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Guoan International Limited

國安國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 143)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the “Board”) of Guoan International Limited (the “Company”) hereby announces the unaudited and consolidated results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2019, together with the comparative figures, as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	<i>Notes</i>	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Revenue	6	88,958	43,633
Cost of sales		(70,529)	(33,078)
Gross profit		18,429	10,555
Other revenue	7	2,820	1,762
Other gain	8	963	–
Selling and distribution expenses		(598)	(6)
Administrative expenses		(36,524)	(30,928)
Other operating expenses		(240)	(135)
Finance costs	9	(9,599)	(81)
Loss before taxation	10	(24,749)	(18,833)
Taxation	11	(585)	30
Loss for the period		(25,334)	(18,803)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2019

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
<i>Notes</i>		
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	75	27
Changes in the fair value of financial assets at fair value through other comprehensive income	–	9,750
Other comprehensive income for the period, net of tax	75	9,777
Total comprehensive loss for the period	(25,259)	(9,026)
Loss for the period attributable to:		
Owners of the Company	(24,809)	(18,684)
Non-controlling interests	(525)	(119)
	(25,334)	(18,803)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(24,734)	(8,907)
Non-controlling interests	(525)	(119)
	(25,259)	(9,026)
Loss per share attributable to owners of the Company		
Basic and diluted (HK cents)	12 (0.320)	(0.241)

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		307,913	312,863
Financial assets at fair value through profit or loss		14,900	14,550
Goodwill	14	299,121	–
Right-of-use assets		8,247	–
Deposits for acquisition of subsidiaries		–	21,873
Other deposits		2,719	–
		<u>632,900</u>	<u>349,286</u>
Current assets			
Inventories		25,372	34,566
Trade receivables	15	205,082	10,604
Prepayments, deposits and other receivables		18,583	11,651
Loan and interest receivables		–	13,043
Financial assets at fair value through profit or loss		2,258	1,840
Tax recoverable		519	–
Pledged time deposits		15,331	5,159
Cash and bank balances			
– Segregated accounts		93,248	–
– House accounts		32,959	34,199
		<u>393,352</u>	<u>111,062</u>
Current liabilities			
Trade payables	16	145,847	10,540
Accrued charges and other payables		57,335	52,663
Bank overdraft		10,211	–
Lease liabilities		4,757	–
Contract liabilities		640	–
Bank borrowings		140,000	34,500
Loan from the ultimate holding company		3,412	3,556
Loan from a related party		25,000	–
Deferred tax liabilities		195	–
Convertible bonds	17	98,816	–
		<u>486,213</u>	<u>101,259</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 30 June 2019*

	At 30 June 2019 (Unaudited) <i>HK\$'000</i>	At 31 December 2018 (Audited) <i>HK\$'000</i>
<i>Notes</i>		
Net current (liabilities)/assets	<u>(92,861)</u>	<u>9,803</u>
Total assets less current liabilities	<u>540,039</u>	<u>359,089</u>
Non-current liabilities		
Deferred tax liabilities	3,192	604
Lease liabilities	3,742	–
Convertible bonds	17 <u>182,538</u>	<u>–</u>
	<u>189,472</u>	<u>604</u>
Net assets	<u>350,567</u>	<u>358,485</u>
Equity		
Capital and reserves attributable to owners of the Company		
Share capital	77,489	77,489
Reserves	<u>260,250</u>	<u>267,643</u>
	337,739	345,132
Non-controlling interests	<u>12,828</u>	<u>13,353</u>
Total equity	<u>350,567</u>	<u>358,485</u>

The accompanying notes form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 9 December 1998 as an exempted company with limited liability and its shares have a primary listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and a secondary listing on Singapore Exchange Securities Trading Limited.

