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## CHINA STRATEGIC HOLDINGS LIMITED

### 中策集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 235)**

## FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018 together with comparative figures as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Revenue</b>	3	<b>1,477,776</b>	1,337,246
Trading income		<b>1,072,587</b>	1,050,406
Dividend income		<b>17,067</b>	14,349
Interest income		<b>370,403</b>	254,813
Commission, underwriting fee and others		<b>17,719</b>	17,678
Purchases and related expenses		<b>(1,063,835)</b>	(1,040,580)
Other income	5	<b>776</b>	8,582
Other gain	6	<b>945</b>	643
Staff costs		<b>(31,278)</b>	(38,876)
Impairment loss		<b>(384)</b>	–
Other expenses		<b>(32,543)</b>	(28,064)
Net gain on financial assets at fair value through profit or loss	7	<b>619,093</b>	65,345
Loss on disposal of debt instruments at fair value through other comprehensive income		<b>(2,696)</b>	–
Loss on redemption of debt instruments at fair value through other comprehensive income		<b>(93)</b>	–
Gain on disposal of available-for-sale investments		–	979
Gain on redemption of available-for-sale investments		–	7,800
Finance costs	8	<b>(162,053)</b>	(134,890)

	<i>Notes</i>	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Profit before tax		<b>805,708</b>	178,185
Income tax expense	9	<b>(96,918)</b>	(51,992)
<b>Profit for the year attributable to owners of the Company</b>	<b>10</b>	<b>708,790</b>	126,193
<b>Other comprehensive (expense) income</b>			
<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		<b>19,174</b>	–
Net fair value loss on debt instruments at fair value through other comprehensive income		<b>(145,512)</b>	–
Release on disposal of debt instruments at fair value through other comprehensive income		<b>2,696</b>	–
Release on redemption of debt instruments at fair value through other comprehensive income		<b>93</b>	–
Impairment loss on debt instruments at fair value through other comprehensive income		<b>384</b>	–
Net fair value gain on available-for-sale investments		–	33,516
Release on disposal of available-for-sale investments		–	(979)
Release on redemption of available-for-sale investments		–	(7,800)
<b>Other comprehensive (expense) income for the year</b>		<b>(123,165)</b>	24,737
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>585,625</b>	150,930
<b>Earnings per share attributable to owners of the Company</b>			
– Basic	12	<b>HK4.17 cents</b>	HK0.74 cent

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

	<i>Notes</i>	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>22,994</b>	26,236
Prepaid lease payments		<b>2,471</b>	2,570
Goodwill		<b>4,000</b>	4,000
Club debentures		<b>1,928</b>	1,928
Available-for-sale investments	<i>13</i>	–	1,261,130
Debt instruments at fair value through other comprehensive income	<i>14</i>	<b>987,860</b>	–
Loan receivables	<i>15</i>	<b>31,705</b>	10,804
Financial assets at fair value through profit or loss	<i>16</i>	<b>24,381</b>	–
Total non-current assets		<b>1,075,339</b>	1,306,668
<b>Current assets</b>			
Inventories		<b>6,108</b>	6,641
Prepaid lease payments		<b>99</b>	99
Available-for-sale investments	<i>13</i>	–	62,250
Debt instruments at fair value through other comprehensive income	<i>14</i>	<b>3,822</b>	–
Loan receivables	<i>15</i>	<b>2,477,681</b>	2,047,196
Trade and other receivables	<i>17</i>	<b>182,910</b>	56,632
Income tax recoverable		<b>3,104</b>	2,587
Financial assets at fair value through profit or loss	<i>16</i>	<b>2,068,030</b>	1,270,302
Pledged bank deposits		<b>31,394</b>	30,821
Bank balances and cash		<b>213,896</b>	457,699
Total current assets		<b>4,987,044</b>	3,934,227
<b>Current liabilities</b>			
Trade and other payables	<i>18</i>	<b>109,820</b>	191,711
Income tax payable		<b>18,743</b>	19,250
Borrowings	<i>19</i>	<b>703,271</b>	430,756
Notes payable	<i>20</i>	–	1,492,168
Total current liabilities		<b>831,834</b>	2,133,885
<b>Net current assets</b>		<b>4,155,210</b>	1,800,342
<b>Total assets less current liabilities</b>		<b>5,230,549</b>	3,107,010
<b>Non-current liabilities</b>			
Notes payable	<i>20</i>	<b>1,500,325</b>	–
Deferred tax liabilities		<b>84,242</b>	34,853
Total non-current liabilities		<b>1,584,567</b>	34,853
<b>Net assets</b>		<b>3,645,982</b>	3,072,157
<b>Capital and reserves</b>			
Share capital		<b>3,012,877</b>	3,012,877
Reserves		<b>633,105</b>	59,280
<b>Total equity</b>		<b>3,645,982</b>	3,072,157

