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CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	<i>Notes</i>	Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	604,991	1,126,865
Trading income		392,379	939,082
Dividend income		11,781	5,696
Interest income		189,423	173,246
Commission, underwriting fee and others		11,408	8,841
Purchases and related expenses		(390,440)	(932,251)
Other income	5	753	339
Other gain	6	161	393
Staff costs		(11,024)	(14,550)
Other expenses		(13,903)	(16,318)
Net (loss) gain on financial assets at fair value through profit or loss	7	(304,339)	405,588

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Gain (loss) on disposal of debt instruments at fair value through other comprehensive income		1,182	(566)
Gain (loss) on redemption of debt instruments at fair value through other comprehensive income		109	(93)
Impairment losses under expected credit loss model, net of reversal	10	(15,362)	(1,700)
Finance costs	8	(90,917)	(74,277)
(Loss) profit before tax		(218,789)	493,430
Income tax credit (expense)	9	79,287	(56,231)
(Loss) profit for the period attributable to owners of the Company	10	(139,502)	437,199
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		(9,193)	–
Net fair value gain (loss) on debt instruments at fair value through other comprehensive income		57,897	(116,059)
Impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	891	–
Release on disposal of debt instruments at fair value through other comprehensive income		(1,182)	566
Release on redemption of debt instruments at fair value through other comprehensive income		(109)	93
Other comprehensive income (expense) for the period		48,304	(115,400)
Total comprehensive (expense) income for the period attributable to owners of the Company		(91,198)	321,799
(Loss) earnings per share attributable to owners of the Company			
– Basic	12	HK(0.82) cent	HK2.57 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		At 30 June 2019 <i>HK\$'000</i> (Unaudited)	At 31 December 2018 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		21,370	22,994
Right-of-use assets		14,465	–
Prepaid lease payments		–	2,471
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Debt instruments at fair value through other comprehensive income	13	934,071	987,860
Loan receivables	14	316,105	31,705
Financial assets at fair value through profit or loss	15	41,828	24,381
Deferred tax assets		4,335	–
		1,338,102	1,075,339
Total non-current assets			
Current assets			
Inventories		–	6,108
Prepaid lease payments		–	99
Debt instruments at fair value through other comprehensive income	13	3,910	3,822
Loan receivables	14	2,407,247	2,477,681
Trade and other receivables	16	216,623	182,910
Income tax recoverable		3,004	3,104
Financial assets at fair value through profit or loss	15	1,743,084	2,068,030
Pledged bank deposits		31,760	31,394
Bank balances and cash		160,216	213,896
		4,565,844	4,987,044
Total current assets			
Current liabilities			
Trade and other payables	17	88,969	109,820
Income tax payable		30,463	18,743
Borrowings	18	714,349	703,271
Lease liabilities		7,962	–
		841,743	831,834
Total current liabilities			

		At 30 June 2019 <i>HK\$'000</i> (Unaudited)	At 31 December 2018 <i>HK\$'000</i> (Audited)
Net current assets		<u>3,724,101</u>	<u>4,155,210</u>
Total assets less current liabilities		<u>5,062,203</u>	<u>5,230,549</u>
Non-current liabilities			
Notes payable	19	1,502,141	1,500,325
Lease liabilities		4,089	–
Deferred tax liabilities		<u>1,189</u>	<u>84,242</u>
Total non-current liabilities		<u>1,507,419</u>	<u>1,584,567</u>
Net assets		<u><u>3,554,784</u></u>	<u><u>3,645,982</u></u>
Capital and reserves			
Share capital		3,012,877	3,012,877
Reserves		<u>541,907</u>	<u>633,105</u>
Total equity		<u><u>3,554,784</u></u>	<u><u>3,645,982</u></u>

Notes:

1. Basis of preparation

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

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

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

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

2. Principal accounting policies

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

Application of new and amendments to HKFRSs and interpretation

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

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

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

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

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

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

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

Definition of a lease

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

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

As a lessee

Allocation of consideration to components of a contract

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

Right-of-use assets

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

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying 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 in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Leasehold land and building

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

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

Lease modifications

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

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

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

Taxation

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

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

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

Definition of a lease

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

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

As a lessee

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

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

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

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

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

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

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

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

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

Note: Upfront payments for leasehold lands in the People's Republic of China 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.