The registered office of the Company is at P.O. Box 309, Ugland House, George Town, Grand Cayman KY1-1104, Cayman Islands and the principal place of business of the Company is located at 15th Floor of Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in trading of telecommunications and other products, provision of repair services for telecommunications and other products, investments in financial assets, money lending business and securities brokerage and trading, provision of assets management and advising on securities.

The directors of the Company (the “Directors”) regard Road Shine Developments Limited, a company incorporated in the British Virgin Islands as the immediate holding company, and 中信國安集團有限公司 (CITIC Guoan Group*), a company incorporated in the People’s Republic of China as the ultimate holding company.

2. BASIS OF PREPARATION

The interim results announcement contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2018 annual financial statements. The unaudited condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong.

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the Hong Kong Companies Ordinance.

* *For identification purpose only*

Going concern

The Group incurred a net loss of approximately HK\$25,334,000 (six months ended 30 June 2018: HK\$18,803,000) during the six months ended 30 June 2019 and as of the date, the Group's current liabilities exceeded its current assets by approximately HK\$92,861,000 (as at 31 December 2018: current assets exceeded current liabilities by approximately HK\$9,803,000) The Group is dependent upon the financial support from Road Shine Development Limited, the immediate holding company. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The Directors have made an assessment and concluded that the Group is able to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due, having regard to the following:

- the immediate holding company confirms to provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from the end of the reporting period; and
- the Group is negotiating with various financial institutions to refinance the short term borrowing of HK\$140 million by a long term mortgage loan.

Consequently, the unaudited condensed consolidated financial statements have been prepared on a going concern basis. The unaudited condensed consolidated financial statements do not include any adjustments that would result should the Group be unable to operate as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

The measurement basis used in the preparation of these unaudited condensed consolidated financial statements is historical cost except for certain financial instruments that are measured at fair value.

These unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2018 with addition for the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which have become effective.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle
HKFRS 9 (Amendments)	Clarification to HKFRS 9 Financial Instrument
HKFRS 16	Leases
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Investments in associates and joint ventures
HK (IFRIC) – Int 23	Uncertainty over income tax treatments transactions

The new and revised HKFRSs have been applied in accordance with the relevant transition provision in the respective standards and amendments which results in changes in accounting policies, amount reported and/or disclosures as described in Note 4.

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture ³
HKFRS 17	Insurance Contracts ²

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

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective date to be determined.

The Directors do not anticipate that the application of other new and revised HKFRSs will have material impact on the financial position and financial performance of the Group.

4. CHANGE IN ACCOUNTING POLICIES

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

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

Key changes in accounting policies resulting from application of HKFRS 16

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

Definition of a lease

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

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

As a lessee

Allocation of consideration to components of a contract

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

Short-term leases

The Group applies the short-term lease recognition exemption to leases of restaurant premises that have a lease term of 12 months or less from the date of initial application of HKFRS 16. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

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

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from the commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

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

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

Taxation

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

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

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

Definition of a lease

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

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

As a lessee

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

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

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of restaurant premises in Hong Kong was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

The Group recognised lease liabilities of approximately HK\$3,726,000 and right-of-use assets of approximately HK\$3,726,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.6%.

	As at 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	<u>5,455</u>
Lease liabilities discounted at relevant incremental borrowing rates	4,943
Less: Recognition exemption – short-term leases	<u>(1,217)</u>
Lease liabilities as at 1 January 2019	<u><u>3,726</u></u>
Analysed as	
Current	1,883
Non-current	<u>1,843</u>
	<u><u>3,726</u></u>

The recognised right-of-use assets relate to the following types of assets:

	As at 30 June 2019 HK\$'000	As at 1 January 2019 HK\$'000
Rented premises	<u><u>8,247</u></u>	<u><u>3,726</u></u>

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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

	Carrying amounts previously reported at 31 December 2018 HK\$'000 (audited)	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets			
Right-of-use assets	–	3,726	3,726
Current Liabilities			
Lease liabilities	–	1,883	1,883
Non-current liabilities			
Lease liabilities	–	1,843	1,843

5. SEGMENT INFORMATION

For management purpose, the Group is principally engaged in (i) trading of telecommunications and other products; (ii) provision of repair services for telecommunications and other products; (iii) investments in financial assets; (iv) money lending business and (v) provision of brokerage services operation.