Notes:

## 1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance (Cap. 622) (the “CO”).

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

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

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary final results announcement for the year ended 31 December 2018 does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the CO is as follows:

The Company has delivered the 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 CO and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports are unqualified; do not include a reference to any matters to which the auditor draws attention by way of emphasis without qualifying its reports; and do not contain a statement under sections 406(2), 407(2) or (3) of the CO.

## 2. Application of new and amendments to HKFRSs

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

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year.

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

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

## **2.1 HKFRS 15 “Revenue from contracts with customers”**

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

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.

The Group recognises revenue from the following major sources which arise from contracts with customers/external sources:

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

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in Note 3.

### *Summary of effects arising from initial application of HKFRS 15*

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

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.

## 2.2 HKFRS 9 “Financial instruments”

In the current year, 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 under ECL model) 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”.

### *Summary of effects arising from initial application of HKFRS 9*

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

	Available- for-sale investments HK\$'000	Debt instruments at fair value through other comprehensive income ("FVTOCI") HK\$'000	Financial assets at fair value through profit or loss ("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)

(a) *AFS investments*

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 losses of HK\$10,340,000 relating to those equity investments previously carried at fair value were transferred from investment revaluation reserve to retained profits as at 1 January 2018.

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 fair value gains of HK\$42,195,000 continued to accumulate in the investment revaluation reserve as at 1 January 2018.

(b) *Impairment under ECL model*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables that are within the scope of HKFRS 15. To measure the ECL, trade receivables have been assessed individually with outstanding significant balances grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including pledged bank deposits, loan receivables, other receivables, debt instruments at FVTOCI, bank balances and cash are assessed on 12 month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of the bond investment given by rating agencies or credit spread and yield to maturity of bond issuers within similar industries, macroeconomic factors affecting the respective industry of each issuer, corporate historical default, loss rate and exposure of default of each bond investment. The Group considers there has been no significant increase in credit risk since initial recognition. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

As at 1 January 2018, additional credit loss allowance of HK\$27,098,000 has been recognised against retained profits. The additional 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.

All loss allowances, including loan receivables and debt instruments at FVTOCI as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are set out in Note 2.3.

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 <i>HK\$'000</i> (Audited)	HKFRS 9 <i>HK\$'000</i>	At 1 January 2018 <i>HK\$'000</i> (Restated)
<b>Non-current assets</b>			
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
<b>Current assets</b>			
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
<b>Capital and reserves</b>			
Investment revaluation reserve	31,855	25,638	57,493
Retained profits (accumulated losses)	27,425	(37,438)	(10,013)



### 3. Revenue

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trading of coke products	701,680	664,487
Trading of metal minerals and metal	352,625	355,557
Sales of electronic components	18,282	30,362
Dividend income from securities investments	17,067	14,349
Interest income from securities investments	105,017	73,761
Interest income from securities margin financing business	356	–
Interest income from money lending business	265,030	181,052
Arrangement fee income from money lending business	4,339	8,503
Commission and handling income from securities brokerage business	6,567	6,308
Underwriting fee income from securities brokerage business	6,813	2,867
	<u>1,477,776</u>	<u>1,337,246</u>

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

#### For the year ended 31 December 2018

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

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

Revenue is derived principally from trading of metal minerals, metal, coke products and electronic components, recognised once the control of the goods has transferred from the Group to the buyer. Revenue is measured based on consideration specified in the contract with the customer.

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Underwriting fee income is recognised when the obligation of underwriting is completed and the economic interests may flow into the Group and the relevant revenue and costs may be measured reliably. Other service income are recognised when the related services are rendered.

