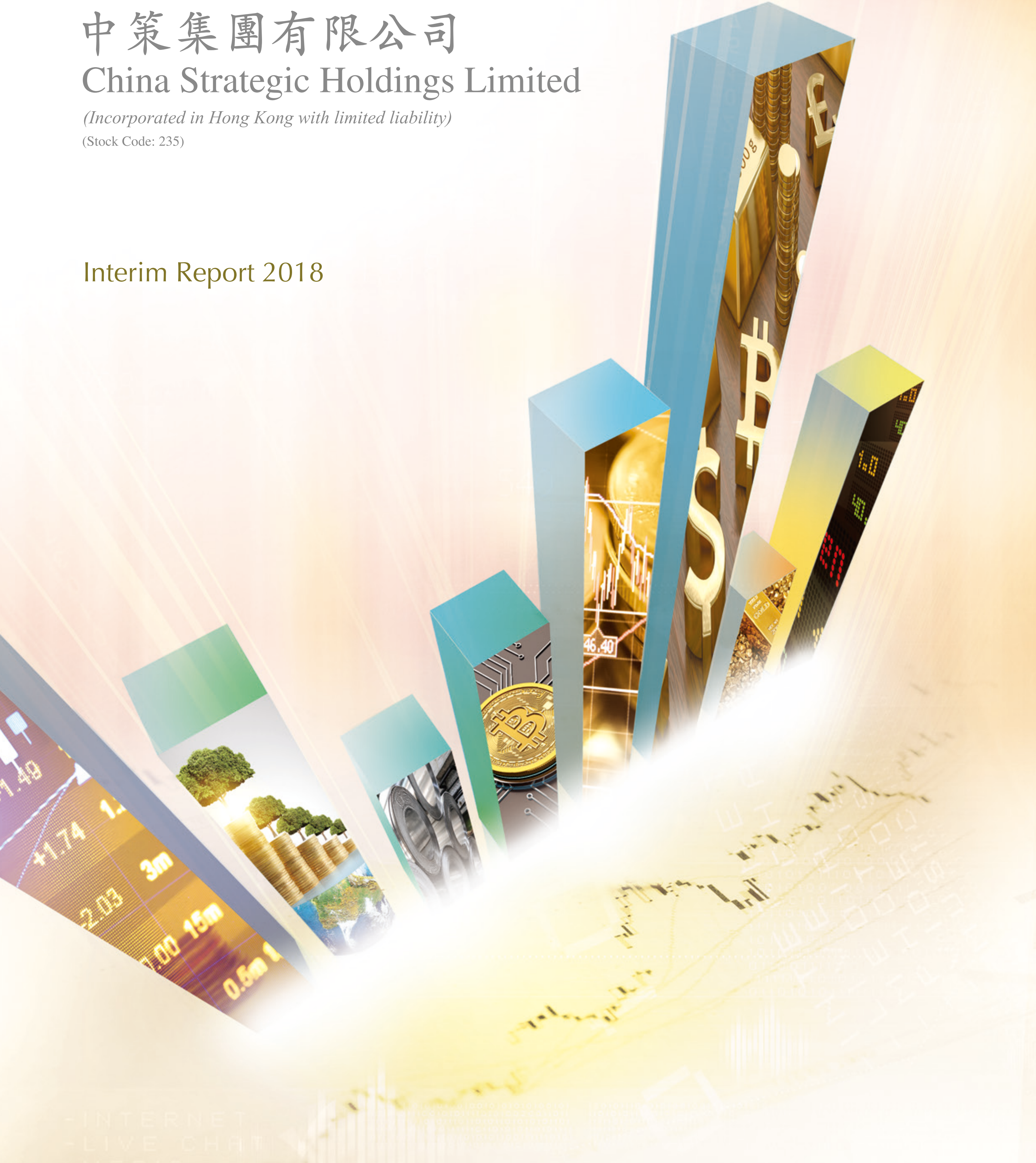
中策集團有限公司

China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

Interim Report 2018



Contents

Abbreviations

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

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

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

Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Dr. Or Ching Fai *(Chairman)*

Executive Directors

Mr. Sue Ka Lok *(Chief Executive Officer)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

Independent Non-executive Directors

Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

AUDIT COMMITTEE

Ms. Ma Yin Fan *(Chairlady)*
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

REMUNERATION COMMITTEE

Mr. Chow Yu Chun, Alexander *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

NOMINATION COMMITTEE

Dr. Or Ching Fai *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

EXECUTIVE COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

COMPANY SECRETARY

Ms. Leung Siu King

REGISTERED OFFICE

Rooms 3206-3210, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
BNP Paribas Hong Kong Branch

LEGAL ADVISERS

Reed Smith Richards Butler
ONC Lawyers

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

TRADING OF SHARES

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

WEBSITE

http://www.cshldgs.com

Management Discussion and Outlook

BUSINESS REVIEW

For the six months ended 30 June 2018, the Group continued to principally engage in the business of investment in securities, trading of metal minerals, metal, coke products and electronic components, money lending as well as securities brokerage.

For the period under review, the Group's revenue increased significantly by 105% to HK$1,126,865,000 (30 June 2017: HK$549,617,000) that was largely due to the increase in sales of the trading operation as well as the increase in interest income generated by the money lending business and from securities investments.

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 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 form of trading gains.

At 30 June 2018, the Group's investment in securities operation held (i) a financial asset at fair value through profit or loss ("FVTPL") portfolio (constituted by non-current and current portions), comprising equity securities listed in Hong Kong and unlisted convertible securities, valued at HK$2,040,224,000 (31 December 2017: HK$1,314,561,000, including equity securities of HK$44,259,000 previously recognised as available-for-sale ("AFS") investments); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio, comprising listed debt securities in Hong Kong or overseas, valued at HK$1,089,586,000 (31 December 2017: HK$1,279,121,000, representing debt instruments previously recognised as AFS investments). As a whole, the operation recorded a revenue of HK$57,700,000 (30 June 2017: HK$33,296,000) and a profit of HK$461,400,000 (30 June 2017: loss of HK$105,014,000).

Management Discussion and Outlook

Financial assets at FVTPL

At 30 June 2018, the Group held a financial asset at FVTPL portfolio amounting to HK$2,040,224,000 measured at market/fair value. During the review period, the portfolio generated a revenue of HK$7,656,000 (30 June 2017: HK$8,355,000, including dividend income of HK$1,817,000 previously recognised as dividend income from AFS investments) representing dividends from equity securities of HK$5,696,000 (30 June 2017: HK$5,879,000, including dividend income of HK$1,817,000 previously recognised as dividend income from AFS investments) and interest income from convertible and debt securities of HK$1,960,000 (30 June 2017: HK$2,476,000). The Group recognised a 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 (30 June 2017: net loss on financial assets at FVTPL of HK$151,117,000, which comprised net unrealised loss and net realised loss of HK$61,953,000 and HK$89,164,000 respectively). The net gain on financial assets at FVTPL was mainly due to the net increase in fair value of the Group's listed equity securities portfolio and the net realised gain on disposal of listed equity securities during the current period. Such net increase in fair value of the Group's listed equity securities portfolio was mainly contributed by the increase in fair value of the Group's investment in listed shares of Evergrande Health Industry Group Limited, in which the Group has started to invest since March 2015, amounting to HK$528,776,000 during the current interim period.

