

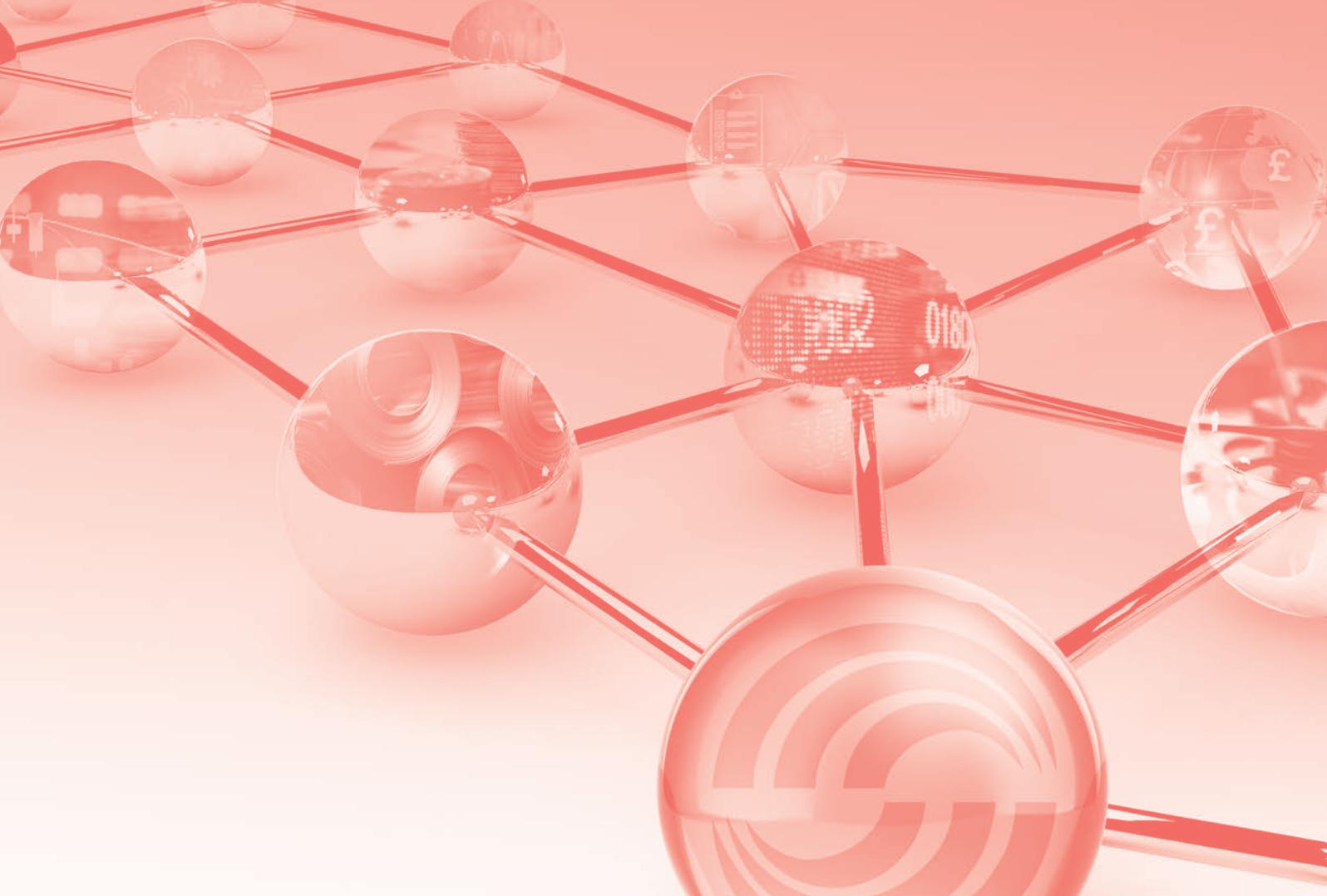
中策集團有限公司
China Strategic Holdings Limited

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

Interim Report **2020**



MIX
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responsible sources
FSC® C132597



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Abbreviations

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

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

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

Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Dr. Or Ching Fai (*Chairman*)

Executive Directors

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

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

Independent Non-executive Directors

Ms. Ma Yin Fan

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

AUDIT COMMITTEE

Ms. Ma Yin Fan (*Chairlady*)

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

REMUNERATION COMMITTEE

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

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

NOMINATION COMMITTEE

Dr. Or Ching Fai (*Chairman*)

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

EXECUTIVE COMMITTEE

Mr. Sue Ka Lok (*Chairman*)

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok (*Chairman*)

Ms. Lee Chun Yeung, Catherine

Mr. Chow Kam Wah

COMPANY SECRETARY

Ms. Leung Siu King

REGISTERED OFFICE

Rooms 3206-3210, 32nd Floor

China Resources Building

26 Harbour Road

Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

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

Bank of Communications (Hong Kong) Limited

BNP Paribas Hong Kong Branch

LEGAL ADVISERS

Reed Smith Richards Butler

Stevenson, Wong & Co.

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditors

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

Level 54, Hopewell Centre

183 Queen's Road East

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 2020 (“HY2020”), the Group continued to principally engage in the business of investment in securities, trading of electronic components, money lending as well as securities brokerage.

The outbreak of COVID-19 on a global basis has brought some widespread economic chaos and unprecedented market challenges to the Group. The slowdown of economic activities of many major economies including Mainland China, the US, the UK and Europe, the high volatilities of global financial markets including Hong Kong, and the decrease of international trade flow across the globe, all have, by different extent, posed negative impact on the Group’s operations. In fact, the market conditions facing the Group have become more complicated due to the tensions of the China-US trade disputes, and the social events took place in Hong Kong. Against this unprecedented and chaotic backdrop, the Group has adopted a cautious and disciplined approach in managing its businesses and managed to report a profit attributable to owners of the Company of HK\$51,651,000 (30 June 2019: loss of HK\$139,502,000), largely as a result of the net fair value gain on listed equity securities, and earnings per share of HK0.30 cent (30 June 2019: loss of HK0.82 cent). For HY2020, the Group’s revenue declined by 76% to HK\$143,085,000 (30 June 2019: HK\$604,991,000), mainly due to the decreases in sales of the trading operation and interest income from the money lending business.

Investment in Securities

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

Management Discussion and Outlook

At 30 June 2020, the Group's securities investments comprised (i) a financial asset at fair value through profit or loss ("FVTPL") portfolio, comprising equity securities listed in Hong Kong valued at HK\$1,585,496,000 (31 December 2019: HK\$1,454,098,000); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions), comprising debt securities listed in Hong Kong or overseas valued at HK\$592,687,000 (31 December 2019: HK\$957,361,000). As a whole, the Group's securities investments recorded a revenue of HK\$37,190,000 (30 June 2019: HK\$50,367,000) and a profit of HK\$291,996,000 (30 June 2019: loss of HK\$253,713,000).

