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CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司

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

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

The Board of Directors (the “**Board**”) of China Strategic Holdings Limited (the “**Company**”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
Revenue	3	258,750	325,476
Trading income		188,301	222,394
Dividend income		–	271
Interest income		67,831	99,493
Commission, handling income and others		2,618	3,318
Purchases and related expenses		(188,070)	(222,142)
Other income	5	997	2,420
Other gain and loss, net	6	243	(823)
Staff costs		(14,708)	(15,419)
Other expenses		(16,792)	(35,867)
Net loss on financial assets at fair value through profit or loss	7	(3,933)	(152,895)
Loss on disposal of debt instruments at fair value through other comprehensive income		–	(1,018)
Provision for impairment losses under expected credit loss model, net of reversal	10	(96,114)	(50,806)
Finance costs	8	(12,955)	(73,274)

		Six months ended 30 June	
	<i>Notes</i>	2022	2021
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loss before tax		(72,582)	(224,348)
Income tax (expense) credit	9	(31,768)	27,723
Loss for the period attributable to owners of the Company	10	(104,350)	(196,625)
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		–	12,362
Net fair value loss on debt instruments at fair value through other comprehensive income		(38,856)	(60,376)
Provision for impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	17,133	15,562
Release on disposal of debt instruments at fair value through other comprehensive income		–	1,018
Other comprehensive expense for the period		(21,723)	(31,434)
Total comprehensive expense for the period attributable to owners of the Company		(126,073)	(228,059)
Loss per share attributable to owners of the Company			
– Basic	12	HK(0.51) cent	HK(0.96) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		11,775	14,745
Right-of-use assets		13,199	19,095
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Debt instruments at fair value through other comprehensive income	13	25,104	63,960
Loan receivables	14	17,907	–
Deferred tax assets		972	29,856
		74,885	133,584
Total non-current assets			
Current assets			
Loan receivables	14	1,184,541	1,234,675
Trade and other receivables	15	145,211	234,712
Income tax recoverable		2,163	570
Financial assets at fair value through profit or loss	16	22,399	26,632
Pledged bank deposits		3,096	3,096
Bank balances and cash		898,661	1,526,693
		2,256,071	3,026,378
Total current assets			
Current liabilities			
Trade and other payables	17	23,788	26,539
Income tax payable		7,042	9,973
Notes payable	18	–	692,107
Lease liabilities		7,431	9,371
		38,261	737,990
Total current liabilities			
Net current assets		2,217,810	2,288,388
Total assets less current liabilities		2,292,695	2,421,972

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Non-current liability		
Lease liabilities	<u>3,800</u>	<u>7,892</u>
Net assets	<u>2,288,895</u>	<u>2,414,080</u>
Capital and reserves		
Share capital	3,216,110	3,216,110
Reserves	<u>(927,215)</u>	<u>(802,030)</u>
Total equity	<u>2,288,895</u>	<u>2,414,080</u>

Notes:

1. Basis of preparation

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

The financial information relating to the year ended 31 December 2021 that is included in the condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (“**Hong Kong Companies Ordinance**”).

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

The condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”) which is the functional currency of the Company. All values are rounded to the nearest thousand (HK\$’000) unless otherwise indicated.

2. Principal accounting policies

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s audited consolidated financial statements for the year ended 31 December 2021.

Application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the conceptual framework
Amendment to HKFRS 16	Covid-19-related rent concessions beyond 30 June 2021
Amendments to HKAS 16	Property, plant and equipment - proceeds before intended use
Amendments to HKAS 37	Onerous contracts - cost of fulfilling a contract
Amendments to HKFRSs	Annual improvements to HKFRSs 2018 - 2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in the condensed consolidated financial statements.

3. Revenue

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Trading of coke products	188,301	222,394
Arrangement fee income from money lending business	200	225
Commission and handling income from securities brokerage business	2,418	3,093
Revenue from contracts with customers	190,919	225,712
Interest income from securities margin financing business	3,562	3,016
Interest income from money lending business	64,269	75,499
Dividend income from financial assets at fair value through profit or loss ("FVTPL")	–	271
Interest income from debt instruments at fair value through other comprehensive income ("FVTOCI")	–	20,978
	<u>258,750</u>	<u>325,476</u>

During the six months ended 30 June 2022 and 2021, the revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS 15.