At 30 June 2018, 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$2,040,224,000 are as below:

Category of companies	**Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio** **%**
Banking	16.42
Conglomerate	20.15
Healthcare	44.94
Infrastructure	8.10
Jewelry, pharmaceutical and health food products retailing	2.00
Property	5.13
Others	3.26
	100.00

Management Discussion and Outlook

At 30 June 2018, 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$2,040,224,000 (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 %	% of shareholding interest %	Acquisition costs HK$'000	*Acquisition costs during the period/ carrying amount as at 1 January 2018 HK$'000	Market/fair value as at 30 June 2018 HK$'000	Accumulated unrealised gain (loss) recognised up to 30 June 2018 HK$'000	Unrealised gain (loss) recognised during the period ended 30 June 2018 HK$'000
			A	B	C	D = C - A	E = C - B
Equity securities							
Evergrande Health Industry Group Limited (stock code: 708)	44.94	1.45	99,533	388,104	916,880	817,347	528,776
Bank of Zhengzhou Co., Ltd. (stock code: 6196)	14.09	4.92#	291,232	291,232	287,499	(3,733)	(3,733)
The Cross-Harbour (Holdings) Limited (stock code: 32)	8.10	3.39	77,377	162,888	165,161	87,784	2,273
Get Nice Holdings Limited (stock code: 64)	4.12	3.10	78,000	90,000	84,000	6,000	(6,000)
Convertible securities							
Huajun International Group Limited (formerly known as Huajun Holdings Limited) (stock code: 377)	8.73	N/A	175,000	174,418	178,152	3,152	3,734
Others	20.02	N/A	763,076	536,598	408,532	(354,544)	(128,066)
	100.00		1,484,218	1,643,240	2,040,224	556,006	396,984

* The amount represented the costs of the securities acquired during the six months ended 30 June 2018 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. (stock code: 6196) in issue as at 30 June 2018.

Management Discussion and Outlook

The tables below set out the (i) unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects; and the (ii) realised gain on financial assets at FVTPL disposed of during the six months ended 30 June 2018. The Group is committed to closely monitor the financial performance of its financial asset at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, internal assessments on prospects of individual securities and publicly available information of investee companies.

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects

Industry	Abbreviation of investee company	#Principal activities of investee company	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest %	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
Equity securities listed in Hong Kong									
Banking	**A+**	Banking business	291,232	4.92	287,499	14.09	(3,733)	For the six months ended 30 June 2018, interest income, as its major source of revenue, increased by 4% to RMB8,920,749,000 and profit for the period increased by 2% to RMB2,382,765,000 as compared to the same period in 2017.	The investee company will pay extra attention to high quality development and uphold the performance without makeshifts and overstatements through optimised structure, refined management and strict risk control.
	B	Banking business	44,259	0.46	34,177	1.67	(10,082)	For the six months ended 30 June 2018, interest income, as its major source of revenue, increased by 14% to RMB21,078,133,000 while profit for the period decreased by 19% to RMB2,838,059,000 as compared to the same period in 2017.	The investee company will adopt a business strategy of "strengthening its internal business management and establishing its external market image" and focus on enhancing capability to optimise business model, so as to strengthen its market competitiveness and establish sustainable business development capacities.
	Others	–	14,679	N/A	13,504	0.66	(1,175)	–	–
			350,170		**335,180**	**16.42**	**(14,990)**		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest %	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
Conglomerate	**C**	Trading of securities, industrial water supply, property development, investment and trading	50,904	4.89	26,712	1.31	(24,192)	For the year ended 31 March 2018, revenue increased by over 12 times to HK$1,150,672,000 while its results experienced a turnaround and recorded a loss for the year of HK$497,835,000 as compared to 2017.	The investee company will continue to look for lucrative investment opportunities with its prudent approach to solidify and activate new business opportunities in China.
	D+	Broking and securities margin financing, money lending, corporate finance and investments	90,000	3.10	84,000	4.12	(6,000)	For the year ended 31 March 2018, revenue increased by 14% to HK$584,840,000 while profit for the year decreased by 10% to HK$373,000,000 as compared to 2017.	The investee company expands its securities margin financing and broking business, develops its underwriting and placing service and will keep seeking quality and upscale investment properties and investment in securities to enhance its investment portfolio which continues to provide a source of steady rental income and investment gains.
	E	Manufacture and trading of optical frames and sunglasses, property investment, debts and securities investment, money lending and film right and movie distribution	39,585	4.85	34,684	1.70	(4,901)	For the year ended 31 March 2018, revenue decreased by 18% to HK$111,790,000 and its results experienced a turnaround and recorded a loss for the year of HK$17,057,000 as compared to 2017.	After investing in the film distribution business, the investee company will continue to identify and explore other investments and business opportunities to broaden its asset and revenue base as well as to enhance its value to shareholders.