Financial assets at FVTPL

At 30 June 2020, the Group held a financial asset at FVTPL portfolio amounting to HK\$1,585,496,000 measured at market/fair value. During HY2020, the portfolio generated a revenue of HK\$4,608,000 (30 June 2019: HK\$13,919,000) representing dividends from equity securities of HK\$4,608,000 (30 June 2019: dividends from equity securities of HK\$11,781,000 and interest income from equity-linked notes and convertible securities of HK\$2,138,000). The Group recognised a net gain on financial assets at FVTPL of HK\$249,770,000, which comprised net unrealised gain and net realised loss of HK\$268,385,000 and HK\$18,615,000 respectively (30 June 2019: net loss on financial assets at FVTPL of HK\$304,339,000, which comprised net unrealised loss and net realised loss of HK\$298,834,000 and HK\$5,505,000 respectively).

The net gain on financial assets at FVTPL recognised was mainly attributed to the net increase in fair value of the listed equity securities portfolio held by the Group during the interim period. Such net increase in fair value mainly comprised the increase in fair value of the Group's investment in listed shares of Evergrande Health Industry Group Limited ("Evergrande Health", HKEX stock code: 708), which amounted to HK\$348,696,000 for HY2020, in contrast to the decrease in fair value of HK\$245,824,000 recognised in the corresponding prior period.

The Group has started to invest in Evergrande Health since March 2015, up to 30 June 2020, the accumulative holding gain of this investment amounted to HK\$1,167,456,000 (as shown in the table below about the Group's top three investments). At the period end, the Group held 133,600,000 ordinary shares in Evergrande Health which represented approximately 1.55% of its issued share capital, and the carrying value of the Group's investment in Evergrande Health amounted to HK\$1,386,768,000 which represented approximately 26% of the Group's total assets. Evergrande Health is principally engaged in healthcare business in the PRC as well as the technology research and development, production and sales of new energy vehicles in the PRC and other countries. According to its latest published financial information, its healthcare business generated revenue of about RMB5 billion in 2019 and it has completed the layout of the new energy vehicle industry chain, and aims to become a major and powerful new energy vehicle group in the world. Although Evergrande Health recorded an overall loss for its 2019 annual results primarily owing to the development of its new energy vehicle business which led to the increase in expenditure relating to the purchase of fixed assets and equipment, research and development and interest payments, with the reveal of its six first-phase "Hengchi" vehicle models as mentioned in its announcement dated 3 August 2020, the Group is optimistic about the prospect of Evergrande Health in the medium to long term. Subject to market conditions, the Group presently has no intention to realise this investment.

Management Discussion and Outlook

At 30 June 2020, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$1,585,496,000 are as below:

Name/category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio
	%
Evergrande Health	87.46
Banking	4.42
Conglomerate	4.12
Property	3.52
Others	0.48
	<hr/>
	100.00

Management Discussion and Outlook

At 30 June 2020, the weightings of the Group's top three and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$1,585,496,000 (together with other information) are as below:

Company name	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	Approximate weighting to the carrying amount of the Group's total assets at 30 June 2020 %	% of shareholding interest	Acquisition costs HK\$'000	*Acquisition costs during the period/carrying amount at 1 January 2020 HK\$'000	Market/fair value at 30 June 2020 HK\$'000	Accumulated unrealised gain (loss) recognised up to 30 June 2020 HK\$'000	Unrealised gain (loss) recognised during the six months ended 30 June 2020 HK\$'000	Dividend income recognised during the six months ended 30 June 2020 HK\$'000
				A	B	C	D = C - A	E = C - B	
Evergrande Health (HKEX stock code: 708)	87.46	26.49	1.55	219,312	1,038,072	1,386,768	1,167,456	348,696	-
Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196)	4.42	1.34	2.31 [#]	132,424	95,753	70,112	(62,312)	(25,641)	4,492
Emperor International Holdings Limited (HKEX stock code: 163)	3.52	1.06	1.18	99,365	74,784	55,764	(43,601)	(19,020)	-
Others	4.60	1.39	N/A	330,505	108,502	72,852	(257,653)	(35,650)	116
	<u>100.00</u>	<u>30.28</u>		<u>781,606</u>	<u>1,317,111</u>	<u>1,585,496</u>	<u>803,890</u>	<u>268,385</u>	<u>4,608</u>

* The amount represented the costs of the securities acquired during the six months ended 30 June 2020 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 1,669,800,000 H shares of Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196) in issue at 30 June 2020.

Management Discussion and Outlook

The tables below set out the (i) unrealised gain (loss) recognised for the six months ended 30 June 2020 for the financial assets at FVTPL held by the Group at 30 June 2020 together with information on financial performance of the investee companies and their future prospects; and the (ii) realised gain (loss) on financial assets at FVTPL disposed of during the six months ended 30 June 2020. 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 2020 for the financial assets at FVTPL held by the Group at 30 June 2020 together with information on financial performance of the investee companies and their future prospects

Company name/ industry	Abbreviation of investee company	*Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2020 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2020 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the six months ended 30 June 2020 HK\$'000	# Investee company's financial performance	# Future prospects of the investee company
<i>Equity securities listed in Hong Kong</i>									
Evergrande Health	A*	Healthcare business in the PRC as well as the technology research and development, production and sales of new energy vehicles in the PRC and other countries	1,038,072	1.55	1,386,768	87.46	348,696	For the six months ended 30 June 2020, revenue increased by 70% to RMB4,510,321,000 while loss for the period increased by 24% to RMB2,456,910,000 as compared to the same period in 2019.	Apart from continuously uphold its innovative service concept of integrating medical insurance with medical care, health management and elderly care, the investee company will endeavour to progress with the mass production of the six first-phase Hengchi models at full speed and continue to devote itself to the innovation and application of new energy vehicle technologies and product R&D.
Banking	B*	Banking business	95,753	2.31	70,112	4.42	(25,641)	For the six months ended 30 June 2020, interest income, as its major source of revenue, increased by 13% to RMB11,645,506,000 while profit for the period decreased by 1% to RMB2,473,000,000 as compared to the same period in 2019.	The investee company will pursue coordinated development balancing speed, efficiency and quality, and concentrate on promoting comprehensive transformation and refined management to move towards high-quality development.