4. Segment information

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

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

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

Segment revenue and results

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

	Investment in securities <i>HK\$'000</i> (Unaudited)	Trading <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Securities brokerage <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 30 June 2022					
Segment Revenue					
External sales/sources	-	188,301	64,469	5,980	258,750
Results					
Segment results	(21,280)	626	(19,023)	4,449	(35,228)
Other income					315
Other gain and loss, net					223
Central administrative expenses					(24,937)
Finance costs					(12,955)
Loss before tax					(72,582)
Income tax expense					(31,768)
Loss for the period					(104,350)
Six months ended 30 June 2021					
Segment Revenue					
External sales/sources	21,249	222,394	75,724	6,109	325,476
Results					
Segment results	(148,094)	244	36,628	4,139	(107,083)
Other income					1,511
Central administrative expenses					(45,502)
Finance costs					(73,274)
Loss before tax					(224,348)
Income tax credit					27,723
Loss for the period					(196,625)

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

Segment assets and liabilities

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

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Segment assets		
Investment in securities	56,606	103,098
Trading	216,098	1,389
Money lending	1,378,663	1,439,280
Securities brokerage	289,159	486,245
	<hr/>	<hr/>
Total segment assets	1,940,526	2,030,012
Property, plant and equipment	11,775	14,745
Right-of-use assets	13,199	19,095
Bank balances and cash	360,560	1,089,566
Other unallocated assets	4,896	6,544
	<hr/>	<hr/>
Consolidated assets	<u>2,330,956</u>	<u>3,159,962</u>
Segment liabilities		
Investment in securities	4,715	4,875
Trading	4,578	114
Money lending	1,092	1,315
Securities brokerage	17,485	21,209
	<hr/>	<hr/>
Total segment liabilities	27,870	27,513
Other payables	2,960	8,999
Notes payable	–	692,107
Lease liabilities	11,231	17,263
	<hr/>	<hr/>
Consolidated liabilities	<u>42,061</u>	<u>745,882</u>

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

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

5. Other income

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	666	1,432
Government grants (<i>Note</i>)	308	–
Others	23	988
	997	2,420

Note: During the current interim period, the Group recognised government grants of HK\$308,000 (six months ended 30 June 2021: nil) in respect of COVID-19-related subsidies which related to the Employment Support Scheme provided by the Hong Kong government.

6. Other gain and loss, net

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	9	–
Gain on termination of a lease	213	–
Exchange gain (loss), net	21	(823)
	243	(823)

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net unrealised loss on financial assets at FVTPL	3,933	152,895

8. Finance costs

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	38	28
Interest on borrowings	–	12,167
Interest on notes payable (<i>Note 18</i>)	12,726	60,713
Interest on lease liabilities	191	366
	12,955	73,274

9. Income tax (expense) credit

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Tax (charge) credit comprises:		
Current tax	(2,884)	(3,798)
Deferred tax	(28,884)	31,521
Income tax (expense) credit recognised in profit or loss	(31,768)	27,723

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the current interim period (six months ended 30 June 2021: 16.5%).

10. Loss for the period

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision for impairment loss on debt instruments at FVTOCI	17,133	15,562
Provision for impairment loss on loan receivables	78,981	35,244
	<u> </u>	<u> </u>
Total impairment losses	<u>96,114</u>	<u>50,806</u>
Depreciation of property, plant and equipment	1,481	1,685
Depreciation of right-of-use assets	3,728	4,646
	<u> </u>	<u> </u>

11. Dividend

No dividends were paid, declared or proposed during the current interim period (six months ended 30 June 2021: nil). The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

12. Loss per share

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of calculating basic loss per share	104,350	196,625
	<u> </u>	<u> </u>

	Six months ended 30 June	
	2022	2021
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	20,385,254	20,385,254
	<u> </u>	<u> </u>

Diluted loss per share for the six months ended 30 June 2022 and 2021 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

13. Debt instruments at fair value through other comprehensive income

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Listed investments, at fair value:		
– Debt securities listed overseas (31 December 2021: overseas) with fixed interest at 9.50% (31 December 2021: 9.50%) per annum and maturity date on 29 March 2024 (31 December 2021: 29 March 2024)	<u>25,104</u>	<u>63,960</u>
Analysed as:		
Non-current portion	<u>25,104</u>	<u>63,960</u>

At 30 June 2022, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices.