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest *%*	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio *%*	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
	F	Property development and investment, and securities investment	24,500	0.29	22,750	1.12	(1,750)	For the six months ended 30 June 2018, revenue increased by 103% to HK$1,831,940,000 and loss for the period decreased by 56% to HK$94,924,000 as compared to the same period in 2017.	The investee company is open-minded to proactively identify development and acquisition for its core business as well as other sectors in the PRC and overseas market, which brings potential growth.
	Others	–	79,044	N/A	64,721	3.17	(14,323)	–	–
			284,033		**232,867**	**11.42**	**(51,166)**		
Healthcare	G+	Provision of services on publication and sales of magazines, digital business services and provision of medical cosmetology, anti-aging and other health services	388,104	1.45	916,880	44.94	528,776	For the six months ended 30 June 2018, revenue from continuing operations increased by 180% to RMB1,141,456,000 and profit for the period from continuing operations increased by 204% to RMB200,295,000 as compared to the same period in 2017.	Apart from continuously developing its healthcare business, the investee company acquires world-leading new energy automotive technology and products with the aim of gaining the opportunity to obtain a strong competiveness in the fast-growing new energy automotive industry, capture market share and diversify its businesses.
			388,104		**916,880**	**44.94**	**528,776**		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest %	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Infrastructure	H+	Operation of motoring schools, tunnels and an electronic toll collection system, and investment	162,888	3.39	165,161	8.10	2,273	For the six months ended 30 June 2018, revenue increased by 22% to HK$253,292,000 while its result experienced a turnaround and recorded a loss for the period of HK$104,147,000 as compared to the same period in 2017.	Reported increase in revenue for the six months ended 30 June 2018 and offered stable dividend payout. The investee company will continue with its existing principal businesses.
			162,888		**165,161**	**8.10**	**2,273**		
Jewelry, pharmaceutical and health food products retailing	I	Design and retailing of jewerly products and sale of Chinese pharmaceutical products, dried seafood, health products & foodstuffs in Hong Kong, Macau and the PRC	78,400	4.42	40,800	2.00	(37,600)	For the six months ended 30 June 2018, revenue decreased by 8% to HK$191,236,000 and loss for the period increased by 16% to HK$41,066,000 as compared to the same period in 2017.	The investee company remains cautiously optimistic in the luxury jewelry market in the long-run and will explore opportunities to broaden the geographic base of customers to markets outside Hong Kong and Singapore. It will review the sales network and introduce more locally made products for its pharmaceutical business.
			78,400		**40,800**	**2.00**	**(37,600)**		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest *%*	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio *%*	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
Property	J	Property investments, property development and hospitality	86,203	0.89	75,016	3.68	(11,187)	For the year ended 31 March 2018, revenue decreased by 23% to HK$3,148,894,000 and profit for the year decreased by 2% to HK$3,622,038,000 as compared to 2017.	The investee company adopts a pro-active approach to establishing an investment property portfolio by optimising the balance between retail and non-retail premises. In addition, the investee company continues to source quality and upscale investment properties with good potential to enhance its investment property portfolio and lay a solid foundation for expanding recurrent rental income in the long-run.
	Others	–	37,666	N/A	29,615	1.45	(8,051)	–	–
			123,869		**104,631**	**5.13**	**(19,238)**		
Others	-	–	31,024	N/A	18,378	0.90	(12,646)	–	–
			31,024		**18,378**	**0.90**	**(12,646)**		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2018 for the financial assets at FVTPL held by the Group as at 30 June 2018 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	% of shareholding interest %	Market/ fair value as at 30 June 2018 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the period ended 30 June 2018 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Unlisted convertible securities									
Conglomerate	K+	Printing, trading and logistics, property development and investments, solar photovoltaic and financial services	174,418	N/A	178,152	8.73	3,734	For the year ended 31 March 2018, revenue increased by 18% to RMB3,921,601,000 while its results experienced a turnaround and recorded a loss for the year of RMB928,455,000 as compared to 2017.	The investee company will continue its strategy to strengthen its foundation, better diversify its business portfolio, and to continue to grow, both organically and through strategic acquisitions.
Others	L	Wind farms development and operation, wind power generation, finance leasing and security trading	50,334	N/A	48,175	2.36	(2,159)	For the six months ended 30 June 2018, revenue increased by 6% to RMB207,445,000 and profit for the period increased by 45% to RMB44,140,000 as compared to the same period in 2017.	The investee company will speed up the development of its energy business by way of cooperative development and acquisitions; and continue to identify and acquire mature power plants with promising developing prospects in order to strengthen its existing wind farm operation and other energy business opportunities in the PRC and abroad.
			224,752		**226,327**	**11.09**	**1,575**		
			1,643,240		**2,040,224**	**100.00**	**396,984**		

+ In the table above, investee company A, D, G, H and K stands for Bank of Zhengzhou Co., Ltd. (stock code: 6196), Get Nice Holdings Limited (stock code: 64), Evergrande Health Industry Group Limited (stock code: 708), The Cross-Harbour (Holdings) Limited (stock code: 32) and Huajun International Group Limited (formerly known as Huajun Holdings Limited) (stock code: 377) respectively.

Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the six months ended 30 June 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Management Discussion and Outlook

(ii) Realised gain on financial assets at FVTPL disposed of during the six months ended 30 June 2018

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/carrying amount as at 1 January 2018 HK$'000	Sale proceeds of financial assets at FVTPL sold during the period ended 30 June 2018 HK$'000	Realised gain recognsied during the period ended 30 June 2018 HK$'000
Equity securities listed in Hong Kong					
Banking	**A**	Banking business	46,800	52,320	5,520
			46,800	**52,320**	**5,520**
Others	**–**	–	6,367	9,451	3,084
			6,367	**9,451**	**3,084**
			53,167	**61,771**	**8,604**

Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the six months ended 30 June 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Management Discussion and Outlook

Debt instruments at FVTOCI (debt instruments previously recognised as AFS investments)

At 30 June 2018, the Group's debt instrument at FVTOCI portfolio of HK$1,089,586,000 was measured at market/fair value. During the period under review, the Group's debt instrument at FVTOCI portfolio generated a revenue amounting to HK$50,044,000 (30 June 2017: HK$24,941,000) representing interest income from debt securities.

During the period under review, the Group invested approximately HK$39,058,000 for acquiring debt securities issued by a property company listed on the Stock Exchange.

At the period end, a net fair value loss on the debt instrument at FVTOCI portfolio amounting to HK$116,059,000 was recognised as other comprehensive expense (30 June 2017: gain of HK$10,947,000). Such net fair value loss on debt investments held by the Group was mainly a result of the general increase in market interest rates during the current interim period, which caused the market value of debt securities held by the Group to drop.

During the period under review, the Group disposed of debt securities amounting to HK$50,134,000 and debt securities of HK$62,400,000 were redeemed by an issuer. A loss on disposal and on redemption totalling HK$659,000 was released from the Group's investment revaluation reserve and reclassified as loss in the current period (30 June 2017: gain of HK$8,957,000).

Management Discussion and Outlook

At 30 June 2018, 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 instrument at FVTOCI portfolio of HK$1,089,586,000 (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$'000*	* Acquisition costs during the period/ carrying amount as at 1 January 2018 *HK$'000*	Market/fair value as at 30 June 2018 *HK$'000*	Accumulated fair value gain (loss) recognised up to 30 June 2018 *HK$'000*	Fair value gain (loss) recognised during the period ended 30 June 2018 *HK$'000*
			A	B	C	D = C - A	E = C - B
Debt securities listed in Hong Kong or overseas							
Aircraft leasing	12.13	5.09	148,348	144,692	132,193	(16,155)	(12,499)
Banking	13.97	3.73 - 3.91	156,999	161,312	152,264	(4,735)	(9,048)
Property	73.90	4.68 - 9.50	857,444	897,302	805,129	(52,315)	(92,173)
	100.00		1,162,791	1,203,306	1,089,586	(73,205)	(113,720)

* The amount represented the costs of the securities acquired during the six months ended 30 June 2018 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 ranged from 3.73% to 9.50% 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 period under review, the Group's trading operation continued to focusing on trading of metal minerals, metal, coke products and electronic components. The operation recorded a remarkable growth in revenue by over 115% to HK$939,082,000 (30 June 2017: HK$435,522,000), and an increase in profit of over 55% to HK$6,810,000 (30 June 2017: HK$4,384,000) compared to the previous period. The increases in revenue and profit of the operation were principally due to the increase in volume of metal minerals and coke products transacted during the current period, which was in turn resulting from the improvement of sentiments and positive outlook of commodity markets in general, as well as the management's successful efforts in expanding the business scope of the operation.