The Group's operating businesses are almost exclusively with customers based in Hong Kong.

Accordingly, no segment analysis by geographical area of operations is provided.

An analysis of the Group's reportable segments for the six months ended 30 June 2019 and 2018 is as follows:

(a) Segment revenue and results

For the six months ended 30 June 2019						
	Trading of telecommunications and other products (Unaudited) HK\$'000	Provision of repair services for telecommunications products (Unaudited) HK\$'000	Investment in financial assets (Unaudited) HK\$'000	Provision of brokerage services operation (Unaudited) HK\$'000	Money lending business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Total revenue	<u>56,036</u>	<u>20,925</u>	<u>-</u>	<u>11,340</u>	<u>657</u>	<u>88,958</u>
Segment results/(loss)	<u>(4,572)</u>	<u>(2,981)</u>	<u>1</u>	<u>7,694</u>	<u>646</u>	<u>788</u>
Other gain						729
Interest income						33
Finance costs						(9,015)
Unallocated income						36
Unallocated expenses						<u>(17,320)</u>
Loss before taxation						<u>(24,749)</u>
Taxation						<u>(585)</u>
Loss for the period						<u><u>(25,334)</u></u>

For the six months ended 30 June 2018					
	Trading of telecommunications and other products (Unaudited) HK\$'000	Provision of repair services for telecommunications products (Unaudited) HK\$'000	Investments in financial assets (Unaudited) HK\$'000	Money lending business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Total revenue	<u>7,423</u>	<u>36,255</u>	<u>(501)</u>	<u>456</u>	<u>43,633</u>
Segment results/(loss)	<u>(1,000)</u>	<u>(4,882)</u>	<u>(504)</u>	<u>445</u>	<u>(5,941)</u>
Interest income					65
Finance costs					(81)
Unallocated income					326
Unallocated expenses					<u>(13,202)</u>
Loss before taxation					<u>(18,833)</u>
Taxation					<u>30</u>
Loss for the period					<u><u>(18,803)</u></u>

Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$ Nil).

Segment result represents the result generated from each segment without allocation of central administrative costs including directors' salaries, staff costs, legal and professional fees and taxation. This is the measure reported to the chief operating decision-makers for the purpose of resources allocation and assessment of segment performance.

(b) Segment assets and liabilities

At 30 June 2019						
	Trading of telecommunications and other products (Unaudited) <i>HK\$'000</i>	Provision of repair services for telecommunications products (Unaudited) <i>HK\$'000</i>	Investment in financial assets (Unaudited) <i>HK\$'000</i>	Provision of brokerage services operation (Unaudited) <i>HK\$'000</i>	Money lending business (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Segment assets	<u>58,092</u>	<u>6,063</u>	<u>3,136</u>	<u>606,278</u>	<u>7,620</u>	681,189
Financial assets at fair value through profit or loss						14,900
Unallocated corporate assets						<u>330,163</u>
Consolidated total assets						<u>1,026,252</u>
Segment liabilities	<u>(25,498)</u>	<u>(4,731)</u>	<u>-</u>	<u>(16,031)</u>	<u>(170,173)</u>	(216,433)
Convertible bonds						(281,355)
Unallocated corporate liabilities						<u>(177,897)</u>
Consolidated total liabilities						<u>(675,685)</u>