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

Impact on the condensed consolidated statement of financial position

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

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

3. Revenue

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

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

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

4. Segment information

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

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

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

Segment revenue and results

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

	Investment in securities <i>HK\$'000</i> (Unaudited)	Trading <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Securities brokerage <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 30 June 2019					
Segment Revenue					
External sales/sources	<u>50,367</u>	<u>392,379</u>	<u>156,357</u>	<u>5,888</u>	<u>604,991</u>
Results					
Segment results	<u>(253,713)</u>	<u>2,255</u>	<u>140,475</u>	<u>4,457</u>	<u>(106,526)</u>
Other income					150
Central administrative expenses					(21,496)
Finance costs					<u>(90,917)</u>
Loss before tax					(218,789)
Income tax credit					<u>79,287</u>
Loss for the period					<u>(139,502)</u>
Six months ended 30 June 2018					
Segment Revenue					
External sales/sources	<u>57,700</u>	<u>939,082</u>	<u>123,833</u>	<u>6,250</u>	<u>1,126,865</u>
Results					
Segment results	<u>461,400</u>	<u>6,810</u>	<u>121,214</u>	<u>3,109</u>	592,533
Other income					9
Central administrative expenses					(24,835)
Finance costs					<u>(74,277)</u>
Profit before tax					493,430
Income tax expense					<u>(56,231)</u>
Profit for the period					<u>437,199</u>

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

Segment assets and liabilities

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

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

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

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

5. Other income

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

6. Other gain

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

7. Net (loss) gain on financial assets at fair value through profit or loss

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net unrealised (loss) gain on financial assets at fair value through profit or loss ("FVTPL")	(298,834)	396,984
Net realised (loss) gain on sales of financial assets at FVTPL	(5,505)	8,604
	<u>(304,339)</u>	<u>405,588</u>

8. Finance costs

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	954	1,211
Interest on bank borrowings	4,711	5,490
Interest on securities margin financing	12,526	4,094
Interest on notes payable (<i>Note 19</i>)	72,481	63,482
Imputed interest on lease liabilities	245	–
	<u>90,917</u>	<u>74,277</u>

9. Income tax credit (expense)

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

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

10. (Loss) profit for the period

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

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

11. Dividend

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

12. (Loss) earnings per share

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

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

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

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

13. Debt instruments at fair value through other comprehensive income

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

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

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

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

14. Loan receivables

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

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

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

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

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

15. Financial assets at fair value through profit or loss

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

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 value of the unlisted convertible securities was determined based on the binomial option pricing model with some key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by reference to listed bonds with similar rating.

16. Trade and other receivables

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

Notes:

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

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

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables have been assessed based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. At 30 June 2019, the trade receivables balances were within the credit period of 180 days, the directors of the Company considered that the lifetime ECL allowance is insignificant at 30 June 2019.

- (ii) The amounts represent bill receivables discounted to bank with full recourse with a maturity period of less than 180 days (31 December 2018: nil). The Group recognises the full amount of the discounted proceeds as liabilities as set out in Note 18.

The following was the Group's financial assets at 30 June 2019 (31 December 2018: nil) that was transferred to bank by discounting the receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (Note 18). These financial assets are carried at amortised cost in the Group's condensed consolidated statement of financial position.

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

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

17. Trade and other payables

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

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

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

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

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

18. Borrowings

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

Notes:

- (i) The amount carried interest at London Interbank Offered Rate plus certain basis points per annum and was repayable within one year. The loan agreement of the secured bank borrowings contains a repayment on demand clause. The borrowings were secured by certain debt securities.
- (ii) The amount carried interest at Hong Kong prime rate plus certain basis points per annum and secured by certain debt and equity securities held in a securities margin account.
- (iii) The amount represented the Group's borrowings secured by the bill receivables discounted to bank with full recourse (Note 16), and the amount was repayable within one year.