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2020 for the financial assets at FVTPL held by the Group at 30 June 2020 together with information on financial performance of the investee companies and their future prospects (continued)

Company name/ industry	Abbreviation of investee company	* Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2020 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2020 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the six months ended 30 June 2020 HK\$'000	# Investee company's financial performance	# Future prospects of the investee company
Conglomerate	C	Broking and securities margin financing, money lending, corporate finance and investments	64,138	2.95	37,913	2.39	(26,225)	For the year ended 31 March 2020, revenue decreased by 7% to HK\$524,524,000 and profit for the year decreased by 32% to HK\$156,728,000 as compared to 2019.	The investee company will keep seeking quality and upscale investment properties in both Asia and Europe, and also investment in securities with good potential, to enhance its investment portfolio and continue to provide a source of steady rental income and investment gains in the future.
	D	International trading, financial guarantee services, finance lease services, property investment, financial advisory services and logistics services	14,525	1.20	11,375	0.72	(3,150)	For the year ended 31 March 2020, revenue decreased by 75% to HK\$425,498,000 and its results experienced a turnaround and recorded loss for the year of HK\$130,866,000 as compared to 2019.	Apart from its latest developments in logistic projects, the investee company is fostering an innovation and financial ecosystem to nurture innovative technology and businesses at early or later development stages.
	Others	-	18,839	N/A	15,993	1.01	(2,846)	-	-
			97,502		65,281	4.12	(32,221)		

Management Discussion and Outlook

(i) Unrealised gain (loss) recognised for the six months ended 30 June 2020 for the financial assets at FVTPL held by the Group at 30 June 2020 together with information on financial performance of the investee companies and their future prospects (continued)

Company name/ industry	Abbreviation of investee company	[#] Principal activities of investee company	[*] Acquisition costs during the period/ carrying amount at 1 January 2020 HK\$'000	% of shareholding interest %	Market/ fair value at 30 June 2020 HK\$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the six months ended 30 June 2020 HK\$'000	[#] Investee company's financial performance	[#] Future prospects of the investee company
Property	E ⁺	Lease of properties, properties development and hotel and hotel related operations	74,784	1.18	55,764	3.52	(19,020)	For the year ended 31 March 2020, revenue decreased by 46% to HK\$2,365,382,000 and its results experienced a turnaround and recorded loss for the year of HK\$3,543,362,000 as compared to 2019.	The investee company continues to acquire commercial buildings that have great potential, improve its investment property portfolio by undertaking urban renewal projects, and structure enhancement and tenants remix programs, with a view to secure sufficient land bank for future developments.
Others	-	-	11,000	N/A	7,571	0.48	(3,429)		
			<u>1,317,111</u>		<u>1,585,496</u>	<u>100.00</u>	<u>268,385</u>		

⁺ In the table above, investee company A, B and E stands for Evergrande Health (HKEX stock code: 708), Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196) and Emperor International Holdings Limited (HKEX stock code: 163) respectively.

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

^{*} The amount represented the costs of the securities acquired during the six months ended 30 June 2020 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Management Discussion and Outlook

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the six months ended 30 June 2020

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition costs during the period/ carrying amount at 1 January 2020 HK\$'000	Sale proceeds of financial assets at FVTPL sold during the six months ended 30 June 2020 HK\$'000	Realised gain (loss) recognised during the six months ended 30 June 2020 HK\$'000
<i>Equity securities listed in Hong Kong</i>					
Banking	B	Banking business	33,096	21,535	(11,561)
	F	Banking business	43,257	49,167	5,910
			76,353	70,702	(5,651)
Conglomerate	C	Broking and securities margin financing, money lending, corporate finance and investments	3,362	1,807	(1,555)
	Others	-	17,880	17,956	76
			21,242	19,763	(1,479)
Property	E	Lease of properties, properties development and hotel and hotel related operations	5,969	4,367	(1,602)
	Others	-	15,321	14,513	(808)
			21,290	18,880	(2,410)
Other	-	-	34,393	25,318	(9,075)
			153,278	134,663	(18,615)

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 2020 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Management Discussion and Outlook

Debt instruments at FVTOCI

At 30 June 2020, the Group's debt instrument at FVTOCI portfolio of HK\$592,687,000 was measured at market/fair value. During HY2020, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK\$32,582,000 (30 June 2019: HK\$36,448,000) representing interest income from debt securities.

At the period end, a net fair value loss on the debt instrument at FVTOCI portfolio amounting to HK\$55,502,000 was recognised as other comprehensive expense (30 June 2019: other comprehensive income of HK\$57,897,000). Such net fair value loss on debt instruments was to a certain extent caused by the negative investment sentiments resulting from the outbreak of COVID-19, and there were no material fundamental changes in financial parameters of these debt instruments.

During the period under review, the Group disposed of debt securities with proceeds amounting to HK\$309,172,000. A loss on disposal totalling HK\$965,000 was released from the Group's investment revaluation reserve and recognised as loss in the current period (30 June 2019: gain on disposal and redemption totalling HK\$1,291,000).

At 30 June 2020, the Group invested in debt securities of various aircraft leasing company, banking company and property company and their respective weightings to the market/fair value of the Group's debt instruments at FVTOCI of HK\$592,687,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's debt instrument at FVTOCI portfolio	Approximate weighting to the carrying amount of the Group's total assets at 30 June 2020	Yield to maturity on acquisition	Acquisition costs	* Acquisition costs during the period/carrying amount at 1 January 2020	Market/fair value at 30 June 2020	Accumulated fair value gain (loss) recognised up to 30 June 2020	Fair value gain (loss) recognised during the six months ended 30 June 2020
	%	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				A	B	C	D = C - A	E = C - B
<i>Debt securities listed in Hong Kong or overseas</i>								
Aircraft leasing	21.78	2.47	5.09	148,348	137,881	129,097	(19,251)	(8,784)
Banking	1.46	0.16	3.73 - 3.91	7,850	8,306	8,668	818	362
Property	76.76	8.69	5.62 - 9.50	536,759	490,905	454,922	(81,837)	(35,983)
	100.00	11.32		692,957	637,092	592,687	(100,270)	(44,405)

Management Discussion and Outlook

- * The amount represented the costs of the securities acquired during the six months ended 30 June 2020 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

The yield to maturity on acquisition of the debt securities which were held by the Group at the period end ranging from 3.73% to 9.50% per annum.