The Group provided impairment allowance of HK\$17,133,000 (six months ended 30 June 2021: HK\$15,562,000) on debt instruments at FVTOCI for the current interim period.

14. Loan receivables

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables	1,555,135	1,491,216
Less: impairment allowance	<u>(352,687)</u>	<u>(256,541)</u>
	<u>1,202,448</u>	<u>1,234,675</u>
Analysed as:		
Current portion	1,184,541	1,234,675
Non-current portion	<u>17,907</u>	<u>–</u>
	<u>1,202,448</u>	<u>1,234,675</u>
Analysed as:		
Secured	1,192,201	1,223,824
Unsecured	<u>10,247</u>	<u>10,851</u>
	<u>1,202,448</u>	<u>1,234,675</u>

At 30 June 2022, the range of interest rates and maturity dates attributed to the Group's performing loan receivables were 8.5% to 13% (31 December 2021: 8.5% to 13%) per annum and from 4 September 2022 to 8 September 2023 (31 December 2021: 4 March 2022 to 27 December 2022) respectively.

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

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables:		
Within one year or on demand	1,184,541	1,234,675
In more than one year but not more than two years	<u>17,907</u>	<u>–</u>
	<u>1,202,448</u>	<u>1,234,675</u>

The Group provided impairment allowance of HK\$78,981,000 (six months ended 30 June 2021: HK\$35,244,000) on loan receivables for the current interim period.

15. Trade and other receivables

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
Trade receivables of securities brokerage business:		
– Cash clients (<i>Note (i)</i>)	3,972	4,169
– Margin clients (<i>Note (i)</i>)	122,880	119,633
– Hong Kong Securities Clearing Company Limited (“HKSCC”) (<i>Note (i)</i>)	–	86,822
	<u>126,852</u>	<u>210,624</u>
Trade receivables of trading business	2,548	–
Other receivables (<i>Note (ii)</i>)	<u>15,811</u>	<u>24,088</u>
	<u><u>145,211</u></u>	<u><u>234,712</u></u>

Notes:

- (i) For the securities brokerage business, the normal settlement terms of trade receivables from cash clients and HKSCC are two days after trade date. The trade receivables from cash and margin clients and HKSCC with carrying amounts of HK\$126,852,000 (31 December 2021: HK\$210,624,000) were not past due at the end of the reporting period.

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them individually is determined based on a discount on the market value of securities pledged to the Group. Any excess in the lending ratio will trigger a margin call for which the clients concerned have to make good the shortfall. At 30 June 2022, the market value of securities pledged by clients to the Group as collateral against margin client receivables amounted to HK\$1,155,173,000 (31 December 2021: HK\$1,501,969,000).

- (ii) Included in other receivables were unrestricted deposits of HK\$920,000 (31 December 2021: HK\$4,261,000) placed with securities brokers. The remaining balance of other receivables represented mainly interest receivables, prepayment and deposits for office use.

16. Financial assets at fair value through profit or loss

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (i)</i>)	22,399	26,332
Unlisted investments, at fair value:		
– Unlisted equity securities (<i>Note (ii)</i>)	–	300
	<u>22,399</u>	<u>26,632</u>
Analysed as:		
Current portion	<u>22,399</u>	<u>26,632</u>

Notes:

- (i) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Hong Kong Stock Exchange.
- (ii) The fair value was determined with reference to the net asset value of the unlisted equity, which mainly comprised bank balance.