19. Notes payable

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

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

Notes:

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

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

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

INTERIM DIVIDEND

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

BUSINESS REVIEW

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

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

Investment in Securities

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

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

Financial assets at FVTPL

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

The net loss on financial assets at FVTPL recognised was mainly due to the net decrease in fair value of the Group's listed equity securities portfolio primarily owing to the volatile conditions of the Hong Kong stock market during the interim period. Such net decrease in fair value of the Group's listed equity securities portfolio mainly comprised the decrease in fair value of the Group's investment in listed shares of Evergrande Health Industry Group Limited, ("Evergrande Health", HKEX Stock code: 708) which amounted to HK\$245,824,000 in the current interim period, in contrast to the increase in fair value of HK\$528,776,000 recognised in the corresponding period last year. Nevertheless, as the Group has started to invest in Evergrande Health since March 2015, despite the unrealised fair value loss recognised in the current period, up to 30 June 2019, the accumulative holding gain of this investment amounted to HK\$910,944,000 (as shown in the table below about the Group's top five investments). Evergrande Health is principally engaged in healthcare business in the People's Republic of China (the "PRC") as well as the technology research and development, production and sales of new energy vehicles in the PRC and other countries. According to its latest published interim financial information, its healthcare business generated a revenue of Renminbi 2.4 billion in the first half of 2019 and it has completed the layout of the new energy vehicle industry chain, and aims to become a major and powerful new energy vehicle group in the world. Although Evergrande Health recorded a loss for its interim results owing to the development of the new energy vehicle business, which is in its early investment stage and resulted in an increase in research and development and other related cost and interest payments, the Group is optimistic about the prospect of Evergrande Health in the medium to long term, subject to market conditions, the Group has no intention to realise this investment at present.

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

Category of companies	Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL portfolio %
Banking	9.94
Conglomerate	11.37
Healthcare	63.32
Infrastructure	8.11
Property	5.92
Others	1.34
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100.00
	<hr style="width: 100%; border: 1.5px solid black;"/>

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

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

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

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

Debt instruments at FVTOCI

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

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

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

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

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

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

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

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

Trading

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

Money Lending

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

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

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

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

Securities Brokerage

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

Overall Results

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2019, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and securities brokers, funds raised through issuance of interest bearing notes and shareholders' funds. At the period end, the Group had current assets of HK\$4,565,844,000 (31 December 2018: HK\$4,987,044,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$1,865,191,000 (31 December 2018: HK\$2,230,534,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$841,743,000 (31 December 2018: HK\$831,834,000), was at a ratio of about 5.4 (31 December 2018: 6.0). At 30 June 2019, the Group's trade and other receivables amounted to HK\$216,623,000 (31 December 2018: HK\$182,910,000) which mainly comprised bill receivables arising from the Group's trading activities, trade receivables from margin clients of the securities

brokerage business, interest receivables from the Group's securities investments and unrestricted deposits placed with securities brokers in relation to securities investment activities. The Group had deferred tax assets amounting to HK\$4,335,000 (31 December 2018: nil) that was mainly related to the impairment allowance provided against the loan receivables. In addition, the Group had deferred tax liabilities of HK\$1,189,000 (31 December 2018: HK\$84,242,000) related to the net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses at the period end.

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

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

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

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

PROSPECTS

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

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

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

CORPORATE GOVERNANCE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2019 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. The report on review of interim financial information by the auditor will be included in the 2019 Interim Report to be despatched to the shareholders of the Company.

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

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

By Order of the Board
China Strategic Holdings Limited
Dr. Or Ching Fai
Chairman

Hong Kong, 23 August 2019

At the date of this announcement, the Board comprises one Non-executive Director, namely Dr. Or Ching Fai (Chairman), three Executive Directors, namely Mr. Sue Ka Lok (Chief Executive Officer), Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah; and three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying.