK$250,000,000 were redeemed. 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.

31. LEASE LIABILITIES

	2019 ***HK$'000***
Lease liabilities payable:	
Within one year	**8,106**
Amount due for settlement with 12 months shown under current liabilities	**8,106**

32. DEFERRED TAX ASSETS (LIABILITIES)

The movement of deferred tax assets (liabilities) for the year 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	–	–	(34,853)	(34,853)
Credited (charged) to the profit or loss *(Note 11)*	1,947	101,216	(171,726)	(68,563)
Credited to the other comprehensive income	2,588	–	16,586	19,174
At 31 December 2018	4,535	101,216	(189,993)	(84,242)
Credited to the profit or loss *(Note 11)*	3,471	27,868	69,950	101,289
Credited (charged) to the other comprehensive income	142	–	(9,041)	(8,899)
At 31 December 2019	**8,148**	**129,084**	**(129,084)**	**8,148**

At 31 December 2019, the Group had unused tax losses arising in Hong Kong of HK$1,259,249,000 (2018: HK$867,866,000), subject to agreement of the Hong Kong Inland Revenue Department, the unused tax losses are available indefinitely for offset against future profits of the companies in which the losses arose. The unused tax losses of HK$782,327,000 (2018: HK$613,430,000) had been recognised as deferred tax assets and no deferred tax asset had been recognised in respect of the remaining unused tax losses of HK$476,922,000 (2018: HK$254,436,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares *'000*	Share capital *HK$'000*
Issued and fully paid ordinary shares:		
At 1 January 2018, 31 December 2018, 1 January 2019 and **31 December 2019**	**16,987,714**	**3,012,877**

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property, plant and equipment	**1,319**	1,548
Right-of-use assets	**2,469**	–
Prepaid lease payments	**–**	2,471
Investments in subsidiaries	**–**	–
Amounts due from subsidiaries	**1,628,067**	666,086
Club debentures	**475**	475
Total non-current assets	**1,632,330**	670,580
Current assets		
Prepaid lease payments	**–**	99
Amounts due from subsidiaries	**3,039,175**	4,224,318
Income tax recoverable	**3,004**	3,004
Other receivables, deposits and prepayments	**1,300**	1,338
Bank balances and cash	**20,870**	3,871
Total current assets	**3,064,349**	4,232,630
Current liabilities		
Accrued charges and other payables	**15,255**	15,951
Amounts due to subsidiaries	**349,217**	368,812
Notes payable	**1,253,171**	–
Total current liabilities	**1,617,643**	384,763
Net current assets	**1,446,706**	3,847,867
Total assets less current liabilities	**3,079,036**	4,518,447
Non-current liability		
Notes payable	**–**	1,500,325
Net assets	**3,079,036**	3,018,122
Capital and reserves		
Share capital *(Note 33)*	**3,012,877**	3,012,877
Reserves *(Note)*	**66,159**	5,245
Total equity	**3,079,036**	3,018,122

The Company's statement of financial position has been approved and authorised for issue by the Board on 27 March 2020 and is signed on its behalf by:

Dr. Or Ching Fai	**Sue Ka Lok**
Director	*Director*

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note: Movements in the Company's reserves

	(Accumulated losses) retained profits
	HK$'000
At 1 January 2018	(287,280)
Profit for the year and total comprehensive income for the year	292,525
At 31 December 2018	5,245
Profit for the year and total comprehensive income for the year	60,914
At 31 December 2019	**66,159**

35. SHARE-BASED PAYMENT TRANSACTIONS

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 the subsidiaries of the Company. Eligible participants of the Share Option Scheme include any employees (whether full time or part time), executives or officers of the Company or any of the subsidiaries of the Company (including executive and non-executive directors of the Company) and any business consultants, agents, financial or legal advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries of the Company. The offer of a grant of share options may be accepted until the 21st days inclusive of, and from, the date of grant, provided that no such offer shall be open for acceptance after the expiry of the period of ten years commencing on the adoption date of the Share Option Scheme or after the Share Option Scheme has been terminated. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

35. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme (continued)

The subscription price for the shares on the exercise of options under the Share Option Scheme shall be a price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a share (if any). The exercise period of the share options granted is determinable by the Board but in any event, not longer than ten years from the date of grant.