Trading

During HY2020, the Group's trading operation focused on trading of electronic components. The operation reported a decline in revenue by about 99% to HK\$3,430,000 (30 June 2019: HK\$392,379,000), and a decrease in profit of about 95% to HK\$113,000 (30 June 2019: HK\$2,255,000). The decreases in revenue and profit of the operation were principally due to the temporary halt of trading of commodities resulting mainly from the trade disputes between China and the US, and the slowdown of the European economy in general, which adversely affected the business of the end customers of the operation. The management is stepping up its effort to explore new business opportunities in order to improve the results of the operation and will resume the commodities trading business when market conditions improve.

Money Lending

The Group's money lending business is conducted through CS Credit Limited and U Credit (HK) Limited, both are wholly owned subsidiaries of the Company. The operation recorded a decrease in revenue of 37% to HK\$99,116,000 (30 June 2019: HK\$156,357,000) and recorded a loss of HK\$143,994,000 for HY2020 (30 June 2019: profit of HK\$140,475,000). The decrease in revenue was mainly due to the lower average amount of loans advanced to borrowers during the current period and the loss of the operation was largely due to the net impairment allowance of HK\$241,265,000 (30 June 2019: HK\$14,471,000) recognised during the current period. The impairment allowance made primarily represented the credit risk involved in collectability of certain non-default loans determined under the Group's loan impairment policy, and factors including the credit history of the borrowers, the realisation value of collaterals pledged to the Group, and the prevailing economic conditions, in particular, the current state of the Hong Kong economy under the negative impact of COVID-19 have been considered. The Group is considering various actions for recovery of the non-default loans. At the period end, the balance of the impairment allowance was HK\$395,354,000 (31 December 2019: HK\$154,089,000), and the carrying value of the Group's loan portfolio, after impairment allowance, amounted to HK\$1,224,200,000 (31 December 2019: HK\$2,421,150,000). The size of the Group's loan portfolio has decreased during the interim period as the management has been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong. Details of the Group's loan portfolio are as follows:

Management Discussion and Outlook

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio %	Interest rate per annum %	Maturity
Individual	72.56	8.50 - 18.00	Within 1 year
Corporate	27.44	8.125 - 18.00	Within 1 year
	100.00		

At 30 June 2020, 99% (31 December 2019: 90%) of the carrying amount of the loan portfolio was collateral loans, none (31 December 2019: 3%) was guaranteed by credible guarantors, and with the remaining 1% (31 December 2019: 7%) being unsecured.

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

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During HY2020, revenue of the operation decreased by 43% to HK\$3,349,000 (30 June 2019: HK\$5,888,000) and its profit decreased by 57% to HK\$1,937,000 (30 June 2019: HK\$4,457,000). The decreases in revenue and profit of the operation were to a certain extent due to the volatilities and negative investment sentiments of the Hong Kong stock market resulting from the outbreak of COVID-19.

Overall Results

For HY2020, the Group recorded profit attributable to owners of the Company of HK\$51,651,000 (30 June 2019: loss of HK\$139,502,000) and also recorded total comprehensive income attributable to owners of the Company of HK\$2,361,000 (30 June 2019: total comprehensive expense of HK\$91,198,000). The profitable results recorded by the Group were mainly attributed to the overall gain of the Group's securities investments of HK\$291,996,000 (30 June 2019: loss of HK\$253,713,000), though the profitable results were partly offset by the loss incurred by the money lending operation of HK\$143,994,000 (30 June 2019: profit earned of HK\$140,475,000) and the reduced profits earned by the trading and securities brokerage operation of HK\$113,000 (30 June 2019: HK\$2,255,000) and HK\$1,937,000 (30 June 2019: HK\$4,457,000) respectively.

Management Discussion and Outlook

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For HY2020, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and securities brokers, funds raised through issuance of interest bearing notes and shareholders' funds. At the period end, the Group had current assets of HK\$4,604,807,000 (31 December 2019: HK\$4,185,622,000) and bank balances and cash (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$1,641,774,000 (31 December 2019: HK\$135,793,000). The increase in the Group's bank balances and cash was primarily due to the disposal of certain debt instruments, which provided the liquidity to allow the Group to better structure its asset portfolio as well as to reduce its level of borrowings, and the repayment of loans from borrowers during the interim period. The Group's current ratio, calculated based on current assets over current liabilities of HK\$1,859,912,000 (31 December 2019: HK\$1,825,502,000), was at a ratio of about 2.5 (31 December 2019: 2.3). At 30 June 2020, the Group's trade and other receivables amounted to HK\$99,886,000 (31 December 2019: HK\$113,327,000) which mainly comprised trade receivables from cash and margin clients of the securities brokerage business, deposits placed with securities brokers, and the outstanding principal of a note receivable.

At 30 June 2020, the equity attributable to owners of the Company amounted to HK\$3,372,150,000 (31 December 2019: HK\$3,369,789,000) and was equivalent to an amount of approximately HK19.85 cents (31 December 2019: HK19.84 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK\$2,361,000 was mainly a result of the profit recognised by the Group during the interim period.

At 30 June 2020, the Group's borrowings represented bank borrowings and securities margin financing raised mainly for acquiring debt and equity securities. The borrowings bore interests at floating rates, secured by certain debt and equity securities and were repayable within one year or on demand. In December 2016, the Company issued 2-year unsecured notes with nominal value of HK\$1,500,000,000 (the "2016 Notes") bearing interest at 7% per annum and 8% per annum for the first and second year respectively. During the second half of 2018, the 2016 Notes with nominal value of HK\$200,000,000 were redeemed and the Company executed a supplemental deed poll to extend the maturity date of the 2016 Notes with nominal value of HK\$1,300,000,000 for two years to 16 December 2020 bearing interest at 9.5% per annum and 10% per annum for the third and fourth year respectively. In addition, the Company issued a new tranche of 2-year unsecured notes in August 2018 with nominal value of HK\$200,000,000 bearing interest at 9.5% per annum and 10% per annum for the first and second year respectively. During the second half of 2019 and first half of 2020, the 2016 Notes with nominal value of HK\$250,000,000 and HK\$50,000,000 respectively were further redeemed.

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$1,863,310,000 (31 December 2019: HK\$1,825,502,000) divided by the equity attributable to owners of the Company of HK\$3,372,150,000 (31 December 2019: HK\$3,369,789,000), was about 55% (31 December 2019: 54%) and was at similar level to the preceding year end. The Group's finance costs decreased to HK\$66,635,000 (30 June 2019: HK\$90,917,000) primarily as a result of the decrease in borrowings and redemption of interest bearing notes during the period. With the amount of liquid assets on hand as well as credit facilities granted by banks and securities brokers, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Management Discussion and Outlook

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 HY2020, 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 2020, the Group had no significant contingent liability (31 December 2019: nil).