During the year, all revenue are for periods of one year or less and there are no unsatisfied contracts. As such, there is no disclosure of transaction price allocation as required under HKFRS 15.

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

#### **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 represented by the Board, for the purposes of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

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

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

## Segment revenue and results

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

### For the year ended 31 December 2018

	Investment in securities <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue</b>					
External sales/sources	<u>122,084</u>	<u>1,072,587</u>	<u>269,369</u>	<u>13,736</u>	<u>1,477,776</u>
<b>Results</b>					
Segment results	<u>735,422</u>	<u>8,740</u>	<u>266,829</u>	<u>7,484</u>	<u>1,018,475</u>
Other income					9
Central administrative expenses					(50,723)
Finance costs					<u>(162,053)</u>
Profit before tax					805,708
Income tax expense					<u>(96,918)</u>
Profit for the year					<u>708,790</u>
<b>Other segment information</b>					
Amortisation of prepaid lease payments	99	-	-	-	99
Depreciation of property, plant and equipment	2,376	28	862	24	3,290
Net gain on financial assets at FVTPL	619,093	-	-	-	619,093
Loss on disposal of debt instruments at FVTOCI	(2,696)	-	-	-	(2,696)
Loss on redemption of debt instruments at FVTOCI	(93)	-	-	-	(93)

For the year ended 31 December 2017

	Investment in securities <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue</b>					
External sales/sources	<u>88,110</u>	<u>1,050,406</u>	<u>189,555</u>	<u>9,175</u>	<u>1,337,246</u>
<b>Results</b>					
Segment results	<u>165,454</u>	<u>9,965</u>	<u>186,184</u>	<u>6,885</u>	368,488
Other income					1,866
Other loss					(79)
Central administrative expenses					(57,200)
Finance costs					<u>(134,890)</u>
Profit before tax					178,185
Income tax expense					<u>(51,992)</u>
Profit for the year					<u>126,193</u>
<b>Other segment information</b>					
Amortisation of prepaid lease payments	99	–	–	–	99
Depreciation of property, plant and equipment	1,471	89	1,656	61	3,277
Net gain on financial assets at FVTPL	65,345	–	–	–	65,345
Gain on disposal of AFS investments	979	–	–	–	979
Gain on redemption of AFS investments	<u>7,800</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,800</u>

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

## Geographical information

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC").

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

	Revenue from external customers/sources		Non-current assets ( <i>Note</i> )	
	Year ended 31 December		As at 31 December	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	647,474	917,186	24,000	27,174
The PRC	128,622	229,383	3,393	3,560
Europe	701,680	120,963	–	–
South America	–	69,714	–	–
	<u>1,477,776</u>	<u>1,337,246</u>	<u>27,393</u>	<u>30,734</u>

*Note:* Non-current assets excluded goodwill, AFS investments, debt instruments at FVTOCI, loan receivables and financial assets at FVTPL.

## Information about major customers

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

	For the year ended 31 December	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A	407,873	– <sup>1</sup>
Customer B	293,807	120,963 <sup>2</sup>
Customer C	231,602	– <sup>1</sup>
Customer D	– <sup>1</sup>	139,290
Customer E	– <sup>1</sup>	543,524
	<u>                    </u>	<u>                    </u>

<sup>1</sup> No revenue generated from the customers during the year/prior year.

<sup>2</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group.

<b>5. Other income</b>		
	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	<b>674</b>	4,026
Commission income from investment in securities	–	4,368
Others	<b>102</b>	188
	<hr/>	<hr/>
	<b>776</b>	8,582
	<hr/> <hr/>	<hr/> <hr/>
<b>6. Other gain</b>		
	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange gain, net	<b>945</b>	643
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>
<b>7. Net gain on financial assets at fair value through profit or loss</b>		
	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net unrealised gain on financial assets at FVTPL	<b>595,709</b>	170,317
Net realised gain (loss) on sales of financial assets at FVTPL	<b>23,384</b>	(104,972)
	<hr/>	<hr/>
	<b>619,093</b>	65,345
	<hr/> <hr/>	<hr/> <hr/>
<b>8. Finance costs</b>		
	<b>2018</b>	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on advances drawn on bill receivables discounted with full recourse	<b>1,272</b>	1,137
Interest on borrowings	<b>24,871</b>	6,847
Interest on notes payable ( <i>Note 20</i> )	<b>135,910</b>	126,906
	<hr/>	<hr/>
	<b>162,053</b>	134,890
	<hr/> <hr/>	<hr/> <hr/>