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to the participant under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and the participant's associates abstaining from voting.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") or at the date of the approval of the refreshed Scheme Mandate Limit as the case maybe.

No share options has been granted under the Share Option Scheme since its adoption and up to the date of this annual report. In the annual general meeting of the Company held on 28 June 2016, the shareholders of the Company approved the refreshment of the Scheme Mandate Limit (the "Scheme Mandate Limit Refreshment Approval"). The total number of shares of the Company available for issue under the Share Option Scheme is 1,698,771,383 shares, representing 10% of the issued shares of the Company at the date of the Scheme Mandate Limit Refreshment Approval and the issued shares of the Company at the date of this annual report.

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debts, which include the borrowings as disclosed in Note 29, notes payable as disclosed in Note 30, lease liabilities as disclosed in Note 31 and equity attributable to owners of the Company, comprising issued share capital and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including the borrowings and notes payable. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, raising or repayment of borrowings.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

Statement of financial position

	2019	2018
	HK$'000	*HK$'000*
Financial assets		
Amortised cost	**2,732,330**	2,933,654
Debt instruments at FVTOCI	**957,361**	991,682
Financial assets at FVTPL	**1,454,098**	2,092,411
Financial liabilities		
Amortised cost	**1,791,878**	2,305,967

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, pledged bank deposits, bank balances and cash, debt instruments at FVTOCI, financial assets at FVTPL, trade and other payables, borrowings and notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk management

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate risk exposure if the need arises.

The Group is exposed to fair value interest rate risk in relation to debt securities classified as debt instruments at FVTOCI, loan receivables, financial assets at FVTPL, notes payable and lease liabilities as set out in Notes 22, 23, 24, 30 and 31 respectively.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings (as set out in Notes 27 and 29 respectively). It is the policy of the Group to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group does not have any significant exposure to the risk of changes in market interest rates in relation to bank balances.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Interest rate risk management (continued)

The exposures of the Group to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of LIBOR arising from bank borrowings and Hong Kong prime rate arising from margin financing.

Total interest income from financial assets that are measured at amortised cost, at FVTOCI or FVTPL is as follows:

	2019	2018
	HK$'000	*HK$'000*
Interest revenue		
Financial assets at amortised cost	**267,220**	265,386
Financial assets at FVTOCI	**73,345**	100,981
Financial assets at FVTPL	**4,828**	4,036
Other income		
Financial assets at amortised cost	**833**	674
	346,226	371,077

Interest expense on financial liabilities that are measured at amortised cost:

	2019	2018
	HK$'000	*HK$'000*
Financial liabilities at amortised cost	**171,095**	162,053

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Interest rate risk management (continued)*

Sensitivity analysis for interest rate risk

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings and margin financing at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, loss after tax for the year ended 31 December 2019 of the Group would increase/decrease by HK$1,940,000 (2018: profit after tax would decrease/increase by HK$2,936,000) as a result of changes in interest rate of the borrowings.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent interest rate risk facing by the Group as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Price risk management

The Group's price risk is mainly concentrated on equity instruments. At 31 December 2019, the Group has concentration of price risk in relation to financial assets at FVTPL, amounting to HK$1,038,072,000 (2018: HK$1,376,080,000), being the Group's investment in one company. The investee company 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. This investment accounted for approximately 71% (2018: 66%) of the Group's financial assets at FVTPL at 31 December 2019. The Group also invested in different categories of companies including banking, conglomerate and property. In addition, the Group also exposed to listed debt investments issued by issuers listed on the Stock Exchange which respectively operating in aircraft leasing, banking or property sector. The management manages this exposure by closely monitoring the portfolio of those financial instruments. In addition, the Group will consider hedging the risk exposure should the need arise.

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 20% (2018: 10%) in the current year.

If the prices of the respective listed debt, equity securities and unlisted convertible securities had been 20% (2018: 10%) higher/lower:

- loss after tax for the year ended 31 December 2019 would decrease/increase by HK$242,834,000 and nil (2018: profit after tax would increase/decrease by HK$170,741,000 and HK$3,975,000) as a result of the changes in fair values of listed equity securities and unlisted convertible securities included in financial assets at FVTPL respectively; and

- total comprehensive expense for the year ended 31 December 2019 would decrease/increase by HK$159,879,000 (2018: total comprehensive income would increase/decrease by HK$82,806,000) as a result of the changes in fair values of listed debt instruments at FVTOCI.