17. Trade and other payables

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Trade payables of securities brokerage business:		
– Cash clients (<i>Note</i>)	15,555	20,059
– Margin clients (<i>Note</i>)	548	581
– HKSCC (<i>Note</i>)	831	–
	<u>16,934</u>	20,640
Trade payables of trading business	4,524	–
Accrued charges and other payables	2,330	4,715
Interest payables	–	1,184
	<u>23,788</u>	<u>26,539</u>

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

18. Notes payable

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

	At 30 June 2022 <i>HK\$'000</i> (Unaudited)	At 31 December 2021 <i>HK\$'000</i> (Audited)
At the beginning of the period/year	692,107	1,648,877
Redemption of notes	(700,000)	(1,000,000)
Effective interest charged (<i>Note 8</i>)	12,726	93,447
Interest paid	(3,945)	(40,136)
Gain on non-substantial modification	(16,408)	(24,278)
Loss on early redemption	15,520	14,197
	<hr/> <hr/>	<hr/> <hr/>
At the end of the period/year	–	692,107
Analysed as:		
Current portion	–	692,107
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2020, the Company issued a series of unsecured notes to a company controlled by a shareholder of the Company.

In July 2020, the Company issued 2-year unsecured notes with nominal value of HK\$500,000,000 denominated in Hong Kong dollars (the “**July 2020 Notes**”). The interest rate for the notes was 5.50% per annum, and the effective interest rate was determined as 8.56% per annum.

In August 2020, the Company issued 1-year unsecured notes with nominal value of HK\$500,000,000 denominated in Hong Kong dollars (the “**August 2020 Notes**”). The interest rate for the notes was 3.00% per annum, and the effective interest rate was determined as 6.98% per annum.

In September 2020, the Company issued 270-day unsecured notes with nominal value of HK\$500,000,000 denominated in Hong Kong dollars (the “**September 2020 Notes**”). The interest rate for the notes was 2.00% per annum, and the effective interest rate was determined as 6.56% per annum.

In October 2020, the Company issued 270-day unsecured notes with nominal value of HK\$200,000,000 denominated in Hong Kong dollars (the “**October 2020 Notes**”). The interest rate for the notes was 2.00% per annum, and the effective interest rate was determined as 7.48% per annum.

All four notes carried options for the Company to early redeem the notes, by giving not less than 15 days' notice to the noteholders, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. The early redemption options of the Company were regarded as embedded derivatives not closely related to the host contract. The directors of the Company considered that the fair values of early redemption options were insignificant on their respective initial recognition dates and at the end of the reporting periods. The difference between the aggregate consideration received of HK\$1,700,000,000 and the aggregate fair value of the four notes of approximately HK\$1,628,553,000, amounting to HK\$71,447,000, was recognised as shareholder's contribution in the shareholder's contribution reserve in the consolidated statement of changes in equity.

In June 2021, the Company executed a supplemental deed poll to extend the maturity date of the September 2020 Notes to 15 March 2022. The interest rate for the extended notes was 2.00% per annum, and the effective interest rate was determined as 6.56% per annum. The extension of the September 2020 Notes was considered a non-substantial modification of financial liability and a modification gain amounting to HK\$16,409,000 was recognised as shareholder's contribution in the shareholder's contribution reserve in the consolidated statement of changes in equity.

In July 2021, the Company executed a supplemental deed poll to extend the maturity date of the October 2020 Notes to 22 April 2022. The interest rate for the extended notes was 2.00% per annum, and the effective interest rate was determined as 7.48% per annum. The extension of the October 2020 Notes was considered a non-substantial modification of financial liability and a modification gain amounting to HK\$7,869,000 was recognised as shareholder's contribution in the shareholder's contribution reserve in the consolidated statement of changes in equity.

During the year ended 31 December 2021, the July 2020 Notes and the August 2020 Notes were early redeemed. Accordingly, the loss on early redemption of the notes amounting to HK\$14,197,000 was recognised in the shareholder's contribution reserve in the consolidated statement of changes in equity.

In March 2022, the Company executed the second supplemental deed poll to extend the maturity date of the September 2020 Notes to 10 December 2022. The interest rate for the extended notes was 2.00% per annum, and the effective interest rate was determined as 6.56% per annum. The extension of the September 2020 Notes was considered a non-substantial modification of financial liability and a modification gain amounting to HK\$16,408,000 was recognised as shareholder's contribution in the shareholder's contribution reserve in the condensed consolidated statement of changes in equity.