## 9. Income tax expense

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	28,414	22,055
(Over)underprovision in prior years		
– Hong Kong Profits Tax	<u>(59)</u>	<u>346</u>
	28,355	22,401
Deferred tax	<u>68,563</u>	<u>29,591</u>
Income tax expense recognised in profit or loss	<u><u>96,918</u></u>	<u><u>51,992</u></u>

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for 2017.

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

## 10. Profit for the year

Profit for the year has been arrived at after charging the following items:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Staff costs		
– directors’ emoluments	11,586	22,328
– other staff salaries, wages and other benefits	18,755	15,853
– retirement benefit scheme contributions, excluding directors	<u>937</u>	<u>695</u>
Total staff costs	<u>31,278</u>	<u>38,876</u>
Auditor’s remuneration	1,949	1,659
Amortisation of prepaid lease payments	99	99
Depreciation of property, plant and equipment	3,290	3,277
Cost of inventories recognised as expenses	<u><u>968,894</u></u>	<u><u>1,014,786</u></u>

## 11. Dividends

No dividend was paid or proposed for the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

## 12. Earnings per share

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

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Earnings:</b>		
Profit for the year attributable to owners of the Company for the purpose of calculating basic earnings per share	<u><b>708,790</b></u>	<u>126,193</u>
	<b>2018</b> <i>'000</i>	2017 <i>'000</i>
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u><b>16,987,714</b></u>	<u>16,987,714</u>

Diluted earnings per share for the years ended 31 December 2018 and 2017 are not presented as there were no dilutive potential ordinary shares in issue during both years.

## 13. Available-for-sale investments

	2017 <i>HK\$'000</i>
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	<u>1,279,121</u>
	<u>1,323,380</u>
Analysed as:	
Current portion	62,250
Non-current portion	<u>1,261,130</u>
	<u>1,323,380</u>



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.

At the date of initial application of HKFRS 9, AFS investments were reclassified to financial assets at FVTPL or debt instruments at FVTOCI, which are detailed in Note 2.2 (a).

#### 14. Debt instruments at fair value through other comprehensive income

	<b>2018</b> <b>HK\$'000</b>
Listed investments, at fair value:	
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.90% to 10.75% per annum and maturity dates ranging from 13 February 2019 to 23 January 2027	<b>991,682</b>
	<b>991,682</b>
Analysed as:	
Current portion	3,822
Non-current portion	<b>987,860</b>
	<b>991,682</b>
	<b>991,682</b>

As at 31 December 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.

At the date of initial application of HKFRS 9, the Group provided impairment allowance of HK\$15,298,000. Impairment allowance of HK\$384,000 was provided for the current year.

**15. Loan receivables**

	<b>2018</b> <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Fixed-rate loan receivables	<b>2,521,186</b>	2,058,000
Less: impairment allowance	<b>(11,800)</b>	–
	<b>2,509,386</b>	2,058,000
Analysed as:		
Current portion	<b>2,477,681</b>	2,047,196
Non-current portion	<b>31,705</b>	10,804
	<b>2,509,386</b>	2,058,000
Analysed as:		
Secured	<b>2,283,895</b>	1,895,743
Guaranteed	<b>209,537</b>	35,000
Unsecured	<b>15,954</b>	127,257
	<b>2,509,386</b>	2,058,000

As at 31 December 2018, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 18% (2017: 3% to 24%) per annum and from 18 January 2019 to 2 May 2021 (2017: 19 January 2018 to 27 October 2020) respectively.