Pledge of Assets

At 30 June 2020, debt securities of HK\$592,687,000 (31 December 2019: HK\$914,387,000), equity securities of HK\$1,549,274,000 (31 December 2019: HK\$1,352,744,000) and bank deposits of HK\$3,094,000 (31 December 2019: HK\$32,067,000) were pledged to secure credit facilities granted.

Capital Commitment

At 30 June 2020, the Group had no significant capital commitment (31 December 2019: nil).

Event After the Reporting Period

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

HUMAN RESOURCES AND REMUNERATION POLICY

At 30 June 2020, the Group had 53 (30 June 2019: 52) employees including directors and staff costs (including directors' emoluments) for the period amounted to HK\$11,513,000 (30 June 2019: HK\$11,024,000). 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.

PROSPECTS

With the continuation of the COVID-19 pandemic and the heightened tensions between China and the US that extend from the trade to technology sector, the market conditions facing the Group remain challenging. Although there are gradual revival of economic activities of some major economies including Mainland China and many measures have been taken by the Hong Kong government in controlling the pandemic, the Group remains cautiously optimistic about the state of the global and local economy in the near term and will continue to adopt a prudent and disciplined approach in managing the Group's businesses as well as in seizing new investment opportunities.

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(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 set out on pages 18 to 41, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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

24 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	143,085	604,991
Trading income		3,430	392,379
Dividend income		4,608	11,781
Interest income		131,815	189,423
Commission, underwriting fee and others		3,232	11,408
Purchases and related expenses		(3,393)	(390,440)
Other income	5	8,604	753
Other (loss) gain	6	(209)	161
Staff costs		(11,513)	(11,024)
Other expenses		(16,706)	(13,903)
Net gain (loss) on financial assets at fair value through profit or loss	7	249,770	(304,339)
(Loss) gain on disposal of debt instruments at fair value through other comprehensive income		(965)	1,182
Gain on redemption of debt instruments at fair value through other comprehensive income		–	109
Impairment losses under expected credit loss model, net of reversal	10	(238,045)	(15,362)
Finance costs	8	(66,635)	(90,917)
Profit (loss) before tax		63,993	(218,789)
Income tax (expense) credit	9	(12,342)	79,287
Profit (loss) for the period attributable to owners of the Company	10	51,651	(139,502)
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		8,467	(9,193)
Net fair value (loss) gain on debt instruments at fair value through other comprehensive income		(55,502)	57,897
(Reversal of) provision for impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	(3,220)	891
Release on disposal of debt instruments at fair value through other comprehensive income		965	(1,182)
Release on redemption of debt instruments at fair value through other comprehensive income		–	(109)
Other comprehensive (expense) income for the period		(49,290)	48,304
Total comprehensive income (expense) for the period attributable to owners of the Company		2,361	(91,198)
Earnings (loss) per share attributable to owners of the Company			
– Basic	12	HK0.30 cent	HK(0.82) cent

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Notes	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	13	18,439	19,788
Right-of-use assets	13	11,401	10,434
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Debt instruments at fair value through other comprehensive income	14	592,687	949,545
Loan receivables	15	–	15,826
Deferred tax assets	17	2,198	8,148
Total non-current assets		630,653	1,009,669
Current assets			
Debt instruments at fair value through other comprehensive income	14	–	7,816
Loan receivables	15	1,224,200	2,405,324
Trade and other receivables	18	99,886	113,327
Income tax recoverable		23,276	3,182
Financial assets at fair value through profit or loss	16	1,585,496	1,454,098
Pledged bank deposits	19	3,094	32,067
Bank balances and cash	19	1,668,855	169,808
Total current assets		4,604,807	4,185,622
Current liabilities			
Trade and other payables	20	442,592	78,479
Income tax payable		5,532	21,048
Borrowings	21	204,249	464,698
Notes payable	22	1,201,506	1,253,171
Lease liabilities		6,033	8,106
Total current liabilities		1,859,912	1,825,502
Net current assets		2,744,895	2,360,120
Total assets less current liabilities		3,375,548	3,369,789
Non-current liability			
Lease liabilities		3,398	–
Net assets		3,372,150	3,369,789
Capital and reserves			
Share capital	23	3,012,877	3,012,877
Reserves		359,273	356,912
Total equity		3,372,150	3,369,789

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2019 (audited)	3,012,877	(65,672)	698,777	3,645,982
Loss for the period	–	–	(139,502)	(139,502)
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income	–	(9,193)	–	(9,193)
Net fair value gain on debt instruments at fair value through other comprehensive income	–	57,897	–	57,897
Impairment loss on debt instruments at fair value through other comprehensive income	–	891	–	891
Release on disposal of debt instruments at fair value through other comprehensive income	–	(1,182)	–	(1,182)
Release on redemption of debt instruments at fair value through other comprehensive income	–	(109)	–	(109)
Total comprehensive income (expense) for the period	–	48,304	(139,502)	(91,198)
At 30 June 2019 (unaudited)	3,012,877	(17,368)	559,275	3,554,784
At 1 January 2020 (audited)	3,012,877	(18,918)	375,830	3,369,789
Profit for the period	–	–	51,651	51,651
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income	–	8,467	–	8,467
Net fair value loss on debt instruments at fair value through other comprehensive income	–	(55,502)	–	(55,502)
Reversal of impairment loss on debt instruments at fair value through other comprehensive income	–	(3,220)	–	(3,220)
Release on disposal of debt instruments at fair value through other comprehensive income	–	965	–	965
Total comprehensive (expense) income for the period	–	(49,290)	51,651	2,361
At 30 June 2020 (unaudited)	3,012,877	(68,208)	427,481	3,372,150

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash from (used in) operating activities		1,546,796	(69,907)
Net cash from investing activities			
Purchase of debt instruments at fair value through other comprehensive income		–	(26,141)
Proceeds from disposal of debt instruments at fair value through other comprehensive income		309,172	133,839
Proceeds from redemption of debt instruments at fair value through other comprehensive income		–	3,900
Purchase of property, plant and equipment	13	(314)	(22)
Withdrawal (placement) of pledged bank deposits		28,973	(366)
Interest received		5,130	438
		342,961	111,648
Net cash used in financing activities			
New borrowings raised		71,650	172,526
Repayments of borrowings		(332,099)	(287,265)
Repayments of leases liabilities		(4,299)	(3,875)
Advances drawn on bill receivables discounted with full recourse		–	125,817
Redemption of notes issued	22	(50,000)	–
Interest paid		(69,028)	(89,341)
		(383,776)	(82,138)
Net increase (decrease) in cash and cash equivalents		1,505,981	(40,397)
Cash and cash equivalents at the beginning of the period		135,793	162,504
Cash and cash equivalents at the end of the period, represented by bank balances and cash – general accounts and cash	19	1,641,774	122,107