During the current interim period, the September 2020 Notes and the October 2020 Notes were early redeemed. Accordingly, the loss on early redemption of the notes amounting to HK\$15,520,000 was recognised in the shareholder's contribution reserve in the condensed consolidated statement of changes in equity.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

BUSINESS REVIEW

During the six months ended 30 June 2022 (“**HY2022**”), the Group continued to principally engage in the business of investment in securities, trading of coke products, money lending as well as securities brokerage.

During HY2022, the Group was facing the adverse impact on the macroeconomic environment brought by the prolonged continuation of the coronavirus epidemic, and the market uncertainties resulted from the war between Russia and Ukraine, the heightened political and economic tensions between China and the US, and the interest rate hikes in some major economies including the US and the UK. Economic activities in Hong Kong were slowed down notably owing to restrictive measures imposed by the government on social distancing among citizens, mode of business operation and entry of overseas travellers. The Group continued to operate in a challenging business environment during HY2022 with the result that the management had adopted a cautious and disciplined approach in managing the Group’s businesses. For HY2022, the Group recorded a decrease in revenue by 21% to HK\$258,750,000 (30 June 2021: HK\$325,476,000), mainly due to the decreases in sales of the trading operation and interest income from securities investments and money lending operation, and a loss attributable to owners of the Company of HK\$104,350,000 (30 June 2021: HK\$196,625,000), largely resulted from the overall loss of its securities investments of HK\$21,280,000 (30 June 2021: HK\$148,094,000) and its money lending operation of HK\$19,023,000 (30 June 2021: profit of HK\$36,628,000).

Investment in Securities

The Group generally acquires securities listed on the Hong Kong 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 macroeconomic 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 prospects, industry and macroeconomic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in the form of capital appreciation and dividend/interest income. For securities investments other than for long-term holding, the Company mainly emphasises on return of investment in the form of trading gains.

At 30 June 2022, the Group's securities investments comprised (i) a financial asset at FVTPL portfolio comprising mainly equity securities listed in Hong Kong valued at HK\$22,399,000 (31 December 2021: HK\$26,632,000); and (ii) a debt instrument at FVTOCI portfolio comprising debt securities listed in overseas stock exchange valued at HK\$25,104,000 (31 December 2021: HK\$63,960,000). As a whole, the Group's securities investments recorded a loss of HK\$21,280,000 (30 June 2021: HK\$148,094,000) and had no revenue for the current period (30 June 2021: HK\$21,249,000).

Financial assets at FVTPL

At 30 June 2022, the Group held a financial asset at FVTPL portfolio amounting to HK\$22,399,000 measured at market/fair value. During HY2022, the portfolio did not generate any revenue (30 June 2021: HK\$271,000, representing dividends from equity securities). The Group recognised a net loss on financial assets at FVTPL of HK\$3,933,000 (30 June 2021: HK\$152,895,000), representing the net unrealised loss from equity securities held by the Group at the period end. The net loss on financial assets at FVTPL recognised was attributed to the decrease in fair value of the Group's listed equity securities portfolio during HY2022, whilst the net loss recorded in the prior financial period was mainly due to the decrease in fair value of the Group's investment in listed shares of China Evergrande New Energy Vehicle Group Limited.

The Group is committed to closely monitor the financial performance of its financial asset at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, the internal assessments on prospects of the individual securities and publicly available information of the investee companies.

At 30 June 2022, 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\$22,399,000 are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %
Property	92.65
Conglomerate	5.81
Others	1.54
	100.00

At 30 June 2022, the weightings of the Group's major and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$22,399,000 (together with other information) are as below:

Investee company's name and its principal activities [#]	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	Approximate weighting to the carrying amount of the Group's total assets at 30 June 2022 %	% of shareholding interest %	*Acquisition costs during the period/ carrying amount at 1 January 2022 HK\$'000	Market/fair value at 30 June 2022 HK\$'000	Unrealised loss recognised during the six months ended 30 June 2022 HK\$'000
				A	B	C = B - A
Emperor International Holdings Limited						
(HKEX stock code: 163)						
Property investment and development and hospitality businesses	92.65	0.89	0.69	23,537	20,753	(2,784)
Others	7.35	0.07	N/A	2,795	1,646	(1,149)
	<u>100.00</u>	<u>0.96</u>		<u>26,332</u>	<u>22,399</u>	<u>(3,933)</u>

Extracted from published financial information of the investee company.