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

	<b>Impairment allowance for loan receivables <i>HK\$'000</i></b>
As at 31 December 2017	–
Impairment allowance recognised	11,800
As at 1 January 2018 (restated) and <b>31 December 2018</b>	11,800

**16. Financial assets at fair value through profit or loss**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Listed investments at fair value:		
– Equity securities listed in Hong Kong ( <i>Note (i)</i> )	<b>2,044,803</b>	1,045,551
Unlisted investments at fair value:		
– Convertible securities with fixed interest of 8% (2017: ranging from 8% to 10%) per annum and maturity date at 15 June 2019 (2017: ranging from 26 October 2018 to 15 June 2019) ( <i>Note (ii)</i> )	<u>47,608</u>	<u>224,751</u>
	<u><b>2,092,411</b></u>	<u>1,270,302</u>
Analysed as:		
Current portion	<b>2,068,030</b>	1,270,302
Non-current portion	<u>24,381</u>	<u>–</u>
	<u><b>2,092,411</b></u>	<u>1,270,302</u>

*Notes:*

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

## 17. Trade and other receivables

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables of securities brokerage business:		
– Cash clients ( <i>Note (i)</i> )	11,022	16,942
– Margin clients ( <i>Note (i)</i> )	21,625	–
Trade receivables of trading business ( <i>Note (i)</i> )	–	2,016
Interest receivables ( <i>Note (ii)</i> )	19,837	24,295
Other receivables ( <i>Note (iii)</i> )	10,426	13,379
Convertible securities receivables ( <i>Note (iv)</i> )	120,000	–
	<u>182,910</u>	<u>56,632</u>

### Notes:

- (i) As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK\$32,647,000 and HK\$18,958,000 respectively.

For securities brokerage business, the normal settlement terms of trade receivables from cash clients are two days after trade date. The trade receivables from cash and margin clients with carrying amount of HK\$32,647,000 was not past due (2017: HK\$16,942,000 was neither past due nor impaired) at the end of the reporting period.

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call which the clients have to make good the shortfall. As at 31 December 2018, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK\$133,139,000 (31 December 2017: nil).

For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days (2017: 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 - 180 days	–	2,016
	<u>–</u>	<u>2,016</u>

As at 31 December 2017, the trade receivables were neither past due nor impaired and were related to customers of good credit quality.

- (ii) Interest receivables of HK\$19,837,000 (2017: HK\$24,295,000 were neither past due nor impaired) due from bond issuers and banks were not past due at the end of the reporting period. The management considers that the credit risk of such receivables is limited because the counterparties are banks and bond issuers of good reputation.
- (iii) Included in other receivables were unrestricted deposits of HK\$6,157,000 (2017: HK\$5,158,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly dividends receivable, prepayment and deposits for office use.
- (iv) Convertible securities receivables represented the outstanding principal of a convertible bond subscribed by the Group, which was due for repayment before the year end as the Group had not exercised the conversion option. The full amount of the receivables was subsequently settled after the year end.

## 18. Trade and other payables

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Trade payables of securities brokerage business:		
– Cash clients	<b>76,933</b>	155,801
– Hong Kong Securities Clearing Company Limited (“HKSCC”)	<b>10,366</b>	5,799
Trade payables of trading business	<b>2,049</b>	9,277
Accrued charges and other payables	<b>7,450</b>	15,315
Interest payables	<b>13,022</b>	5,519
	<b>109,820</b>	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:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
0 - 180 days	<b>2,049</b>	4,640
Over 180 days	–	4,637
	<b>2,049</b>	9,277

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

## 19. Borrowings

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Short-term secured bank borrowings ( <i>Note (i)</i> )	288,600	430,756
Margin financing ( <i>Note (ii)</i> )	414,671	–
	<u>703,271</u>	<u>430,756</u>

*Notes:*

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

## 20. Notes payable

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At the beginning of the year	1,492,168	1,470,919
Redemption of notes ( <i>Note (i)</i> )	(200,000)	–
Issue of notes ( <i>Note (ii)</i> )	200,000	–
Effective interest charged ( <i>Note 8</i> )	135,910	126,906
Interest paid/payable	(127,753)	(105,657)
	<u>1,500,325</u>	<u>1,492,168</u>
At the end of the year	<u>1,500,325</u>	<u>1,492,168</u>
Analysed as:		
Current portion	–	1,492,168
Non-current portion	1,500,325	–
	<u>1,500,325</u>	<u>1,492,168</u>

*Notes:*

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

In December 2018, notes with nominal value of HK\$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020. The interest for the notes is 9.50% per annum and 10.00% per annum for the third and fourth year respectively. The effective interest rate of the notes is 9.74% per annum.