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

The condensed consolidated financial statements 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.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy and business environment, and directly and indirectly affecting the operations of the Group. The financial position and performance of the Group have been affected in different aspects, including (i) the decrease in revenue of the money lending business mainly due to the adoption of prudent lending policy, and the increase in loss allowance to reflect the credit-impaired status of various loans and the realisation value of the collaterals pledged to the Group; (ii) the decreases in revenue from securities investments and the securities brokerage business owing, to a certain extent, the volatilities and negative sentiments of the investment markets resulted from the outbreak of COVID-19; and (iii) the temporary halt of trading activities of commodities resulted mainly from the trade disputes between China and the US and the slowdown of the European economy, which partly due to the outbreak of COVID-19.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s audited consolidated financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period has had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Trading of coke products	–	388,604
Sales of electronic components	3,430	3,775
Arrangement fee income from money lending business	388	6,775
Commission and handling income from securities brokerage business	2,507	3,526
Underwriting fee income from securities brokerage business	337	1,107
Revenue from contracts with customers	6,662	403,787
Dividend income from securities investments	4,608	11,781
Interest income from securities investments	32,582	38,586
Interest income from securities margin financing business	505	1,255
Interest income from money lending business	98,728	149,582
	143,085	604,991

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

4. SEGMENT INFORMATION

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. SEGMENT INFORMATION (continued)

Segment revenue and results

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

	Investment in securities HK\$'000 (Unaudited)	Trading HK\$'000 (Unaudited)	Money lending HK\$'000 (Unaudited)	Securities brokerage HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Six months ended 30 June 2020					
Segment Revenue					
External sales/sources	37,190	3,430	99,116	3,349	143,085
Results					
Segment results	291,996	113	(143,994)	1,937	150,052
Other income					5,019
Central administrative expenses					(24,443)
Finance costs					(66,635)
Profit before tax					63,993
Income tax expense					(12,342)
Profit for the period					51,651
Six months ended 30 June 2019					
Segment Revenue					
External sales/sources	50,367	392,379	156,357	5,888	604,991
Results					
Segment results	(253,713)	2,255	140,475	4,457	(106,526)
Other income					150
Central administrative expenses					(21,496)
Finance costs					(90,917)
Loss before tax					(218,789)
Income tax credit					79,287
Loss for the period					(139,502)

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Segment assets		
Investment in securities	2,291,501	2,528,601
Trading	3,153	43,474
Money lending	1,261,698	2,435,497
Securities brokerage	123,499	124,337
Total segment assets	3,679,851	5,131,909
Property, plant and equipment	18,439	19,788
Right-of-use assets	11,401	10,434
Bank balances and cash	1,512,611	24,211
Other unallocated assets	13,158	8,949
Consolidated assets	5,235,460	5,195,291
Segment liabilities		
Investment in securities	208,960	472,389
Trading	390,059	334
Money lending	1,149	14,394
Securities brokerage	38,359	61,514
Total segment liabilities	638,527	548,631
Other payables	13,846	15,594
Notes payable	1,201,506	1,253,171
Lease liabilities	9,431	8,106
Consolidated liabilities	1,863,310	1,825,502

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. OTHER INCOME

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Bank interest income	5,130	438
Others (Note)	3,474	315
	8,604	753

Note: The amount mainly represented interest income of HK\$3,189,000 (six months ended 30 June 2019: nil) from note receivable as disclosed in Note 18.

6. OTHER (LOSS) GAIN

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Exchange (loss) gain, net	(209)	161

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net unrealised gain (loss) on financial assets at fair value through profit or loss ("FVTPL")	268,385	(298,834)
Net realised loss on sales of financial assets at FVTPL	(18,615)	(5,505)
	249,770	(304,339)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. FINANCE COSTS

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	–	954
Interest on bank borrowings	1,562	4,711
Interest on margin financing	6,642	12,526
Interest on notes payable (Note 22)	58,261	72,481
Interest on lease liabilities	170	245
	66,635	90,917

9. INCOME TAX (EXPENSE) CREDIT

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Tax credit (charge) comprises:		
Current tax	2,075	(17,294)
Deferred tax (Note 17)	(14,417)	96,581
Income tax (expense) credit recognised in profit or loss	(12,342)	79,287

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the current interim period (six months ended 30 June 2019: 16.5%).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Provision of impairment on loan receivables	241,265	14,471
(Reversal of) provision for impairment on debt instruments at fair value through other comprehensive income ("FVTOCI"), net	(3,220)	891
Provision of impairment losses under expected credit losses ("ECL") model, net of reversal	238,045	15,362
Depreciation of property, plant and equipment	1,663	1,646
Depreciation of right-of-use assets	4,657	4,031

11. DIVIDEND

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2019: nil). The directors have 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	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	51,651	(139,502)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. EARNINGS (LOSS) PER SHARE (continued)

	Six months ended 30 June	
	2020 '000	2019 '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 2020 and 2019 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

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

During the period, the Group acquired property, plant and equipment of HK\$314,000 (six months ended 30 June 2019: HK\$22,000).

During the current interim period, the Group entered into a new lease agreement with a three year lease term. On lease commencement, the Group recognised right-of-use assets of HK\$5,624,000 (six months ended 30 June 2019: nil) and lease liabilities of HK\$5,624,000 (six months ended 30 June 2019: nil).

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Listed investments, at fair value:		
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.90% to 9.50% (31 December 2019: 3.90% to 12.25%) per annum and maturity dates ranging from 8 March 2022 to 25 May 2026 (31 December 2019: 19 July 2020 to 23 January 2027)	592,687	957,361
Analysed as:		
Current portion	–	7,816
Non-current portion	592,687	949,545
	592,687	957,361

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

At 30 June 2020, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

Debt instruments at FVTOCI are listed bonds with the credit loss allowance measured on 12-month ECL ("12m ECL") basis as the credit risks on financial instruments have not increased significantly since initial recognition. The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of the bond investments by rating agencies, macroeconomic factors affecting the respective industry of each issuer, corporate historical default and loss rate and exposure at default of each bond investment. The Group also considered macroeconomic factors and recent forward-looking information (such as gross domestic product growth and unemployment rate with adjustment on different scenarios of economic environment prospect) affecting the respective industry of each issuer in the assessment.

The Group recognised reversal of impairment loss of HK\$3,220,000 (six months ended 30 June 2019: provision for impairment loss of HK\$891,000) for the current interim period.