* The amount represents the costs of the securities acquired during the six months ended 30 June 2022 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

Debt instruments at FVTOCI

At 30 June 2022, the Group's debt instrument at FVTOCI portfolio of HK\$25,104,000 was measured at market/fair value. During HY2022, the Group's debt instrument at FVTOCI portfolio did not generate any revenue (30 June 2021: HK\$20,978,000, representing interest income from debt securities). According to the maturity profile of the debt securities, the debt instruments at FVTOCI were classified as non-current assets. During HY2022, the Group did not acquire any debt securities (30 June 2021: nil).

At the period end, primarily owing to a fall in market/fair value of the debt instruments, a net fair value loss on the debt instrument at FVTOCI portfolio of HK\$38,856,000 (30 June 2021: HK\$60,376,000) was recognised as other comprehensive expense.

During HY2022, the Group did not dispose of any debt securities (30 June 2021: received proceeds from disposal of debt securities amounting to HK\$22,417,000 and a loss on disposal of HK\$1,018,000 was released from the Group's investment revaluation reserve and recognised as a loss).

For HY2022, the Group recognised impairment loss of HK\$17,133,000 (30 June 2021: HK\$15,562,000) on debt instruments at FVTOCI as the credit risks of the debt instruments had further increased since initial recognition. During HY2022, the expected loss given default of the debt instruments, which were corporate bonds issued by a property company based in the Mainland, had significantly increased owing to defaults of the bond issuer in making interest and principal payments for its indebtedness. As the Group expected the deterioration of the financial position of this bond issuer would ultimately affect the collection of contractual cash flows of their bonds, a provision for impairment loss on debt instruments at FVTOCI of HK\$17,133,000 was recognised in profit or loss with a corresponding adjustment to other comprehensive income.

The Group had engaged an independent professional valuer to perform an impairment assessment on the debt instruments held under the expected credit loss (“ECL”) model. The measurement of ECL is a function of the probability of default and loss given default (i.e. the magnitude of the loss if there is a default), with the assessment of the probability of default and loss given default is based on historical data and forward-looking information. The estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights, and also with reference to the time value of money. In determining ECL on the Group’s debt instruments for the period, the management had worked closely with the independent professional valuer and taken into accounts factors including the downgrading of credit rating of the debt instruments by the credit rating agencies, the defaults of the bond issuer in making payments of interest and principal for its indebtedness, and forward-looking information including the future macroeconomic conditions at places where the bond issuer is operating. There was no change in the method used in determining the impairment loss on debt instruments at FVTOCI from the prior financial year.

At 30 June 2022, the Group invested in the debt securities of a Mainland based property company with details as below:

Category of company	Approximate weighting to the carrying amount of the Group's total assets at 30 June 2022 %	Yield to maturity on acquisition %	Acquisition costs HK\$'000	Carrying amount at 1 January 2022 HK\$'000	Market/fair value at 30 June 2022 HK\$'000	Accumulated fair value loss recognised up to 30 June 2022 HK\$'000	Fair value loss recognised during the six months ended 30 June 2022 HK\$'000
			A	B	C	D = C - A	E = C - B
<i>Debt securities listed overseas</i>							
Property	1.08	9.50	312,000	63,960	25,104	(286,896)	(38,856)

Trading

During HY2022, the Group's trading operation continued to focus on the trading of coke products. The operation reported a decrease in revenue to HK\$188,301,000 (30 June 2021: HK\$222,394,000) and an increase in profit to HK\$626,000 (30 June 2021: HK\$244,000). The rise in profitability of the operation was primarily due to the general improvement of market conditions of the commodity market which in turn owing to the recovery of the world economy following the easing of the coronavirus pandemic. The management will continue stepping up its effort to explore business opportunities in order to further improve the results of the operation.