Management Discussion and Outlook

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 significant growth in revenue of 65% to HK$123,833,000 (30 June 2017: HK$75,079,000), and an increase in profit of 63% to HK$121,214,000 (30 June 2017: HK$74,171,000) as compared to the previous period. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the current period and the management's effort in enlarging the operation's clientele base. During the period under review, there was no default in repayments from borrowers, nevertheless, an impairment allowance of HK$13,500,000 (including the impairment allowance of HK$11,800,000 recognised and restated at 1 January 2018 as detailed in Note 2.2.2), as a general provision, was recognised against loan receivables. The loan portfolio held by the Group amounting to HK$2,321,133,000 (after impairment allowance) at the period end (31 December 2017: HK$2,058,000,000) 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	40.58	9.50 - 15.00	Within one year
Individual	3.19	10.125 - 11.125	Over one year but within 3 years
Corporate	55.68	10.00 - 18.00	Within one year
Corporate	0.55	3.00 - 8.125	Over one year but within 3 years
	100.00		

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

Management Discussion and Outlook

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, which is licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the period under review, the securities brokerage business achieved an increase in revenue of 9% to HK$6,250,000 (30 June 2017: HK$5,720,000) while its profit decreased by 27% to HK$3,109,000 (30 June 2017: HK$4,254,000). The increase in revenue recorded by the operation is largely due to the management's effort in promoting its business and expanded its business scope to participation of corporate share placing and underwriting exercises, whilst the decline in its profit was mainly a result of additional headcounts and increase in certain administrative expenses of the operation.

Overall Results

For the six months ended 30 June 2018, the Group recorded profit attributable to owners of the Company of HK$437,199,000 (30 June 2017: loss attributable to owners of the Company of HK$113,520,000) and basic earnings per share of HK2.57 cents (30 June 2017: loss per share of HK0.67 cent). The Group also recorded total comprehensive income attributable to owners of the Company of HK$321,799,000 (30 June 2017: total comprehensive expense attributable to owners of the Company of HK$111,530,000). The profitable results recorded by the Group were mainly due to the profit recognised by the Group's securities investment operation of HK$461,400,000 (30 June 2017: loss of HK$105,014,000) coupled with the increases in profit generated by the Group's money lending and trading businesses for the six months ended 30 June 2018 amounting to HK$121,214,000 (30 June 2017: HK$74,171,000) and HK$6,810,000 (30 June 2017: HK$4,384,000) respectively.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2018, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, funds raised through issuance of interest bearing notes and shareholders' funds. At the period end, the Group had current assets of HK$4,697,385,000 (31 December 2017: HK$3,934,227,000) 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$2,247,190,000 (31 December 2017: HK$1,618,055,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$2,479,568,000 (31 December 2017: HK$2,133,885,000), was at a ratio of about 1.9 (31 December 2017: 1.8). At 30 June 2018, the Group's trade and other receivables amounted to HK$41,049,000 (31 December 2017: HK$56,632,000) which mainly comprised trade receivables from cash clients of the securities brokerage business and interest receivables from the Group's securities investments. The Group also had deferred tax liabilities amounting to HK$79,350,000 (31 December 2017: HK$34,853,000) that was related to the net unrealised gain on financial assets at FVTPL and debt instruments at FVTOCI valued at market/fair value and unutilised tax losses at the period end.

Management Discussion and Outlook

At 30 June 2018, the equity attributable to owners of the Company amounted to HK$3,382,156,000 (31 December 2017: HK$3,072,157,000) and was equivalent to an attributable amount of approximately HK19.91 cents (31 December 2017: HK18.08 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK$309,999,000 was mainly a result of the profit and gains recognised by the Group during the interim period.

At 30 June 2018, the Group's borrowings comprised bank borrowings and margin financing raised mainly for acquiring debt securities and equity securities. The borrowings bore interests at floating rates, secured by certain debt securities and equity securities and were repayable within one year or on demand. In December 2016, the Company issued 2-year notes with aggregate principal amount of HK$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. The Group's gearing ratio, calculated on the basis of total liabilities of HK$2,558,918,000 (31 December 2017: HK$2,168,738,000) divided by the equity attributable to owners of the Company of HK$3,382,156,000 (31 December 2017: HK$3,072,157,000), was of about 76% (31 December 2017: 71%). The increase in the Group's gearing ratio was mainly due to the new margin financing raised for acquiring equity securities. The increase in the Group's finance costs to HK$74,277,000 (30 June 2017: HK$65,499,000) was primarily a result of the new borrowings raised during the period.

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

Foreign Currency Management

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

Contingent Liability

At 30 June 2018, the Group had no significant contingent liability (31 December 2017: nil).

Management Discussion and Outlook

Pledge of Assets

At 30 June 2018, debt securities of HK$625,410,000 (31 December 2017: HK$744,281,000) and equity securities of HK$13,504,000 (31 December 2017: HK$19,349,000) were pledged for short-term secured bank borrowings.

Debt securities of HK$366,518,000 (31 December 2017: nil) and equity securities of HK$1,439,520,000 (31 December 2017: nil) were pledged for margin financing.

In addition, the Group's credit facilities for issuance of letters of credit and settlement of the securities brokerage activities were secured by the Group's bank deposits of HK$31,078,000 (31 December 2017: HK$30,821,000) in aggregate.

Capital Commitment

At 30 June 2018, the Group had no significant capital commitment (31 December 2017: nil).

HUMAN RESOURCES AND REMUNERATION POLICY

At 30 June 2018, the Group had 56 (30 June 2017: 46) employees including directors and staff costs (including directors' emoluments) for the current period amounted to HK$14,550,000 (30 June 2017: HK$13,755,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, training subsidy, discretionary bonus and participation in the Company's share option scheme.

Management Discussion and Outlook

PROSPECTS

There have been indications showing recovery in business confidence and investor sentiments in major economies, including China and the United States, and increase in international trade flows including commodities, since the second half of 2017. The market uncertainties linked with the geopolitical risks in Korean peninsula, the pace of interest rate increase in the United States, and the instabilities in the European economy arising from the Brexit negotiations have also been reduced. However, the trade wars between the United States and China and with other countries/ economic group in recent months have added new uncertainties and variables to outlook of world economy and global financial markets. Though there was substantial investment gain recorded by the Group for the six months ended 30 June 2018, the volatile Hong Kong stock market in the past months has led the management to continue its cautious and disciplined approach in managing the Group's securities portfolio. The Group's money lending business has continued to deliver very encouraging results for the current period. It is the management's intention to continue developing this business under prudent credit management with the aim that it will continue to contribute a stable and favorable income stream to the Group in future years. The Group's trading business has also shown solid progress during the period and the management will continue its effort to explore new trade opportunities to further enhance the financial performance of the operation. The securities brokerage business has been creating synergy benefits with the Group's securities investment and money lending businesses and the Group will continue to devote financial resources in developing this business. Looking ahead, the Group will continue its business strategy of building an asset portfolio with good balance of recurring income streams and growth opportunities, to adopt measures to enhance operational efficiencies and financial performance of the Group, and to seize business opportunities with attractive returns aiming to create value to our shareholders.