15. LOAN RECEIVABLES

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Fixed-rate loan receivables	1,619,554	2,575,239
Less: impairment allowance	(395,354)	(154,089)
	1,224,200	2,421,150
Analysed as:		
Current portion	1,224,200	2,405,324
Non-current portion	–	15,826
	1,224,200	2,421,150
Analysed as:		
Secured	1,210,270	2,189,142
Guaranteed	–	66,647
Unsecured	13,930	165,361
	1,224,200	2,421,150

At 30 June 2020, the range of interest rates attributed to the Group's loan receivables was 8.125% to 18% (31 December 2019: 3% to 18%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. LOAN RECEIVABLES (continued)

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

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Fixed-rate loan receivables:		
Within one year or on demand	1,224,200	2,405,324
In more than one year but not more than two years	–	15,826
	1,224,200	2,421,150

The Group provided impairment allowance of HK\$241,265,000 (six months ended 30 June 2019: HK\$14,471,000) for the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. LOAN RECEIVABLES (continued)

The following table shows reconciliation of loss allowances that have been recognised for loan receivables:

	Loan receivables			Total HK\$'000
	12m ECL HK\$'000	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	
At 1 January 2019	11,800	-	-	11,800
Changes due to financial instruments recognised at 1 January 2019:				
– Impairment losses recognised	531	562	149,835	150,928
– Impairment losses reversed	(8,699)	-	-	(8,699)
– Transfer to lifetime ECL	(2,973)	350	2,623	-
New financial assets originated or purchased	60	-	-	60
At 31 December 2019 and 1 January 2020	719	912	152,458	154,089
Changes due to financial instruments recognised at 1 January 2020:				
– Impairment losses recognised	-	183	247,766	247,949
– Impairment losses reversed	(143)	(40)	(6,511)	(6,694)
– Transfer to lifetime ECL	(524)	-	524	-
New financial assets originated or purchased	10	-	-	10
At 30 June 2020	62	1,055	394,237	395,354

During the current period, the increase in loss allowance is mainly contributed by:

- (i) loan receivables with gross carrying amount totalling HK\$44,000,000 that are newly originated for which 12m ECL has been provided;
- (ii) loan receivables with gross carrying amount totalling HK\$239,636,000 that have become credit-impaired for which lifetime ECL has been provided; and
- (iii) loan receivables with gross carrying amount totalling HK\$1,083,431,000 that are continued to be credit-impaired for which lifetime ECL has been provided.

The increase in loss allowance mainly reflected the credit-impaired status of the loan receivables during the current period. Other than this, there are no significant changes to estimation techniques and assumptions made during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (Note)	1,585,496	1,454,098
Analysed as:		
Current portion	1,585,496	1,454,098

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

17. DEFERRED TAX ASSETS

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

	Allowance for ECL HK\$'000	Tax losses HK\$'000	Temporary difference related to net unrealised gain/loss on financial assets at FVTPL and debt instruments at FVTOCI HK\$'000	Total HK\$'000
At 1 January 2019 (audited)	4,535	101,216	(189,993)	(84,242)
Credited to the profit or loss	3,471	27,868	69,950	101,289
Credited (charged) to the other comprehensive income	142	–	(9,041)	(8,899)
At 31 December 2019 and 1 January 2020 (audited)	8,148	129,084	(129,084)	8,148
(Charged) credited to profit or loss (Note 9)	(5,418)	47,000	(55,999)	(14,417)
(Charged) credited to the other comprehensive income	(532)	–	8,999	8,467
At 30 June 2020 (unaudited)	2,198	176,084	(176,084)	2,198

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. DEFERRED TAX ASSETS (continued)

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

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Deferred tax assets	2,198	8,148

18. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Trade receivables of securities brokerage business:		
– Cash clients (<i>Note (i)</i>)	3,677	8,994
– Margin clients (<i>Note (i)</i>)	6,672	18,571
– Hong Kong Securities Clearing Company Limited ("HKSCC") (<i>Note (i)</i>)	4,722	–
Other receivables (<i>Note (ii)</i>)	38,296	36,362
Note receivable (<i>Note (iii)</i>)	46,519	49,400
	99,886	113,327

Notes:

- (i) For securities brokerage business, the normal settlement terms of trade receivables from cash clients and HKSCC are two days after trade date. The trade receivables from cash clients, margin clients and HKSCC with carrying amount totalling HK\$15,071,000 (31 December 2019: HK\$27,565,000) were not past due at the end of the reporting period.

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call for which the clients have to make good the shortfall. At 30 June 2020, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK\$241,473,000 (31 December 2019: HK\$343,979,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

18. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

- (ii) Included in other receivables were unrestricted deposits of HK\$12,284,000 (31 December 2019: HK\$9,672,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly dividend receivables, prepayment and deposits for office use.
- (iii) The amount represented the outstanding principal of a convertible note subscribed by the Group, which was originally due for repayment on 15 December 2019. Pursuant to a deed entered into between the relevant parties on 10 February 2020, the conversion rights under the note were removed and ceased to be convertible into shares of the issuer. The repayment date of the outstanding principal of the note of HK\$49,400,000 was extended from 15 December 2019 to 15 May 2020 and bearing interest at the rate of 12% per annum. During the period, the outstanding principal of HK\$3,800,000 of the note was repaid with the repayment date of the remaining principal of the note being further extended to 14 October 2020 and bearing interest at the rate of 16% per annum.

19. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Bank balances and cash:		
General accounts and cash (Note (i))	1,641,774	135,793
Client accounts (Note (ii))	27,081	34,015
	1,668,855	169,808

Notes:

- (i) The accounts comprised 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 2.80% (31 December 2019: 0.01% to 2.71%) per annum.
- (ii) The Group's securities brokerage business receives and holds money deposited by clients during the course of conducting its regulated activities in its ordinary course of business. Such clients' monies are maintained in a segregated bank account. The Group has recognised the corresponding account payable to respective clients.