At 31 December 2018					
	Trading of telecommunications and other products (Audited) <i>HK\$'000</i>	Provision of repair services for telecommunications products (Audited) <i>HK\$'000</i>	Investments in financial assets (Audited) <i>HK\$'000</i>	Money lending business (Audited) <i>HK\$'000</i>	Consolidated (Audited) <i>HK\$'000</i>
Segment assets	<u>52,904</u>	<u>10,850</u>	<u>3,135</u>	<u>13,404</u>	80,293
Financial assets at fair value through profit or loss					14,550
Unallocated corporate assets					<u>365,505</u>
Consolidated total assets					<u>460,348</u>
Segment liabilities	<u>(9,879)</u>	<u>(8,763)</u>	<u>-</u>	<u>(20)</u>	(18,662)
Unallocated corporate liabilities					<u>(83,201)</u>
Consolidated total liabilities					<u>(101,863)</u>

For the purpose of monitoring segment performance and allocating resources between segments:

- i) All assets are allocated to reportable segments other than financial assets through profit or loss and unallocated corporate assets; and
- ii) All liabilities are allocated to reportable segments other than current tax liabilities, deferred tax liabilities, convertible bonds and unallocated corporate liabilities.

6. REVENUE

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Sales of telecommunications and other products	56,036	7,423
Provision of repair services for telecommunications products	20,925	36,255
Provision of brokerage services operation		
– Commission and brokerage income	2,466	–
– Commission income	3,798	–
	83,225	43,678
<i>Recognised overtime</i>		
Assets management fee income	525	–
Consultancy and advisory fee income	130	–
	655	–
	83,880	43,678
Revenue from other sources:		
Interest income from loan financing	657	456
Interest income from cash clients and margins clients	4,264	–
Interest income from banks and others	157	–
Realised gain from financial assets at fair value through profit and loss, net		
– listed securities held for trading	–	(501)
	5,078	(45)
	88,958	43,633

7. OTHER REVENUE

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Dividend income	32	24
Bank interest income	34	65
Rental income	932	326
Sundry income	1,822	1,347
	<u>2,820</u>	<u>1,762</u>

8. OTHER GAIN

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Change in the fair value of financial assets at fair value through profit or loss:		
– Unrealised gain on fair value change on listed securities held for trading	613	–
– Fair value change of unlisted club debentures	350	–
	<u>963</u>	<u>–</u>

9. FINANCE COST

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Interest expenses on bank borrowings wholly repayable within five years	2,014	81
Interest expenses on convertible bonds	6,947	–
Others interest expenses	638	–
	<u>9,599</u>	<u>81</u>

10. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Cost of trading inventories sold	54,945	5,747
Employee benefit expenses (including directors' emoluments)	17,188	15,742
Retirement benefit costs (including directors' benefit costs)	569	696
Depreciation	5,607	5,657
Depreciation on right-of-use assets	1,894	–
Bad debts written off*	27	78
Loss on written off of property, plant and equipment*	–	4
Allowance for inventories	3	9
Reversal of allowance for inventories	(1)	(2)
Written off of inventories	–	12
Impairment of trade receivables*	233	–
Exchange losses, net*	(20)	(56)
Operating lease rental related to short-term lease	1,265	2,888
	<u>1,265</u>	<u>2,888</u>

* Items included in other operating expenses.

11. TAXATION

	For the six months ended 30 June 2019 (Unaudited) HK\$'000	For the six months ended 30 June 2018 (Unaudited) HK\$'000
Current tax:		
Hong Kong Profits Tax	1,104	(56)
Deferred tax:		
Current period charge	(519)	26
	<u>585</u>	<u>(30)</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces 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 tax 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 not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$24,809,000 (six months ended 30 June 2018: HK\$18,684,000) and the weighted average number of 7,748,960,899 ordinary shares for the six months ended 30 June 2019 (six months ended 30 June 2018: 7,748,960,899).

The diluted loss per share for the six months ended 30 June 2019 and 2018 were the same as basic loss per share as the effect of the Company’s convertible bonds was anti-dilutive.

13. DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$ Nil).

14. GOODWILL

	<i>HK\$000</i>
Cost:	
At 1 January 2019	–
Acquisition (Note 18)	299,121
	<hr/>
At 30 June 2019 (Unaudited)	299,121
	<hr/>
Accumulated impairment:	
At 1 January 2019	–
Impairment for the period	–
	<hr/>
At 30 June 2019 (Unaudited)	–
	<hr/>
Net book value:	
At 30 June 2019 (Unaudited)	299,121
	<hr/> <hr/>

Goodwill arose from the acquisition of Yicko Securities Limited which has completed on 28 February 2019. Goodwill was allocated to the groups of cash-generating units identified according to the operations, which was substantially allocated to the investment in provision of brokerage services operation.

15. TRADE RECEIVABLES

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Trade receivables arising from other ordinary course of business of dealing in securities transactions:		
– Cash clients	1,077	–
– Margin clients	144,928	–
– Futures and options clients	1,263	–
– Clearing houses	43,579	–
	<u>190,847</u>	–
Less: Impairment loss recognised	<u>(1,518)</u>	–
	<u>189,329</u>	–
Trade receivables from the ordinary course of business, except for business dealing in securities transactions	155,270	149,894
Less: Impairment loss recognised	<u>(139,517)</u>	<u>(139,290)</u>
	<u>15,753</u>	<u>10,604</u>
Trade receivables	<u>205,082</u>	<u>10,604</u>

The settlement terms of account receivables arising from the ordinary course of business of dealing in securities are within two days after trade date.

At the end of the reporting periods, the aging analysis of the trade receivables from the ordinary course of business, except for business dealing in securities transactions, based on the invoice date, is as follows:

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Current	11,323	4,270
One to three months overdue	1,242	5,822
More than three months, but less than twelve months overdue	219	499
Over twelve months overdue	<u>142,486</u>	<u>139,303</u>
	155,270	149,894
Less: Impairment loss recognised	<u>(139,517)</u>	<u>(139,290)</u>
	<u><u>15,753</u></u>	<u><u>10,604</u></u>

Notes:

The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers.

16. TRADE PAYABLES

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Trade payables arising from other ordinary course of business of dealing in securities transactions:		
– Cash clients	33,042	–
– Margin clients	53,097	–
– Futures and options clients	53,013	–
– Others	<u>711</u>	<u>–</u>
	<u>139,863</u>	<u>–</u>
Trade payables from the ordinary course of business, except for business dealing in securities transactions	<u>5,984</u>	<u>10,540</u>
Trade payables	<u><u>145,847</u></u>	<u><u>10,540</u></u>

At the end of the reporting periods, the aging analysis of the trade payables from the ordinary course of business, except for business dealing in securities transactions, based on the invoice date, is as follows:

	At 30 June 2019 (Unaudited) HK\$'000	At 31 December 2018 (Audited) HK\$'000
Current and within one month	1,446	3,843
One to three months overdue	–	3,491
Over three months overdue	4,538	3,206
	<u>5,984</u>	<u>10,540</u>

17. CONVERTIBLE BONDS

On 28 February 2019, the Company issued convertible bonds with an aggregate principal amount of HK\$300,000,000 which borne an interest rate of 3.8% per annum (“Convertible Bonds”) as a part of consideration for acquisition of Yicko Securities Limited (Note 18). The Convertible Bonds entitled the holder to convert them into ordinary shares of the Company at a conversion price of HK\$0.26 per ordinary share and will be converted into 1,153,846,153 shares assuming full conversion. Conversion may occur at any time during the term of the convertible bonds.

The convertible bonds contain two components: liability and equity components. The equity element is presented in equity heading “Convertible bonds reserve”.