Report on Review of Interim Financial Information

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 55, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue	3	**1,126,865**	549,617
Trading income		**939,082**	435,522
Dividend income		**5,696**	5,879
Interest income		**173,246**	98,147
Commission, underwriting fee and other income		**8,841**	10,069
Purchases and related expenses		**(932,251)**	(431,486)
Other income	5	**339**	7,562
Other gain	6	**393**	590
Staff costs		**(14,550)**	(13,755)
Other expenses		**(18,018)**	(14,951)
Net gain (loss) on financial assets at fair value through profit or loss	7	**405,588**	(151,117)
Loss on disposal of debt instruments at fair value through other comprehensive income		**(566)**	–
Loss on redemption of debt instruments at fair value through other comprehensive income		**(93)**	–
Gain on disposal of available-for-sale investments		**–**	1,157
Gain on redemption of available-for-sale investments		**–**	7,800
Finance costs	8	**(74,277)**	(65,499)
Profit (loss) before tax		**493,430**	(110,082)
Income tax expense	9	**(56,231)**	(3,438)
Profit (loss) for the period attributable to owners of the Company	10	**437,199**	(113,520)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Net fair value loss on debt instruments at fair value through other comprehensive income		**(116,059)**	–
Released on disposal of debt instruments at fair value through other comprehensive income		**566**	–
Released on redemption of debt instruments at fair value through other comprehensive income		**93**	–
Net fair value gain on available-for-sale investments		**–**	10,947
Released on disposal of available-for-sale investments		**–**	(1,157)
Released on redemption of available-for-sale investments		**–**	(7,800)
Other comprehensive (expense) income for the period		**(115,400)**	1,990
Total comprehensive income (expense) for the period attributable to owners of the Company		**321,799**	(111,530)
Earnings (loss) per share attributable to owners of the Company			
– Basic	12	**HK2.57 cents**	HK(0.67) cent

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	13	**24,615**	26,236
Prepaid lease payments		**2,520**	2,570
Goodwill	14	**4,000**	4,000
Club debentures		**1,928**	1,928
Available-for-sale investments	15	**–**	1,261,130
Debt instruments at fair value through other comprehensive income	16	**1,089,586**	–
Loan receivables	17	**86,863**	10,804
Financial assets at fair value through profit or loss	18	**34,177**	–
Total non-current assets		**1,243,689**	1,306,668
Current assets			
Inventories		**5,583**	6,641
Prepaid lease payments		**99**	99
Available-for-sale investments	15	**–**	62,250
Loan receivables	17	**2,234,270**	2,047,196
Trade and other receivables	19	**41,049**	56,632
Income tax recoverable		**1,922**	2,587
Financial assets at fair value through profit or loss	18	**2,006,047**	1,270,302
Pledged bank deposits	20	**31,078**	30,821
Bank balances and cash	20	**377,337**	457,699
Total current assets		**4,697,385**	3,934,227
Current liabilities			
Trade and other payables	21	**183,198**	191,711
Income tax payable		**29,902**	19,250
Borrowings	22	**770,324**	430,756
Notes payable	23	**1,496,144**	1,492,168
Total current liabilities		**2,479,568**	2,133,885
Net current assets		**2,217,817**	1,800,342
Total assets less current liabilities		**3,461,506**	3,107,010
Non-current liability			
Deferred tax liabilities	24	**79,350**	34,853
		3,382,156	3,072,157
Capital and reserves			
Share capital	25	**3,012,877**	3,012,877
Reserves		**369,279**	59,280
Total equity		**3,382,156**	3,072,157

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital HK$'000	Investment revaluation reserve HK$'000	(Accumulated losses) retained profits HK$'000	Total HK$'000
At 1 January 2017 (audited)	3,012,877	7,118	(98,768)	2,921,227
Loss for the period	–	–	(113,520)	(113,520)
Net fair value gain on available-for-sale investments	–	10,947	–	10,947
Released on disposal of available-for-sale investments	–	(1,157)	–	(1,157)
Released on redemption of available-for-sale investments	–	(7,800)	–	(7,800)
Total comprehensive income (expense) for the period	–	1,990	(113,520)	(111,530)
At 30 June 2017 (unaudited)	3,012,877	9,108	(212,288)	2,809,697
At 31 December 2017 (audited)	**3,012,877**	**31,855**	**27,425**	**3,072,157**
Adjustments (Note 2.3)	**–**	**25,638**	**(37,438)**	**(11,800)**
At 1 January 2018 (restated)	**3,012,877**	**57,493**	**(10,013)**	**3,060,357**
Profit for the period	**–**	**–**	**437,199**	**437,199**
Net fair value loss on debt instruments at fair value through other comprehensive income	**–**	**(116,059)**	**–**	**(116,059)**
Released on disposal of debt instruments at fair value through other comprehensive income	**–**	**566**	**–**	**566**
Released on redemption of debt instruments at fair value through other comprehensive income	**–**	**93**	**–**	**93**
Total comprehensive (expense) income for the period	**–**	**(115,400)**	**437,199**	**321,799**
At 30 June 2018 (unaudited)	**3,012,877**	**(57,907)**	**427,186**	**3,382,156**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 HK$'000 (Unaudited)	 2017 HK$'000 (Unaudited)
Net cash used in operating activities		**(449,036)**	(1,368,640)
Net cash from (used in) investing activities			
Purchase of debt instruments at fair value through other comprehensive income		**(39,058)**	–
Proceeds from disposal of debt instruments at fair value through other comprehensive income		**50,134**	–
Proceeds from redemption of debt instruments at fair value through other comprehensive income		**62,400**	–
Purchase of available-for-sale investments		**–**	(1,150,630)
Proceeds from disposal of available-for-sale investments		**–**	40,157
Proceeds from redemption of available-for-sale investments		**–**	780,000
Purchase of property, plant and equipment	*13*	**(24)**	(78)
Placement of pledged bank deposits		**(257)**	(114)
Interest received		**326**	3,177
		73,521	(327,488)
Net cash from financing activities			
New borrowings raised		**440,606**	629,223
Repayment of borrowings		**(101,038)**	(286,544)
Advances drawn on bill receivables discounted with full recourse		**–**	62,613
Interest paid		**(70,663)**	(54,695)
		268,905	350,597
Net decrease in cash and cash equivalents		**(106,610)**	(1,345,531)
Cash and cash equivalents at the beginning of the period		**347,753**	1,954,576
Cash and cash equivalents at the end of the period		**241,143**	609,045
Represented by:			
Bank balances and cash			
– general accounts and cash	*20*	**241,143**	609,045