The overall decrease of the Group's sensitivity to equity price risk during the year was mainly due to the decrease in the investment in listed equity securities and unlisted convertible securities.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Foreign currency risk management

Most of the Group's transactions are denominated in the group entities' functional currency, which is either US$ or HK$.

The Group is mainly exposed to foreign currency risk in relation to US$ arising from foreign currency bank balances and cash and debt instruments at FVTOCI.

The carrying amounts of the major foreign currency denominated monetary assets at the reporting date are as follows:

	Assets	
	2019	2018
	HK$'000	*HK$'000*
US$	**1,048,918**	1,053,835

Under the pegged exchange rate system, the financial impact on the exchange difference between HK$ and US$ will be immaterial as most of the US$ denominated monetary assets are held by the group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared.

The Group has not formulated a policy to hedge the foreign currency risk. No sensitivity analysis is prepared since the management considers the amount involved is not significant.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to loan receivables of money lending business which are mitigated by the security over properties, equity securities and/or debt securities pledged to the Group. The maximum exposure to credit risk without taking into account of collateral held or other credit enhancement is represented by their carrying amounts. The Group also held significant amounts of debt instruments at FVTOCI which is also exposed to credit risk.

Except for loans receivables, the Group does not hold any collateral or other credit enhancements to cover the credit risks associated with other financial assets. Other than debt instruments at FVTOCI which is described below, the carrying amounts of the financial assets best represent their maximum exposure to credit risk.

Loan receivables

At 31 December 2019, the carrying amount of loan receivables, which were granted to both corporate entities and individuals, was HK$2,421,150,000 (2018: HK$2,509,386,000). The Group had concentration of credit risk as 46% (2018: 50%) of the total loan receivables at 31 December 2019 was due from six (2018: six) borrowers. Before granting these loans, the Group conducted internal credit assessment process to assess the potential borrower's credit quality. The Group seeks to maintain strict control over its outstanding loan receivables on an individual basis to minimise credit risk. The management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. The policy includes evaluation of collectability and aging analysis of the loan receivables based on management's judgement on creditworthiness, collateral, past collection history of each individual and corporate borrower.

A majority of loan receivables are secured with collaterals and the borrowers of the Group's unsecured loans mainly comprise listed corporate entities or individuals with a good reputation. The unsecured loan granted is supported by the borrower's creditworthiness. In addition, the Group may require an unsecured loan be covered by a third party guarantee, depending on the borrower's credit status and the credit risk perceived by the management.

Each borrower is assigned a risk grading under internal credit ratings to calculate the ECL, taking into consideration of the estimates of expected cash shortfalls which are driven by estimates of possibility of default and the cash inflow that are expected from foreclosure on the collaterals (if any) less the costs of selling the collaterals. In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument as at the reporting date with the date of initial recognition.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Loan receivables (continued)

In determining the recoverability of the loan receivables, the Group will consider the change in the credit quality of the loan receivables, if any, from the date the loans were initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as past due information or default in payments, and the market value of the collaterals pledged to the Group.

At 31 December 2019, the carrying amount of loan receivables amounting to HK$2,189,142,000 (2018: HK$2,283,895,000) are secured by collaterals such as properties, listed equity and debt securities. These collaterals are taken into account when determining the loss given default, and the loss rate for loan receivables. There has been no significant change in the quality of the collaterals held for the loan receivables during the year.