The convertible bonds information are presented as follows:

	Convertible Bond 2020 (“CB 2020”)	Convertible Bond 2021 (“CB 2021”)	Convertible Bond 2022 (“CB 2022”)
Principle amount:			
– as at 28 February 2019	HK\$100,000,000	HK\$100,000,000	HK\$100,000,000
	in HK\$ settlement	in HK\$ settlement	in HK\$ settlement
	3.8% p.a. payable	3.8% p.a. payable	3.8% p.a. payable
	Annually	Annually	Annually
Issue date:	28 February 2019	28 February 2019	28 February 2019
Maturity date:	28 February 2020	28 February 2021	28 February 2022
Conversion price per share	HK\$0.260	HK\$0.260	HK\$0.260

The convertible bonds recognised in the condensed consolidated statement of financial position was calculated as follows:

	CB 2020 <i>HK\$'000</i>	CB 2021 <i>HK\$'000</i>	CB 2022 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Liability component	98,222	94,149	85,837	278,208
Equity component	1,064	5,858	14,165	21,087
	<u>99,286</u>	<u>100,007</u>	<u>100,002</u>	<u>299,295</u>
Liability component:				
	CB 2020 <i>HK\$'000</i>	CB 2021 <i>HK\$'000</i>	CB 2022 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At issue date on 28 February 2019 (Unaudited)	98,222	94,149	85,837	278,208
Imputed interest charge	1,861	2,243	2,843	6,947
Coupon interest payable	(1,267)	(1,267)	(1,267)	(3,801)
	<u>98,816</u>	<u>95,125</u>	<u>87,413</u>	<u>281,354</u>
Current portion				
At 30 June 2019 (Unaudited)	<u>98,816</u>	<u>–</u>	<u>–</u>	<u>98,816</u>
Non-current portion				
At 30 June 2019 (Unaudited)	<u>–</u>	<u>95,125</u>	<u>87,413</u>	<u>182,538</u>

The effective interest rate of the liability component of CB 2020, CB 2021 and CB 2022 on initial recognition is 5.68%, 7.15% and 9.94% respectively.

18. ACQUISITION OF A SUBSIDIARY

On 13 February 2018, Exquisite Honor Holdings Limited, a wholly-owned subsidiary of the Company, acquired 100% of the issued share capital of Yicko Securities Limited (“Yicko”) at total consideration HK\$420,000,000, which is to be satisfied as to HK\$120,000,000 in cash and HK\$300,000,000 by the issue of the convertible bonds by the Company. Yicko provides financial services to the clients which consist of broking service (including securities and stock option broking), placing and underwriting services (such as acting as underwriter and placing agent for equity securities, which include initial public offerings on the Main Board (the “Main Board”) or the Growth Enterprise Market (“GEM”) of the Stock Exchange respectively, and placements/rights issue/open offers in Hong Kong), securities margin financing service and asset management service. The acquisition was completed on 28 February 2019. Please refer to the Company’s announcement dated 14 February 2018 and 28 February 2019 and the Company’s Circulars dated 24 May 2018.

Details of the purchase consideration and the net assets acquired are as follows:

Purchase consideration

	(Unaudited) HK\$’000
Cash consideration	120,000
Fair value of convertible bonds issued	299,295
	<hr/>
Total consideration	419,295
	<hr/> <hr/>

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value HK\$’000
Property, plant and equipment	133
Other deposits	2,309
Deferred tax assets	295
Financial assets at fair value through profit or loss	4
Trade and other receivables	178,050
Tax recoverable	421
Bank balances – Segregated accounts	123,547
Bank balances – House accounts	16,150
Cash on hand	3
Bank overdraft	(7,819)
Trade and other payables	(179,917)
Contract liabilities	(1,002)
Loans from a director	(12,000)
	<hr/>

	Fair value <i>HK\$'000</i>
Net identifiable assets acquired	120,174
Goodwill arising on acquisition (<i>Note 14</i>)	299,121
	<hr/>
Total fair value of consideration paid	419,295
	<hr/> <hr/>
Purchase consideration – cash outflow:	
	<i>HK\$'000</i>
Cash consideration	123,218
Less: Bank balance – Segregated accounts	(123,547)
Less: Bank balance – House accounts	(16,150)
Less: Cash on hand	(3)
Add: Bank overdraft	7,819
	<hr/>
Net inflow of cash	(8,663)
	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

During the six months ended 30 June 2019 (the “Period”), the Group was principally engaged in financial services business, trading, and provision of maintenance services. The Company is 53.79% owned by CITIC Guoan Group, a conglomerate headquartered in Beijing, the People’s Republic of China (the “PRC”).