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

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

The audited financial information relating to the year ended 31 December 2017 that is included in these unaudited condensed consolidated interim financial statements as comparative information does not constitute the Company's statutory annual audited 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 audited financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual audited consolidated financial statements for the year ended 31 December 2017.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's unaudited condensed consolidated interim financial statements:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle
Amendments to HKAS 40	Transfers of investment property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application of HKFRS 15 "Revenue from contracts with customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Investment in securities
- Trading of metal minerals, metal, coke products and electronic components
- Money lending
- Securities brokerage

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and the related interpretations.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 15 "Revenue from contracts with customers" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, 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 and 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 and 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application of HKFRS 15 "Revenue from contracts with customers" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

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 continues to act as a principal of its trading business upon the adoption of HKFRS 15 and recognises the gross amount of sales for the specified good or service transferred. The Group acts as a principal of the trading business as the Group (i) concluded the purchase contract before the sale of goods; (ii) determined and established sales price by referencing to the current market information; and (iii) demonstrated the ability to direct the delivery of goods to different customers before entering into the sales contracts.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The adoption of HKFRS 15 has had no material impact on the Company's financial performance and positions for the current period or at 1 January 2018.

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments"

In the current period, the Group has applied HKFRS 9 "Financial instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial instruments: recognition and measurement".

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments 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 collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset 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 fair value through profit or loss ("FVTPL"), except that at the date of initial application/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 ("OCI") 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.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

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 OCI and accumulated under the heading of investment revaluation reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

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 gain (loss) on financial assets at FVTPL" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Notes 2.2.2 and 2.3.

Impairment under ECL model
The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits, bank balances and cash, loan receivables and debt instruments at FVTOCI). 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. Assessment is 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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Impairment under ECL model (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless 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.

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.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Significant increase in credit risk (continued)

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.

The Group considers that default has occurred when the instrument 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.

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.

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

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 and other 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 OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Notes 2.2.2 and 2.3.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

(a) Available-for-sale ("AFS") investments

Reclassification from AFS equity investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of HK$44,259,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value loss of HK$10,340,000 relating to the equity investments previously accumulated up to 31 December 2017 was transferred from investment revaluation reserve to retained profits as at 1 January 2018.

Reclassification from AFS debt investments to debt instruments at FVTOCI

Listed bonds with a fair value of HK$1,279,121,000 were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related net fair value gain of HK$42,195,000 previously accumulated up to 31 December 2017 was continued to accumulate in the investment revaluation reserve as at 1 January 2018.

(b) Impairment under ECL model

Loss allowances for other financial assets at amortised cost, comprising mainly other receivables, loan receivables, pledged bank deposits and bank balances and cash, and debt instrument at FVTOCI are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

As at 1 January 2018, credit loss allowance of HK$27,098,000 in aggregate for loan receivables and debt instruments at FVTOCI was recognised against retained profits. Loss allowance of HK$11,800,000 was charged against the loan receivables while for the debt instruments at FVTOCI, loss allowance of HK$15,298,000 was recognised against the investment revaluation reserve.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application of HKFRS 9 "Financial instruments" (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

The table below illustrates the classification and measurement (including the measurement of ECL) of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	AFS investments *HK$'000*	Debt instruments at FVTOCI *HK$'000*	Financial assets at FVTPL *HK$'000*	Loan receivables *HK$'000*	Investment revaluation reserve *HK$'000*	Retained profits (accumulated losses) *HK$'000*
Closing balance at 31 December 2017 – HKAS 39 (audited)	1,323,380	–	1,270,302	2,058,000	31,855	27,425
Effect arising from initial application of HKFRS 9:						
Reclassification						
From AFS investments	(1,323,380)	1,279,121	44,259	–	–	–
From investment revaluation reserve	–	–	–	–	10,340	(10,340)
Remeasurement						
Impairment under ECL model	–	–	–	(11,800)	15,298	(27,098)
Opening balance at 1 January 2018 (restated)	–	1,279,121	1,314,561	2,046,200	57,493	(10,013)

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening unaudited condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 *HK$'000* (Audited)	Reclassification under HKFRS 9 *HK$'000*	Remeasurement under HKFRS 9 *HK$'000*	1 January 2018 *HK$'000* (Restated)
Non-current assets				
Property, plant and equipment	26,236	–	–	26,236
Prepaid lease payments	2,570	–	–	2,570
Goodwill	4,000	–	–	4,000
Club debentures	1,928	–	–	1,928
Available-for-sale investments	1,261,130	(1,261,130)	–	–
Debt instruments at fair value through other comprehensive income	–	1,216,871	–	1,216,871
Loan receivables	10,804	–	–	10,804
Financial assets at fair value through profit or loss	–	44,259	–	44,259
Current assets				
Inventories	6,641	–	–	6,641
Prepaid lease payments	99	–	–	99
Available-for-sale investments	62,250	(62,250)	–	–
Debt instruments at fair value through other comprehensive income	–	62,250	–	62,250
Loan receivables	2,047,196	–	(11,800)	2,035,396
Trade and other receivables	56,632	–	–	56,632
Income tax recoverable	2,587	–	–	2,587
Financial assets at fair value through profit or loss	1,270,302	–	–	1,270,302
Pledged bank deposits	30,821	–	–	30,821
Bank balances and cash	457,699	–	–	457,699
Current liabilities				
Trade and other payables	191,711	–	–	191,711
Income tax payable	19,250	–	–	19,250
Borrowings	430,756	–	–	430,756
Notes payable	1,492,168	–	–	1,492,168
Non-current liability				
Deferred tax liabilities	34,853	–	–	34,853
Capital and reserves				
Share capital	3,012,877	–	–	3,012,877
Investment revaluation reserve	31,855	10,340	15,298	57,493
Retained profits (accumulated loss)	27,425	(10,340)	(27,098)	(10,013)

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

3. REVENUE

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Trading of metal minerals, metal and coke products	**928,449**	414,261
Sales of electronic components	**10,633**	21,261
Dividend income from securities investments	**5,696**	5,879
Interest income from securities investments	**52,004**	27,417
Interest income from money lending business	**121,242**	70,730
Arrangement fee income from money lending business	**2,591**	4,349
Commission and handling income from securities brokerage business	**3,057**	4,000
Underwriting fee income from securities brokerage business	**3,193**	1,720
	1,126,865	549,617

During the periods under review, the revenue is recognised at a point in time except for dividend income and interest income from securities investments and interest income from money lending business 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 the information provided to the chief operating decision maker representing the Board, for the purposes of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Segment revenue and results

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

Six months ended 30 June 2018

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

Six months ended 30 June 2017

	Investment in securities *HK$'000* (Unaudited)	Trading *HK$'000* (Unaudited)	Money lending *HK$'000* (Unaudited)	Securities brokerage *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment Revenue					
External sales/sources	33,296	435,522	75,079	5,720	549,617
Results					
Segment results	(105,014)	4,384	74,171	4,254	(22,205)
Other income					1,421
Other loss					(79)
Central administrative expenses					(23,720)
Finance costs					(65,499)
Loss before tax					(110,082)
Income tax expense					(3,438)
Loss for the period					(113,520)