Money Lending

The Group's money lending business is conducted through CS Credit Limited, U Credit (HK) Limited and Chap Yik Limited, all are wholly-owned subsidiaries of the Company, and are licensed to conduct money lending activities under the Money Lenders Ordinance. The Group aims to make loans that could be covered by sufficient collaterals, preferably commercial and residential properties in Hong Kong, and to borrowers with good credit history. The Group has a stable source of loan deals from its own business network and its marketing agents. For HY2022, the operation recorded a decrease in revenue of 15% to HK\$64,469,000 (30 June 2021: HK\$75,724,000) and a turnaround of its results by posting a loss of HK\$19,023,000 (30 June 2021: profit of HK\$36,628,000). The decrease in revenue was mainly due to the lower average amount of performing loans advanced to borrowers during HY2022 whilst the turnaround in operating results was mainly due to the increase in provision for impairment loss by 124% to HK\$78,981,000 (30 June 2021: HK\$35,244,000).

The Group performs impairment assessment on loan receivables under the ECL model. The measurement of ECL is a function of the probability of default, the loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default (i.e. the magnitude of the loss after accounting for value of the collateral if there is a default). The assessment of probability of default and loss given default is based on historical data and forward-looking information, whilst the valuation of the properties and assets pledged to the Group as collaterals are performed by independent professional valuers engaged by the Group at each reporting date for the purpose of determining ECL. In accordance with the Group's loan impairment policy, the amount of ECL is updated at each reporting date to reflect the changes in credit risk on loan receivables since initial recognition. For HY2022, the net impairment loss recognised primarily represented the credit risk involved in collectability of certain default and non-default loans determined under the Group's loan impairment policy, with reference to factors including the credit history and financial conditions of the borrowers, the ageing of the overdue balances, the realisation value of the collaterals pledged to the Group, and forward-looking information including the future macroeconomic conditions affecting the borrowers (the negative impact of the coronavirus epidemic on the state of the Hong Kong economy had also been considered).

The Group has a system in place to closely monitor the recoverability of its loan portfolio, its credit monitoring measures include regular collateral value reviews against market information and regular communication with the borrowers of their financial position, through which the Group will be able to keep updated with the latest credit profile and risk associated with each individual borrower and could take appropriate actions for recovery of a loan at the earliest time. If circumstances require, the Group will commence legal actions against the borrowers for recovery of the overdue loans and taking possession of the collaterals pledged. At 30 June 2022, the balance of impairment allowance increased by 37% or HK\$96,146,000 to HK\$352,687,000 (31 December 2021: HK\$256,541,000), which comprised a sum of HK\$91,297,000 being impairment allowance for the current interim period, and a sum of HK\$12,316,000 being reversal of allowance owing to settlement of loans and improvement in credit quality of the borrowers.

The gross carrying amount of the Group's loan portfolio amounted to HK\$1,555,135,000 (31 December 2021: HK\$1,491,216,000) which remained in line with the level at prior year end as the management had been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong. The net carrying value of the loan portfolio, after impairment allowance, amounted to HK\$1,202,448,000 (31 December 2021: HK\$1,234,675,000) at the period end, and details of the portfolio are as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio %	Interest rate per annum %	Maturity
Individual	37.29	10.125 - 18.00	Within one year
Individual	0.35	9.50	Over one year but within two years
Corporate	61.22	8.50 - 18.00	Within one year
Corporate	1.14	9.00 - 13.00	Over one year but within two years
	<u>100.00</u>		

At 30 June 2022, 99% (31 December 2021: 99%) of the carrying amount of the loan portfolio (after impairment allowance) was secured by collaterals including properties in Hong Kong, listed equity securities and debt securities, with the remaining 1% (31 December 2021: 1%) being unsecured. At the period end, the loans made to all borrowers were term loans with maturity within two years, and the loan made to the largest borrower and the five largest borrowers accounted for 26% (31 December 2021: 25%) and 63% (31 December 2021: 60%) respectively of the Group's loan portfolio (on a net of impairment allowance basis).