Performance

Economic growth in Hong Kong decelerated during the first six months of 2019, reflecting cautious business sentiments and weakened domestic demand. Against this background, the Group concluded the Period with a 103.9% year-on-year growth in revenue to approximately HK\$89.0 million (2018: HK\$43.6 million), mainly attributable to the consolidation of the results of Yicko Securities Limited (“Yicko”) into the financial statements of the Group upon completion of the acquisition on 28 February 2019. A gross profit of approximately HK\$18.4 million (2018: HK\$10.6 million) was recorded, a year-on-year increase of 73.6%, while the net loss increased to HK\$25.3 million (2018: loss of HK\$18.8 million).

By segment, the financial services business recorded revenue of approximately HK\$11.3 million (2018: N/A), contributing a segment profit during the Period.

Revenue generated from the provision of maintenance services declined 57.7% year on year to approximately HK\$20.9 million (2018: HK\$36.3 million) amidst overall weak market conditions during the Period. The segment incurred a loss as its gross profit margin was negatively impacted by rising operating and staff costs.

The trading segment, mainly covering electronic products and parts during the Period, generated revenue of approximately HK\$56.0 million (2018: HK\$7.4 million). The gross profit margin of the trading business continued to be under pressure, thereby incurring a loss for the segment.

Business Review

Financial Services Business

The Group, through its indirect wholly owned subsidiary Yicko, was engaged in securities brokerage business, with the segment’s results incorporated into the Group’s financial statements for the Period subsequent to completion of the acquisition on 28 February 2019.

Yicko is a well-established brokerage company, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Hong Kong stock market sentiments have been affected by macroeconomic turbulence and geopolitical tensions, with the city's bourse recording a 23% period-over-period drop in average daily turnover for the year to June 2019.

The number of initial public offerings ("IPOs") also fell short of the same period last year. Total funds raised were up 35% year on year, but the city nevertheless lost its top spot in the mid-year global IPO ranking. Merger and acquisition activities in China and Hong Kong have also declined, as their deal value in the first six months fell 39% year on year, according to Mergermarket's data. Deal value in Hong Kong alone was down by 11%.

Despite a lacklustre market, the financial services segment delivered a satisfactory performance during the Period on the back of a stable client base.

Trading Business

The scope of the Group's trading segment mainly covered electronic products and parts during the Period.

Uncertainties stemming from global protectionist measures and other geopolitical developments have continued to dampen the trading environment. Trade growth has fallen sharply, and the manufacturing sector has taken a hit as a result. Aside from trade tensions, disruptions in the global technology supply chains also weighed on electronics manufacturing and trade. The global slowdown rippled across Asia, bringing threats to the business environment of many regional economies.

In light of the ongoing operating difficulties and the new challenges associated with the trade row, management considers that the profit margins for the trading segment will stay under pressure. Management will continue to review the product portfolio and make necessary adjustments in line with market trends.

Maintenance Services

The segment of provision of maintenance services continued to face challenges as the economy showed signs of slowing. The management will continue to monitor the operating conditions of the segment and will formulate measures to cope with the associated challenges.

Financial Review

As at 30 June 2019, the Group held an inventory of approximately HK\$25.4 million (31 December 2018: HK\$34.6 million).

The office property and a fixed deposit of approximately HK\$15.3 million (31 December 2018: HK\$5.2 million) were pledged to secure banking facilities. The current ratio was approximately 0.81 (31 December 2018: 1.10) while the liquid ratio was approximately 0.75 (31 December 2018: 0.75).