- (ii) In August 2018, the Company issued a new tranche of 2-year unsecured notes with nominal value of HK\$200,000,000 denominated in Hong Kong dollars. The interest for the notes is 9.50% per annum and 10.00% per annum for the first and second year respectively. The effective interest rate of the notes is 9.74% per annum.

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil) and intends to retain the profit earned for future business development of the Group.

## **BUSINESS REVIEW**

For the year ended 31 December 2018, the Group continued to principally engage in the business of investment in securities, trading of commodities and electronic components, money lending as well as securities brokerage.

The increase in the Group's revenue by 11% to HK\$1,477,776,000 (2017: HK\$1,337,246,000) was largely due to the increase in interest income generated by the money lending business and securities investments, as well as the increase in sales of the trading operation, whereas the 462% increase in profit attributable to owners of the Company of HK\$708,790,000 (2017: HK\$126,193,000) was mainly due to the substantial net gains derived from the listed equity securities portfolio held by the Group and the increased profit contribution 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 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 31 December 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\$2,092,411,000 (2017: HK\$1,314,561,000 (restated), including equity securities of HK\$44,259,000 previously classified as available-for-sale ("AFS") investments); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions), comprising listed debt securities in Hong Kong or overseas, valued at



HK\$991,682,000 (2017: HK\$1,279,121,000 (restated)), representing debt instruments previously classified as AFS investments). As a whole, the operation recorded a revenue of HK\$122,084,000 (2017: HK\$88,110,000) and a profit of HK\$735,422,000 (2017: HK\$165,454,000).

### **Financial assets at FVTPL**

At 31 December 2018, the Group held a financial asset at FVTPL portfolio amounting to HK\$2,092,411,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK\$21,103,000 (2017: HK\$22,173,000 (restated)), including dividend income of HK\$1,818,000 previously recognised as dividend income from AFS investments) representing dividends from equity securities of HK\$17,067,000 (2017: HK\$14,349,000 (restated)), including dividend income of HK\$1,818,000 previously recognised as dividend income from AFS investments) and interest income from equity-linked notes and convertible securities of HK\$4,036,000 (2017: HK\$7,824,000). The Group recognised a net gain on financial assets at FVTPL of HK\$619,093,000, which comprised net unrealised gain and net realised gain of HK\$595,709,000 and HK\$23,384,000 respectively (2017: net gain on financial assets at FVTPL of HK\$65,345,000, which comprised net unrealised gain and net realised loss of HK\$170,317,000 and HK\$104,972,000 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 year. 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\$868,197,000 during the year.

At 31 December 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\$2,092,411,000 are as below:

<b>Category of companies</b>	<b>Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %</b>
Banking	10.29
Conglomerate	11.83
Healthcare	65.77
Infrastructure	7.29
Property	3.76
Others	1.06
	100.00

At 31 December 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\$2,092,411,000 (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 year/ carrying amount as at 1 January 2018 HK\$'000	Market/fair value as at 31 December 2018 HK\$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2018 HK\$'000	Unrealised gain (loss) recognised during the year ended 31 December 2018 HK\$'000
			A	B	C	D = C - A	E = C - B
Evergrande Health Industry Group Limited (stock code: 708)	65.77	1.55	219,312	507,883	1,376,080	1,156,768	868,197
Bank of Zhengzhou Co., Ltd. (stock code: 6196)	9.12	3.30 <sup>#</sup>	195,428	195,428	190,919	(4,509)	(4,509)
The Cross-Harbour (Holdings) Limited (stock code: 32)	7.29	3.52	77,377	162,888	152,634	75,257	(10,254)
Get Nice Holdings Limited (stock code: 64)	3.58	3.10	78,000	90,000	75,000	(3,000)	(15,000)
Emperor International Holdings Limited (stock code: 163)	2.91	0.89	77,630	86,203	60,869	(16,761)	(25,334)
Others	11.33	N/A	693,685	454,300	236,909	(456,776)	(217,391)
	<u>100.00</u>		<u>1,341,432</u>	<u>1,496,702</u>	<u>2,092,411</u>	<u>750,979</u>	<u>595,709</u>

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

# The percentage of shareholding interest was calculated on the basis of 1,518,000,000 H shares of Bank of Zhengzhou Co., Ltd. (stock code: 6196) in issue as at 31 December 2018.