During the current year, loan receivables with a gross carrying amount of HK$1,216,073,000 are determined to be credit-impaired because they are overdue for more than 90 days. Out of these amounts, HK$1,094,822,000 was secured by securities and properties with a fair value of approximately HK$1,429,966,000 at 31 December 2019, and ECL of HK$31,207,000 has been provided after considering the adjustment to loss given default based on the expected realisation of the collaterals. The remaining amount of loan receivables of HK$121,251,000 is not secured by any collateral or credit enhancement and has been fully impaired accordingly. The Group closely monitors the credit quality of the loans. Before extending the loans to borrowers, the management of the Group reviews and assesses each borrower individually based on the evaluation of collectability and aging analysis of the loan account and on management's judgement, including the current creditworthiness and the past collection statistics of each borrower, the realisation value of securities or collaterals from the borrower and the guarantor. The Group considers various actions for recovery of the credit-impaired loan including regular collateral revisions and interviews with the borrower to update the credit risk of the borrower. In the event of default, the Group might take possession of assets held as collateral through court proceeding or voluntary delivery of possession by the borrower. The credit quality review process enables the Group to assess the potential loss as a result of the risk to which it is exposed and take appropriate corrective actions.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Debt instruments at FVTOCI

During the year ended 31 December 2019, the Group's debt instrument at FVTOCI portfolio comprising debt instruments issued by issuers listed on the Stock Exchange which respectively operating in the aircraft leasing, banking or property sector. The Group's debt instruments at FVTOCI mainly comprise instruments that have a low risk of default as the counterparties have a strong capacity to repay having taken into account the debt instruments are of investment grade and/or the issuers have good credit history and repayment records.

The Group assesses the financial strengths and performance of the issuers in satisfying the repayment of principal and interest of the debt instruments as they fall due. The Group also closely monitors the changes in the credit ratings of the issuers and follows their market news for taking immediate actions if there is an indication of a deterioration of the repayment ability of the issuers.

The Group determines individually whether the issuers of the debt instruments have been suffered from significant increase in credit risk since initial recognition by comparing the credit rating and other qualitative benchmarks that affect the credit quality of the issuers at initial recognition and at the end of the reporting period. As the issuers are engaging in businesses that are stable or growing and there are no downgrading in the credit rating of the debt instruments, the credit loss allowances on individual debt instrument are measured on 12m ECL basis as the credit risk on financial instruments have not increased significantly since initial recognition.

The Group had engaged an independent professional valuer to perform ECL assessment on the debt instruments by taking into consideration the historical data from an international rating agency. The Company's management works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model. In making that evaluation, the Group assesses the ECL for debt instruments at FVTOCI by reference to the credit rating of the debt instruments announced by the recognised rating agency (i.e. Moody's), the macroeconomic factors affecting each issuer, and the probability of default and loss given default of each debt instrument. The Group also takes into account forward-looking information that is reasonably and supportably available to the Group without undue cost or effort, including information such as GDP growth rate and unemployment rate.

During the year ended 31 December 2019, the ECL on debt instruments at FVTOCI amounting to HK$859,000 (2018: HK$384,000) was recognised in profit or loss.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables

The Group has trade receivable arising from securities brokerage business. It is the Group's policy that all margin clients are subject to credit assessment procedures. The trade receivables of margin clients are secured by marketable securities pledged with fair values higher than the amounts of advance to the margin clients by certain pre-determined ratios. The advance to customers under margin financing are regularly reviewed by the management to determine the impairment allowances which involves an evaluation of collectability based on management's judgement, including the current creditworthiness of margin client, the past collection statistics of individual margin account and the collaterals held by the Group. The management first determines whether there is a significant increase in credit risk of the margin account since initial recognition based on a review of the credit quality of the margin client, the collateral to margin ratio, the margin shortfall (if any) and marketable securities pledged that are specific to the margin client. This information is also used to determine the ECL. Since there is no significant increase in credit risk since initial recognition, the Group recognises 12m ECL for trade receivables of margin clients and the amount is insignificant.

The Group considers the credit risk for trade receivables from cash clients and securities clearing house is negligible, no loss allowance was recognised. The normal settlement terms are two days after trade date.

Pledged bank deposits and bank balances

Credit risk on pledged bank deposits and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies, and the probability of default of the counterparty banks is insignificant, accordingly, no allowance for credit losses is provided as the amount of ECL is immaterial.

Other receivables

For other receivables, the management makes periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management has reviewed the latest financial position of the issuer of the notes receivables and considered there is no significant increase in credit risk since initial recognition and the Group performed impairment assessment based on 12m ECL. The amount involved is insignificant.

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For the year ended 31 December 2019

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Financial assets other than trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts and history of default.	Lifetime ECL - not credit-impaired	12m ECL
Medium risk	Overdue within 30 days or more than 30 days with reasonable and supportable information that demonstrates otherwise. Debtor frequently settle after due dates.	Lifetime ECL - not credit-impaired	12m ECL
High risk	Overdue more than 30 days but within 90 days without any reasonable and supportable information that demonstrates otherwise. There have been significant increases in credit risk since initial recognition through information developed internally or externally.	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	Overdue more than 90 days.	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount 2019 HK$'000	Gross carrying amount 2018 HK$'000
Debt instruments at FVTOCI						
Investments in listed bonds*	22	B3 to B1	N/A	12m ECL	**613,254**	592,085
		A2	N/A	12m ECL	**83,061**	149,088
		N/A	*(Note (i))*	12m ECL	**261,046**	250,509
Financial assets at amortised cost						
Loans receivables *(Note (ii))*	23	N/A	Low risk	12m ECL	**1,152,049**	1,835,648
		N/A	Medium risk	12m ECL	**114,058**	685,538
		N/A	High risk	Lifetime ECL (not credit-impaired)	**93,059**	–
		N/A	Loss	Lifetime ECL (credit-impaired)	**1,216,073**	–
Other receivables	26	N/A	Low risk	12m ECL	**85,762**	150,263
Trade receivables	26	N/A	*(Note (iii))*	Lifetime ECL	**27,565**	32,647
Pledged bank deposits *(Note (iv))*	27	A+ to AA- (2018: A to AA-)	N/A	12m ECL	**32,067**	31,394
Bank balances and cash *(Note (iv))*	27	BBB	N/A	12m ECL	**255**	234
		A- to AA+ (2018: A- to AA-)	N/A	12m ECL	**169,553**	213,662

* For the purpose of ECL assessment, the Group considers the gross principal amount and the related contractual interests of the debt instruments. At 31 December 2019, the gross amount of these debts instruments amounted to HK$1,023,392,000 (2018: HK$1,112,606,000).

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Debt instruments at FVTOCI are listed bonds with credit loss allowance measured on 12m ECL basis as the credit risk on debt instruments have not increased significantly since initial recognition. The Group assessed the ECL for debt instruments at FVTOCI by reference to exposures at default, recovery rate and adjustments for forward looking information. For debt instruments with no public ratings, the Group has referred to the implied effective interest rate and credit spread to assign the rating ranging from B1 to Ba2 (2018: B2 to Ba2).

(ii) As part of the Group's credit risk management, the Group applies internal credit rating for its borrowers. The ECL rates are estimated based on the credit rating, past and current default record and current past due exposure of the borrower.

(iii) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance on lifetime ECL basis. The Group considers the credit risk for trade receivables from cash clients and securities clearing house is negligible, no loss allowance was recognised. The normal settlement terms are two days after trade date.

(iv) The credit rating is chosen at the lowest of the ratings granted by Standard & Poor's.

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following table shows reconciliation of loss allowances that have been recognised for debt instruments at FVTOCI and loan receivables.

	Debt instruments at FVTOCI	Loan receivables			
	12m ECL *HK$'000*	12m ECL *HK$'000*	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
At 1 January 2018 (restated)	15,298	11,800	–	–	27,098
Changes due to financial instruments recognised at 1 January 2018:					
– Impairment losses recognised	1,303	–	–	–	1,303
– Impairment losses reversed	(1,773)	–	–	–	(1,773)
New financial assets originated or purchased	854	–	–	–	854
At 31 December 2018 and 1 January 2019	15,682	11,800	–	–	27,482
Changes due to financial instruments recognised at 1 January 2019:					
– Impairment losses recognised	812	531	562	149,835	151,740
– Impairment losses reversed	(1,624)	(8,699)	–	–	(10,323)
– Transfer to lifetime ECL	–	(2,973)	350	2,623	–
New financial assets originated or purchased	1,671	60	–	–	1,731
At 31 December 2019	**16,541**	**719**	**912**	**152,458**	**170,630**

During the current year, the increase in loss allowance is mainly contributed by the loan receivables with gross carrying amounts totalling HK$1,216,073,000, that have become credit-impaired for which lifetime ECL have been provided. The increase in loss allowance is to reflect the credit-impaired status during the current year. Other than this, there is no significant changes to estimation techniques and assumptions made during the year.