Bank borrowings amounted to HK\$140.0 million (31 December 2018: HK\$34.5 million) as at 30 June 2019, while the gearing ratio, expressed as a percentage of total borrowings over total assets, was 13.6% (31 December 2018: 8.3%).

Amid the prevailing financial volatility, the Group is committed to maintaining a conservative cash management policy and to increasing operating efficiency.

Outlook

As Hong Kong enters the second half of 2019, its economy and financial sector will likely remain overshadowed by the uncertainties surrounding the back-and-forth US-Mainland and Brexit negotiations, as well as slower growth in China and many other economies. The Hong Kong government has warned that the city is facing very big downward pressure with the possibility of plunging into recession.

Global economic growth is also forecast by the World Bank to ease against weak trade growth and a drop in global investment. The US' tariff moves have already prompted some downgrades on the economic outlook. An escalation of tariffs or the imposition of more trade barriers will further dim world growth prospects.

The Group will stay alert to the potential spillover impacts of heightened trade disputes. As risks continue to tilt to the downside, the management will adopt a prudent approach in its business operation and development.

For the financial services segment, despite an expectation of further interest rate cuts before the end of this year, the local markets will likely be under the impact of uncertainties from renewed trade tensions and softening of global economic conditions. Meanwhile, sharp fluctuations of Renminbi have added to the anticipated volatility in the markets.

The performance of the financial services segment has been meeting expectations but the management will stay alert to the potential weaker sentiments during the remainder of the year, as signified by the cancellation or postponement of some heavyweight IPO plans in July.

The Group, however, remains confident in the long-term prospects of the financial services segment, and will continue to deploy management resources and attention to the development of this new business stream.

On the other hand, the trading and servicing business lines continue to be subject to operating challenges and eroding margins. The management will closely monitor the ongoing conditions of these businesses and will formulate responsive measures.

The management will implement strategies to seize new competitive advantage while getting prepared for the rapidly changing trade dynamics and business landscape. The Group will prudently evaluate the potential risks associated with any business moves, while its goal remains to strengthen long-term returns to shareholders.

Currencies

The Group conducts its core business transactions mainly in Hong Kong dollars, New Taiwan dollars and United States dollars. The majority of the Group's cash and bank balances are also denominated in these three currencies. During the six months ended 30 June 2019, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

Contingent Liability

The Group did not have any significant contingent liability at 30 June 2019.

Material Acquisition or Disposal of Subsidiaries

Save as disclosed above, there was no material acquisition or disposal of subsidiaries during the six months during 30 June 2019.

Employee Information

At 30 June 2019, the Group employed a work force of 100 (2018: 118). Staff costs, including salaries, bonuses and allowances, were approximately HK\$17.8 million for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$16.4 million).

The Group maintains a competitive remuneration policy to motivate, retain and attract talent. The remuneration packages mainly comprise salary payments, group medical insurance plans and discretionary bonuses awarded on a performance basis. The Group provides pension schemes for employees as part of the staff benefits.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$ Nil).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the period of the six months ended 30 June 2019, the Company has complied with the code provisions (“Code Provisions”) set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Specific enquiry has been made to all Directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited and consolidated interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Company (www.guoanintl.com), the Stock Exchange (www.hkexnews.hk) and SGX-ST (www.sgx.com). The 2019 interim report containing all the information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company in due course.

On behalf of the Board
Guoan International Limited
DU Jun
Chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises 9 Directors, of which 2 are Executive Directors, namely Mr. HUANG Zhen Qian and Mr. SO Haw Herman, 4 are Non-executive Directors, namely Mr. DU Jun, Mr. LI Xiang Yu, Mr. CUI Ming Hong and Ms. BAI Wei and 3 are Independent Non-executive Directors, namely Mr. WONG Chun Man, Mr. TSE Yung Hoi and Mr. NG Man Kung.