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	As at 30 June 2018 ***HK$'000*** **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Segment assets		
Investment in securities	**3,268,051**	2,709,999
Trading	**77,891**	112,024
Money lending	**2,333,408**	2,133,891
Securities brokerage	**216,952**	230,829
Total segment assets	**5,896,302**	5,186,743
Property, plant and equipment	**24,615**	26,236
Prepaid lease payments	**2,619**	2,669
Bank balances and cash	**11,305**	17,256
Other unallocated assets	**6,233**	7,991
Consolidated assets	**5,941,074**	5,240,895
Segment liabilities		
Investment in securities	**857,106**	473,388
Trading	**10,111**	15,068
Money lending	**22,705**	12,880
Securities brokerage	**167,480**	161,825
Total segment liabilities	**1,057,402**	663,161
Other payables	**5,372**	13,409
Notes payable	**1,496,144**	1,492,168
Consolidated liabilities	**2,558,918**	2,168,738

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, 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 and notes payable.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

5. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**326**	3,177
Others	**13**	4,385
	339	7,562

6. OTHER GAIN

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Exchange gain, net	**393**	590

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net unrealised gain (loss) on financial assets at FVTPL	**396,984**	(61,953)
Net realised gain (loss) on sales of financial assets at FVTPL	**8,604**	(89,164)
	405,588	(151,117)

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

8. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	**1,211**	492
Interest on bank borrowings	**5,490**	2,309
Interest on margin financing	**4,094**	–
Interest on notes payable *(Note 23)*	**63,482**	62,698
	74,277	65,499

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	**11,734**	8,700
Deferred tax *(Note 24)*	**44,497**	(5,262)
Income tax expense recognised in profit or loss	**56,231**	3,438

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the period (six months ended 30 June 2017: 16.5%).

10. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Amortisation of prepaid lease payments	**50**	50
Depreciation of property, plant and equipment	**1,645**	1,637
Impairment on loan receivables	**1,700**	–

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

11. DIVIDEND

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2017: nil). The Board has determined that no dividend will be paid in respect of the interim period.

12. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	**437,199**	(113,520)

	Six months ended 30 June	
	2018	2017
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**16,987,714**	16,987,714

Diluted earnings (loss) per share for the six months ended 30 June 2018 and 2017 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$24,000 (six months ended 30 June 2017: HK$78,000).

14. GOODWILL

For the purpose of impairment testing, goodwill is allocated to the securities brokerage business, being the Group's cash generating unit 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. Management believes that any reasonably possible change in the assumption would not cause the aggregate carrying amount of the goodwill exceeds the aggregate recoverable amount of it. Therefore no impairment was made for both the periods ended 30 June 2017 and 2018.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

15. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	–	44,259
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.9% to 9.5% per annum and maturity dates ranging from 12 June 2018 to 23 January 2027	–	1,279,121
	–	1,323,380
Analysed as:		
Current portion	–	62,250
Non-current portion	–	1,261,130
	–	1,323,380

As at 31 December 2017, AFS investments were stated at fair values. The fair values of the listed equity securities and listed debt securities were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

Upon initial application of HKFRS 9 during the current interim period, AFS investments were reclassified to financial assets at FVTPL or debt instruments at FVTOCI which are detailed in Note 2.2.2 (a).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

16. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2018 ***HK$'000*** **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Listed investments, at fair value:		
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.9% to 9.5% per annum and maturity dates ranging from 19 July 2020 to 23 January 2027	**1,089,586**	–

As at 30 June 2018, 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 12m 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 by rating agencies, macroeconomic factors affecting the respective industry for each issuer, corporate historical default and loss rate and exposure of default of each bond investment.

At the date of initial application of HKFRS 9, the Group provided impairment allowance of approximately HK$15,298,000 and there is insignificant change in the impairment allowance for the current interim period.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

17. LOAN RECEIVABLES

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Fixed-rate loan receivables	**2,334,633**	2,058,000
Less: impairment allowance	**(13,500)**	–
	2,321,133	2,058,000
Analysed as:		
Current portion	**2,234,270**	2,047,196
Non-current portion	**86,863**	10,804
	2,321,133	2,058,000
Analysed as:		
Secured	**2,183,733**	1,930,743
Unsecured	**137,400**	127,257
	2,321,133	2,058,000

As at 30 June 2018, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 18% per annum (31 December 2017: 3% to 24% per annum) and from 24 August 2018 to 2 May 2021 (31 December 2017: from 19 January 2018 to 27 October 2020) respectively.

The movement of impairment allowance for loan receivables for the period is as follows:

	Impairment allowance for loan receivables *HK$'000* **(Unaudited)**
As at 31 December 2017	–
Impairment allowance recognised	11,800
As at 1 January 2018 (restated)	11,800
Impairment allowance recognised	1,700
As at 30 June 2018	**13,500**

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018	As at 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong *(Note (i))*	**1,813,897**	1,045,551
Unlisted investments, at fair value:		
– Convertible securities with fixed interests ranging from 8% to 10% (31 December 2017: 8% to 10%) per annum and maturity dates ranging from 26 October 2018 to 15 June 2019 (31 December 2017: from 26 October 2018 to 15 June 2019) *(Note (ii))*	**226,327**	224,751
	2,040,224	1,270,302
Analysed as:		
Current portion	**2,006,047**	1,270,302
Non-current portion	**34,177**	–
	2,040,224	1,270,302

Notes:

(i) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

(ii) The fair values of the unlisted convertible securities were determined based on the binomial option pricing model with some key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

19. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Trade receivables from cash clients of securities brokerage business	**6,940**	16,942
Trade receivables of trading business	**2,174**	2,016
Interest receivables	**23,902**	24,295
Other receivables	**8,033**	13,379
	41,049	56,632

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 clients with a carrying amount of approximately HK$6,940,000 (31 December 2017: HK$16,942,000) were neither past due nor impaired at the end of the reporting period.

For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
0 – 180 days	**2,174**	2,016

Interest receivables of approximately HK$23,902,000 (31 December 2017: HK$24,295,000) due from bond issuers and banks were neither past due nor impaired at the end of the reporting period.

Included in other receivables were unrestricted deposits of approximately HK$3,274,000 (31 December 2017: HK$5,158,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly prepayment and deposit for office use.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

19. TRADE AND OTHER RECEIVABLES (continued)

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

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

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Trade receivables have been assessed based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. As at 30 June 2018, 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 as at 30 June 2018.

20. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	As at 30 June 2018 *HK$'000* **(Unaudited)**	As at 31 December 2017 *HK$'000* (Audited)
Bank balances and cash:		
General accounts and cash *(Note (i))*	**241,143**	347,753
Client accounts *(Note (ii))*	**136,194**	109,946
	377,337	457,699

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 2.09% (31 December 2017: 0.01% to 1.50%) per annum.

(ii) The Group's securities brokerage business receives and holds money deposited by clients during the course of conducting its regulated activities in its ordinary course of business. Such clients' monies are maintained in a segregated bank account. The Group has recognised the corresponding accounts payables to respective clients.

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. Deposit amounting to HK$27,996,000 (31 December 2017: HK$27,740,000) was pledged to a bank to comply with the minimum deposit requirement for the issuance of letters of credit and deposit amounting to HK$3,082,000 (31 December 2017: HK$3,081,000) was pledged to another bank to secure the credit facility for settlement of the securities brokerage activities. The pledged bank deposits will be released upon settlement of the relevant letters of credit and termination of the credit facility in relation to settlement of the securities brokerage activities and are therefore classified as current assets.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

21. TRADE AND OTHER PAYABLES

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Trade payables of securities brokerage business:		
– Cash clients	**165,709**	155,801
– Hong Kong Securities Clearing Company Limited ("HKSCC")	**1,685**	5,799
Trade payables of trading business	**4,168**	9,277
Accrued charges and other payables	**6,479**	15,315
Interest payables	**5,157**	5,519
	183,198	191,711

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:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
0 – 180 days	**4,168**	4,640
Over 180 days	**–**	4,637
	4,168	9,277

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

22. BORROWINGS

	As at 30 June 2018 *HK$'000* (Unaudited)	As at 31 December 2017 *HK$'000* (Audited)
Short-term secured bank borrowing *(Note (i))*	**406,576**	430,756
Margin financing *(Note (ii))*	**363,748**	–
	770,324	430,756

Notes:

(i) The amount carried interest at London Interbank Offered Rate + 0.8% per annum and was repayable within one year. The loan agreement of the secured bank borrowing contains a repayment on demand clause.

(ii) The amount carried interest at prime rate + 1.25% per annum and secured by investment securities held in a margin securities account.

23. NOTES PAYABLE

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

	As at 30 June 2018 *HK$'000* (Unaudited)	As at 31 December 2017 *HK$'000* (Audited)
At the beginning of the period/year	**1,492,168**	1,470,919
Effective interest charged *(Note 8)*	**63,482**	126,906
Interest paid/payable	**(59,506)**	(105,657)
At the end of the period/year	**1,496,144**	1,492,168

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

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

24. DEFERRED TAX LIABILITIES

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

	Tax losses *HK$'000*	Temporary difference related to net unrealised gain on financial assets at FVTPL and debt instruments at FVTOCI *HK$'000*	Total *HK$'000*
As at 1 January 2017 (audited)	–	5,262	5,262
Charged to profit or loss	–	29,591	29,591
As at 31 December 2017 and 1 January 2018 (audited)	–	34,853	34,853
(Credited) charged to profit or loss *(Note 9)*	(68,791)	113,288	44,497
As at 30 June 2018 (unaudited)	**(68,791)**	**148,141**	**79,350**

25. SHARE CAPITAL OF THE COMPANY

	Number of shares *'000*	Share capital *HK$'000*
Issued and fully paid ordinary shares:		
As at 1 January 2017, 30 June 2017, 1 January 2018 and **30 June 2018**	**16,987,714**	**3,012,877**

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

26. PLEDGE OF ASSETS

As at 30 June 2018, debt securities of approximately HK$625,410,000 (31 December 2017: HK$744,281,000) and equity securities of approximately HK$13,504,000 (31 December 2017: HK$19,349,000) were pledged for short-term secured bank borrowings.

Debt securities of approximately HK$366,518,000 (31 December 2017: nil) and equity securities of approximately HK$1,439,520,000 (31 December 2017: nil) were pledged for margin financing.

In addition, as disclosed in Note 20, 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 approximately HK$31,078,000 (31 December 2017: HK$30,821,000) in aggregate.

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

27. 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 as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	30 June 2018 ***HK$'000***	31 December 2017 *HK$'000*			
1) Financial assets at FVTPL					
Listed equity securities	**1,813,897**	1,045,551	Level 1	Quoted bid prices in active markets	N/A
Unlisted convertible securities	**226,327**	224,751	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*
2) Debt instruments at FVTOCI					
Listed debt securities	**1,089,586**	–	Level 1	Quoted bid prices in active markets	N/A
3) AFS investments					
Listed equity securities	**-**	44,259	Level 1	Quoted bid prices in an active market	N/A
Listed debt securities	**-**	1,279,121	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$300,000 and HK$303,000 (31 December 2017: HK$597,000 and HK$601,000) respectively. During the period, a net gain on fair value change of HK$1,575,000 (30 June 2017: net loss on fair value change of HK$15,971,000) is recognised through profit or loss.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2018

27. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements and valuation process

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

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

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

The directors of the Company consider that the carrying amounts of the other financial assets and liabilities recorded at amortised cost in the condensed financial statements approximate their fair values.

28. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors who are also identified as members of key management during the periods was as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term benefits	**4,638**	7,093
Post-employment benefits	**79**	107
	4,717	7,200

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.

Other Information

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

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

As at 30 June 2018, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

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

No share options were granted or exercised during the six months ended 30 June 2018 and 2017 and no share options were outstanding as at 30 June 2018 and 2017.

Further details of the Share Option Scheme were set out in the Company's 2017 Annual Report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and the "SHARE OPTION SCHEME" above, at no time during the six months ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2018, 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 is 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 as at 30 June 2018 as required pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, except for the following deviation with reason as explained:

Chairman and chief executive

Code Provision A.2.1

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

Deviation

There had been a deviation from the Code Provision A.2.1 since Dr. Or Ching Fai, presently a Non-executive Director of the Company, had served both roles of the chairman and the chief executive officer until 18 January 2018. However, the aforesaid deviation was rectified and the Code Provision A.2.1 has been complied with following the step down of Dr. Or Ching Fai from his position as Chief Executive Officer and the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the Chief Executive Officer on 18 January 2018.

Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the Directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2018.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of the Directors (since the date of the Company's last published annual report up to 21 September 2018, being the latest practicable date before printing of this interim report) required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

– Following the re-designation of Dr. Or Ching Fai ("Dr. Or") from an Executive Director to a Non-executive Director of the Company on 1 April 2018, under the letter of appointment entered into between Dr. Or and the Company, Dr. Or is entitled to receive a director's fee of HK$2,150,000 per annum and his term of service is fixed at a term of two years commencing from 1 April 2018 and shall determine upon expiry subject to renewal by mutual agreement prior to the expiry of the term. The director's fee of Dr. Or was recommended by the Remuneration Committee and approved by the Board.

REVIEW OF INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2018 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the auditor is included in this Interim Report.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

Dr. Or Ching Fai
Chairman

Hong Kong, 28 August 2018