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37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk

For the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following tables show details of the non-derivative financial liabilities of the Group. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate in effect at the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 to 3 months HK$'000	3 months to 1 year HK$'000	1 to 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2019							
Non-derivative financial liabilities							
Trade and other payables	**–**	**74,009**	**–**	**–**	**–**	**74,009**	**74,009**
Borrowings	**4.8**	**466,585**	**–**	**–**	**–**	**466,585**	**464,698**
Notes payable	**9.7**	**–**	**10,076**	**1,364,958**	**–**	**1,375,034**	**1,253,171**
		540,594	**10,076**	**1,364,958**	**–**	**1,915,628**	**1,791,878**
Lease liabilities	**3.6**	**687**	**1,373**	**6,180**	**–**	**8,240**	**8,106**
		541,281	**11,449**	**1,371,138**	**–**	**1,923,868**	**1,799,984**
At 31 December 2018							
Non-derivative financial liabilities							
Trade and other payables	–	102,371	–	–	–	102,371	102,371
Borrowings	5.1	706,329	–	–	–	706,329	703,271
Notes payable	9.7	–	9,578	132,922	1,650,037	1,792,537	1,500,325
		808,700	9,578	132,922	1,650,037	2,601,237	2,305,967

37. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity tables (continued)

The cash flow of variable interest rate instruments is based on the rate outstanding at the end of the reporting period.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those interest rates in effect determined at the end of the reporting period.

c. 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 for financial reporting purposes. The Board has delegated the valuation work to the management to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of a financial asset or liability, the Group uses market-observable data to the extent they are available. Where market-observable data are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Board regularly to explain the cause of fluctuations in the fair value of financial assets.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. 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).

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37. FINANCIAL INSTRUMENTS (continued)

c. 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 31 December 2019 HK$'000	Fair value at 31 December 2018 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
i) Financial assets at FVTPL					
Listed equity securities	**1,454,098**	2,044,803	Level 1	Quoted bid prices in an active market	N/A
Unlisted convertible securities	**-**	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 referencing to listed bonds with similar rating	*Note*
ii) Debt instruments at FVTOCI					
Listed debt securities	**957,361**	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$24,000 and HK$54,000 respectively during the year ended 31 December 2018.

37. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

Fair value hierarchy

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
At 31 December 2019				
Financial assets at FVTPL				
Listed equity securities	**1,454,098**	**–**	**–**	**1,454,098**
Debt instruments at FVTOCI				
Listed debt securities	**957,361**	**–**	**–**	**957,361**
At 31 December 2018				
Financial assets at FVTPL				
Listed equity securities	2,044,803	–	–	2,044,803
Unlisted convertible securities	–	–	47,608	47,608
Debt instruments at FVTOCI				
Listed debt securities	991,682	–	–	991,682

There was no transfer between Level 1, 2 and 3 for the year ended 31 December 2018. The unlisted convertible securities under financial assets at FVTPL were matured on 15 December 2019 and transferred out of level 3 during the year ended 31 December 2019. Details are set out in Notes 24 and 26.

d. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

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38. OPERATING LEASES

The Group as lessee

The Group made HK$10,300,000 minimum lease payments under operating leases during the year ended 31 December 2018 mainly in respect of its office premises.

At 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *HK$'000*
Within one year	9,569
In the second to fifth years inclusive	9,361
	18,930

Operating lease payments mainly represented rentals payable by the Group for its office premises. Leases are negotiated for a term of two years and rentals are fixed for an average of two years during the year ended 31 December 2018.

39. PLEDGE OF ASSETS

At 31 December 2019, as disclosed in Notes 22, 24 and 29, debt securities of HK$914,387,000 (2018: HK$828,005,000) and equity securities of HK$1,352,744,000 (2018: HK$1,713,361,000) were pledged for borrowings by way of floating charge respectively.

In addition, as disclosed in Note 27, 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$32,067,000 (2018: HK$31,394,000) in aggregate.

40. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors who are also identified as members of key management during both years were as follows:

	2019 HK$'000	2018 HK$'000
Short-term benefits	7,182	11,349
Post-employment benefits	275	237
	7,457	11,586

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

41. RETIREMENT BENEFIT SCHEME

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The total costs charged to the statement of profit or loss and other comprehensive income of HK$1,256,000 (2018: HK$1,174,000) represent contributions payable to this scheme by the Group.

Notes to the Consolidated Financial Statements

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42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2019 and 2018 are as follows:

Name	Place of incorporation/ registration and operation	Class of shares held	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company 31 December 2019 Direct %	31 December 2019 Indirect %	31 December 2018 Direct %	31 December 2018 Indirect %	Principal activities
China Strategic Management Limited	Hong Kong ("HK")	Ordinary	HK$1	-	**100**	-	100	Provision of management service
China Strategic Metal and Minerals Limited	HK	Ordinary	HK$1	-	**100**	-	100	Trading of metal minerals and coke products
CS Credit Limited	HK	Ordinary	HK$1	-	**100**	-	100	Money lending
CS Wealth Securities Limited	HK	Ordinary	HK$40,000,000	-	**100**	-	100	Securities brokerage
Guide Plus Investments Limited	HK	Ordinary	HK$1	-	**100**	-	100	Investment in securities
Max Talent Investments Limited	HK	Ordinary	HK$1	-	**100**	-	100	Sales of electronic components
Prospect Vantage Holdings Limited	British Virgin Islands ("BVI")	Ordinary	US$1	-	**100**	-	100	Investment in securities
Rich Crown Investments Limited	HK	Ordinary	HK$439,506,046	-	**100**	-	100	Investment in securities
U Credit (HK) Limited	HK	Ordinary	HK$1	-	**100**	-	100	Money lending

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the Group's assets and liabilities. To give details of other subsidiaries would results in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities and places of these subsidiaries are summarised as follows:

Principal activities of business	Principal place of business	Number of subsidiaries 2019	2018
Investment holding	BVI	**11**	11
Inactive	BVI	**2**	2
Inactive	HK	**4**	4
		17	17

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Notes payable	Interest payable	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2018	430,756	1,492,168	5,519	–	1,928,443
Financing cash flows	272,515	(127,753)	(18,640)	–	126,122
Interest expenses	–	135,910	26,143	–	162,053
At 31 December 2018	703,271	1,500,325	13,022	–	2,216,618
Adjusted upon application of HKFRS 16 *(Note 2.1)*	–	–	–	15,926	15,926
At 1 January 2019	703,271	1,500,325	13,022	15,926	2,232,544
Financing cash flows	(238,573)	(386,399)	(31,806)	(8,240)	(665,018)
Interest expenses	–	139,245	31,430	420	171,095
At 31 December 2019	**464,698**	**1,253,171**	**12,646**	**8,106**	**1,738,621**

44. EVENTS AFTER THE END OF THE REPORTING PERIOD

The outbreak of the COVID-19 pandemic that is affecting many nations, the global and local investment markets and the international trade flow has potential adverse impact on the Group's operations. The directors of the Company considered it is difficult to predict the evolution and duration of the pandemic and that at the reporting date, the extent of its impact to the Group cannot be reliably quantified or estimated. The management will continue to closely monitor the situation and will take all necessary and appropriate measures to reduce the impact of the pandemic to the Group.

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**779,962**	1,477,776	1,337,246	270,706	239,466
(Loss) profit before tax	**(415,878)**	805,708	178,185	(518,140)	692,895
Income tax credit (expense)	**92,931**	(96,918)	(51,992)	81,270	(108,539)
(Loss) profit for the year	**(322,947)**	708,790	126,193	(436,870)	584,356
Attributable to:					
Owners of the Company	**(322,947)**	708,790	126,193	(436,870)	584,148
Non-controlling interests	**–**	–	–	–	208
	(322,947)	708,790	126,193	(436,870)	584,356

ASSETS AND LIABILITIES

	At 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**5,195,291**	6,062,383	5,240,895	4,563,197	3,593,751
Total liabilities	**(1,825,502)**	(2,416,401)	(2,168,738)	(1,641,970)	(222,751)
Equity attributable to the owners of the Company	**3,369,789**	3,645,982	3,072,157	2,921,227	3,371,000