Pledged bank deposits represented deposits pledged to banks to secure the banking facilities granted to the Group. At 30 June 2020, no deposit (31 December 2019: HK\$28,977,000) was pledged to a bank to comply with the minimum deposit requirement for the issuance of letters of credit and deposit amounting to HK\$3,094,000 (31 December 2019: HK\$3,090,000) was pledged to another bank to secure the credit facility for settlement of the securities brokerage activities. The pledged bank deposits will be released upon settlement of the relevant letters of credit and termination of the credit facility in relation to settlement of the securities brokerage activities and are therefore classified as current assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. TRADE AND OTHER PAYABLES

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Trade payables of securities brokerage business:		
– Cash clients	32,740	58,823
– HKSCC	–	2,540
Trade payables of trading business	6	–
Accrued charges and other payables (Note)	397,928	4,470
Interest payables	11,918	12,646
	442,592	78,479

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

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

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
0 - 180 days	6	–

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

Note: Included in accrued charges and other payables were mainly refundable deposits of HK\$390,000,000 (equivalent to US\$50,000,000) (31 December 2019: nil) received from a customer of the trading business.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

21. BORROWINGS

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Short-term secured bank borrowing (Note (i))	79,100	228,860
Margin financing (Note (ii))	125,149	235,838
	204,249	464,698

Notes:

- (i) The amount carried interest at London Interbank Offered Rate plus certain basis points per annum and was repayable within one year. The loan agreement of the secured bank borrowings contains a repayment on demand clause. The borrowings were secured by certain debt securities.
- (ii) The amount carried interest at Hong Kong prime rate plus certain basis points per annum and secured by certain debt and equity securities held in a margin securities account.

22. NOTES PAYABLE

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

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
At the beginning of the period/year	1,253,171	1,500,325
Redemption of notes (Note)	(50,000)	(250,000)
Effective interest charged (Note 8)	58,261	139,245
Interest paid/payable	(59,926)	(136,399)
At the end of the period/year	1,201,506	1,253,171
Analysed as:		
Current portion	1,201,506	1,253,171

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. NOTES PAYABLE (continued)

Note: In December 2016, the Company issued 2-year unsecured notes (the “2016 Notes”) with nominal value of HK\$1,500,000,000 denominated in Hong Kong dollars. The interest for the 2016 Notes was 7.00% per annum and 8.00% per annum for the first and second year respectively. The effective interest rate of the 2016 Notes was 8.57% per annum. In December 2018, the 2016 Notes of nominal value of HK\$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining 2016 Notes with nominal value of HK\$1,300,000,000 for two years to 16 December 2020. The interest for the 2016 Notes is 9.50% per annum and 10.00% per annum for the third and fourth year respectively. The effective interest rate of the 2016 Notes is 9.74% per annum. The 2016 Notes carries an option for the Company to early redeem the notes by giving not less than 15 days’ nor more than 30 days’ notice to the noteholders on the third anniversary date and/or 16 June 2020, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. During the six months ended 30 June 2020, the 2016 Notes of nominal value of HK\$50,000,000 (year ended 31 December 2019: HK\$250,000,000) were redeemed. At 30 June 2020, the 2016 Notes with nominal value of HK\$1,000,000,000 remained outstanding.

In August 2018, the Company issued a new tranche of 2-year unsecured notes (the “2018 Notes”) with nominal value of HK\$200,000,000 denominated in Hong Kong dollars. The interest for the 2018 Notes is 9.50% per annum and 10.00% per annum for the first and second year respectively. The effective interest rate of the 2018 Notes is 9.74% per annum. The 2018 Notes carries an option for the Company to early redeem the notes by giving early redemption notice to the noteholders on the first anniversary date, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. At 30 June 2020, the 2018 Notes with nominal value of HK\$200,000,000 remained outstanding.

23. SHARE CAPITAL OF THE COMPANY

	Number of shares ‘000	Share capital HK\$‘000
Issued and fully paid ordinary shares:		
At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020	16,987,714	3,012,877

24. PLEDGE OF ASSETS

At 30 June 2020, debt securities of HK\$592,687,000 (31 December 2019: HK\$914,387,000) and equity securities of HK\$1,549,274,000 (31 December 2019: HK\$1,352,744,000) were pledged to bank/securities brokerage company as security for borrowings.

In addition, as disclosed in Note 19, the Group’s credit facilities for settlement of the securities brokerage activities were secured by the Group’s bank deposits of HK\$3,094,000 (31 December 2019: HK\$32,067,000 in aggregate for the Group’s credit facilities for issuance of letters of credit and settlement of the securities brokerage activities).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

The directors of the Company have 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.

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 fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

Financial assets	Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	30 June 2020 HK\$'000	31 December 2019 HK\$'000			
1) Financial assets at FVTPL					
Listed equity securities	1,585,496	1,454,098	Level 1	Quoted bid prices in an active market	N/A
2) Debt instruments at FVTOCI					
Listed debt securities	592,687	957,361	Level 1	Quoted bid prices in active markets	N/A

There was no transfer between Level 1, 2 and 3 for the period ended 30 June 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

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

26. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Short-term benefits	3,163	2,046
Post-employment benefits	85	83
	3,248	2,129

The remuneration of directors is determined by the Remuneration Committee having regard to the competence, performance and experience of 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 2020 (30 June 2019: nil).

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

At 30 June 2020, 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 29 June 2020 and the previous share option scheme of the Company adopted on 10 June 2011 (the "2011 Share Option Scheme") was terminated on the same date. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the Company and/or subsidiaries of the Company.

The total number of shares of the Company available for issue under the Share Option Scheme is 1,698,771,383 shares, representing 10% of the issued shares of the Company at the date of adoption of the Share Option Scheme and the issued shares of the Company at the date of this interim report.

No share options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2020 and 2019 and no share options were outstanding at 30 June 2020 and 2019.

Further details of the Share Option Scheme and the 2011 Share Option Scheme were set out in the Company's circular dated 26 May 2020 and the Company's 2019 Annual Report respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Share Option Scheme as mentioned above, at no time during the six months ended 30 June 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 30 June 2020, 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 (Note (i))
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	1,680,000,000 (Note (ii))	9.89%
Pioneer Success Development Limited ("Pioneer Success")	Beneficial owner	1,680,000,000 (Note (ii))	9.89%

Notes:

- (i) The approximate percentage of the Company's issued shares was calculated on the basis of 16,987,713,835 shares of the Company in issue at 30 June 2020.
- (ii) These shares were held by Pioneer Success, which in turn was wholly owned by Mr. Suen. Mr. Suen was the sole director of Pioneer Success. Accordingly, Mr. Suen and Pioneer Success were deemed to be interested in 1,680,000,000 shares of the Company under the SFO.

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

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company at 30 June 2020 as required pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2020.

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 2020.

Other Information

UPDATE ON DIRECTORS' INFORMATION

The following is updated information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's last published annual report up to 24 August 2020, being the date of this interim report:

- Dr. Or Ching Fai has been re-designated from executive chairman and executive director to non-executive chairman and non-executive director of Esprit Holdings Limited (HKEX stock code: 330), a company listed on the Main Board of the Stock Exchange, with effect from 24 June 2020.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2020 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the auditor is set out on page 17 of this interim report.

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

During the six months ended 30 June 2020, 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, 24 August 2020