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

At 31 December 2018, the Group's debt instrument at FVTOCI portfolio of HK\$991,682,000 was measured at market/fair value. During the year under review, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK\$100,981,000 (2017: HK\$65,937,000 (restated)), representing interest income from debt securities. According to the maturity of the debt securities, part of the debt instruments at FVTOCI of HK\$3,822,000 was classified as current assets.

During the year under review, the Group invested HK\$46,562,000 for acquiring debt securities issued by various property companies listed on the Stock Exchange.

At the year end, a net fair value loss on the debt instrument at FVTOCI portfolio amounting to HK\$145,512,000 was recognised as other comprehensive expense (2017: gain on AFS investment portfolio of HK\$33,516,000). 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 year, which caused the market value of debt securities held by the Group to drop.

During the year under review, the Group disposed of debt securities amounting to HK\$126,089,000 and debt securities of HK\$62,400,000 were redeemed by an issuer. A loss on disposal and on redemption totalling HK\$2,789,000 was released from the Group's investment revaluation reserve and reclassified as loss in the current year (2017: gain of HK\$8,779,000).

At 31 December 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 of HK\$991,682,000 (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 year/ carrying amount as at 1 January 2018 HK\$'000	Market/fair value as at 31 December 2018 HK\$'000	Accumulated fair value gain (loss) recognised up to 31 December 2018 HK\$'000	Fair value gain (loss) recognised during the year ended 31 December 2018 HK\$'000
			A	B	C	D = C - A	E = C - B
<i>Debt securities listed in Hong Kong or overseas</i>							
Aircraft leasing	12.77	5.09	148,348	144,692	126,652	(21,696)	(18,040)
Banking	15.03	3.73 - 3.91	156,999	161,312	149,088	(7,911)	(12,224)
Property	72.20	4.68 - 14.41	786,862	825,096	715,942	(70,920)	(109,154)
	<u>100.00</u>		<u>1,092,209</u>	<u>1,131,100</u>	<u>991,682</u>	<u>(100,527)</u>	<u>(139,418)</u>

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

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

## Trading

The Group's trading business is mainly conducted through China Strategic Metal and Minerals Limited, a wholly owned subsidiary of the Company. During the year under review, the Group's trading operation continued to focusing on trading of commodities including metal minerals, metal, coke products and electronic components. The revenue of the operation of HK\$1,072,587,000 (2017: HK\$1,050,406,000) was in line with last year while its profit dropped by 12% to HK\$8,740,000 (2017: HK\$9,965,000). The drop in the operation's profit was primarily a result of reduced margin earned from certain transactions owing to increased competition amongst traders in commodity markets. The management will step up its effort in maintaining the competitiveness of the operation and will continue to look for new business opportunities.

## 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 42% to HK\$269,369,000 (2017: HK\$189,555,000), and an increase in profit of 43% to HK\$266,829,000 (2017: HK\$186,184,000). Such increases were mainly due to the higher average amount of loans advanced to borrowers during the year and the management's effort in enlarging the operation's clientele base. During the year under review, there was no default in repayments from borrowers, nevertheless, an impairment allowance of HK\$11,800,000, as a general provision, was recognised against loan receivables. The loan portfolio held by the Group amounting to HK\$2,509,386,000 (after impairment allowance) at the year end (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	46.51	8.50 - 18.00	Within 1 year
Individual	0.84	10.125	Over 1 year but within 3 years
Corporate	52.23	10.00 - 18.00	Within 1 year
Corporate	0.42	3.00 - 8.125	Over 1 year but within 3 years
	<u>100.00</u>		

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.

## Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the year under review, the securities brokerage business achieved a strong increase in revenue of 50% to HK\$13,736,000 (2017: HK\$9,175,000) and increase in profit of 9% to HK\$7,484,000 (2017: HK\$6,885,000). The increases in the operation's revenue and profit are largely due to the management's effort in promoting its business and expanded its business scope to participation of corporate shares placing and underwriting exercises. The profit of the operation increased at a lesser rate than its revenue was mainly a result of additional headcounts and increase in certain administrative expenses of the operation.

## **Overall Results**

For the year ended 31 December 2018, the Group recorded profit attributable to owners of the Company of HK\$708,790,000 (2017: HK\$126,193,000) and basic earnings per share of HK4.17 cents (2017: HK0.74 cent). The Group also recorded total comprehensive income attributable to owners of the Company of HK\$585,625,000 (2017: HK\$150,930,000). The profitable results recorded by the Group were mainly attributed to the profit of the securities investment operation of HK\$735,422,000 (2017: HK\$165,454,000) and profit of the money lending business of HK\$266,829,000 (2017: HK\$186,184,000).

## **FINANCIAL REVIEW**

### **Liquidity, Financial Resources and Capital Structure**

For the year ended 31 December 2018, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and securities brokers, funds raised through issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK\$4,987,044,000 (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\$2,230,534,000 (2017: HK\$1,618,055,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$831,834,000 (2017: HK\$2,133,885,000), was at a ratio of about 6.0 (2017: 1.8). At 31 December 2018, the Group's trade and other receivables amounted to HK\$182,910,000 (2017: HK\$56,632,000) which mainly comprised trade receivables from cash and margin clients of the securities brokerage business and the outstanding principal of a convertible bond subscribed by the Group which was due for repayment before the year end as the Group had not exercised the conversion option. The Group also had deferred tax liabilities amounting to HK\$84,242,000 (2017: HK\$34,853,000) that was principally related to the net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses at the year end.

At 31 December 2018, the equity attributable to owners of the Company amounted to HK\$3,645,982,000 (2017: HK\$3,072,157,000) and was equivalent to an amount of approximately HK21.46 cents (31 December 2017: HK18.08 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK\$573,825,000 was mainly a result of the significant profit and gains recognised by the Group during the year.

At 31 December 2018, the Group's borrowings represented 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 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 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. During

the year, notes with nominal value of HK\$200,000,000 were redeemed and the Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020 bearing interest at 9.5% per annum and 10% per annum for the third and fourth year respectively. In addition, the Company issued a new tranche of 2-year unsecured notes in August 2018 with nominal value of HK\$200,000,000 bearing interest at 9.5% per annum and 10% per annum for the first and second year respectively.

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$2,416,401,000 (2017: HK\$2,168,738,000) divided by the equity attributable to owners of the Company of HK\$3,645,982,000 (2017: HK\$3,072,157,000), was about 66% (2017: 71%). The decrease in the Group's gearing ratio was mainly due to the significant profit recognised this year though there were new borrowings raised for acquiring debt securities and equity securities during the year. The Group's finance costs increased to HK\$162,053,000 (2017: HK\$134,890,000) were primarily a result of the new borrowings raised during the year.

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

## **PROSPECTS**

In recent months, the market uncertainties linked with the geopolitical risks in Korean peninsula and the pace of interest rate increases in the United States have been reduced. However, the ongoing trade disputes and settlement negotiations between the United States and China, and the instabilities in the European economy arising from the unresolved Brexit issue have continued to add new uncertainties and variables to outlook of world economy and global financial markets.

Although the Group had recorded substantial investment gain for the year, the rather volatile Hong Kong stock market and world financial 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 continued to deliver very encouraging results for the year. It is the intention of the management to continue developing this business under prudent credit management with the goal that this business will continue to contribute a stable and favorable income stream to the Group in future years. The performance of the Group's trading business was rather stable this year, the management will step up its effort in maintaining the competitiveness of the operation and will continue to look for new business opportunities. The business development of the securities brokerage operation has been progressed satisfactorily, 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 its operational efficiencies and financial performance, and to seize business opportunities with attractive returns aiming to create value to our shareholders.

## **CORPORATE GOVERNANCE**

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

## **AUDIT COMMITTEE**

The audited consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee and duly approved by the Board under the recommendation of the Audit Committee.



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

During the year ended 31 December 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  
**China Strategic Holdings Limited**  
**Dr. Or Ching Fai**  
*Chairman*

Hong Kong, 27 March 2019

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