The Group has clear credit policies, guidelines, controls and procedures in place which cover every aspect of a lending process including (i) information verification, (ii) credit assessment, (iii) execution of loan documentations, (iv) continuous loan monitoring and (v) collection, recovery and enforcement. Before granting loans to potential customers, the Group performs credit assessment process to assess the potential borrowers' credit quality individually and defines the credit limits granted to the borrowers. The credit assessment process encompasses detailed assessment on the credit history and financial background of the borrowers, as well as the value and characteristics of the collaterals to be pledged. The credit limit of loans successfully granted to the borrowers will be subject to regular credit review by the management as part of the ongoing loan monitoring process.

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 engage in dealing in securities activities (i.e. Type 1 regulated activity). During HY2022, the overall revenue of the operation decreased slightly by 2% to HK\$5,980,000 (30 June 2021: HK\$6,109,000) whilst its profit increased by 7% to HK\$4,449,000 (30 June 2021: HK\$4,139,000). The decrease in revenue of the operation was the combined effect of the decrease in its brokerage commission income, which dropped by 22% to HK\$2,418,000 (30 June 2021: HK\$3,093,000), largely due to weaker investor sentiment and general decline in turnover of the Hong Kong securities market during HY2022, and the increase in its interest income from margin financing, which rose by 18% to HK\$3,562,000 (30 June 2021: HK\$3,016,000), mainly due to the higher average amount of margin loans advanced to clients during the review period. The increase in the operation's profit was primarily due to the overall reduction in its administrative expenses during HY2022.

Overall Results

For HY2022, the Group recorded a loss attributable to owners of the Company of HK\$104,350,000 (30 June 2021: HK\$196,625,000) and a basic loss per share of HK0.51 cent (30 June 2021: HK0.96 cent). The Group reported a total comprehensive expense attributable to owners of the Company of HK\$126,073,000 (30 June 2021: HK\$228,059,000) which included a net fair value loss on debt securities of HK\$38,856,000 (30 June 2021: HK\$60,376,000). The loss results recorded by the Group were mainly due to the losses recognised for the Group's securities investments and money lending operation of HK\$21,280,000 (30 June 2021: HK\$148,094,000) and HK\$19,023,000 (30 June 2021: profit of HK\$36,628,000) respectively, though the losses were partly offset by the profitable results of the securities brokerage operation of HK\$4,449,000 (30 June 2021: HK\$4,139,000) and the trading operation of HK\$626,000 (30 June 2021: HK\$244,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For HY2022, the Group financed its businesses mainly by funds generated from operations, credit facilities available from financial institutions, and funds raised through issuance of interest bearing notes. At the period end, the Group had current assets of HK\$2,256,071,000 (31 December 2021: HK\$3,026,378,000) and liquid assets comprising bank balances and cash as well as listed financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$907,269,000 (31 December 2021: HK\$1,535,484,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$38,261,000 (31 December 2021: HK\$737,990,000), was at a strong ratio of about 59.0 (31 December 2021: 4.1).

At 30 June 2022, the Group's trade and other receivables amounted to HK\$145,211,000 (31 December 2021: HK\$234,712,000), which mainly comprised trade receivables from margin clients of the securities brokerage business of HK\$122,880,000 (31 December 2021: HK\$119,633,000). Since the market value of the securities pledged by the clients to the Group as collaterals amounted to HK\$1,155,173,000 (31 December 2021: HK\$1,501,969,000) and far exceeded the margin client receivables on an individual basis, no impairment allowance had been provided on these receivables accordingly. At the period end, the Group had deferred tax assets amounting to HK\$972,000 (31 December 2021: HK\$29,856,000), which was principally related to the allowance for ECL of loan receivables at the period end.

At 30 June 2022, the equity attributable to owners of the Company amounted to HK\$2,288,895,000 (31 December 2021: HK\$2,414,080,000) and was equivalent to an amount of approximately HK11.23 cents (31 December 2021: HK11.84 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK\$125,185,000 was mainly due to the loss recognised by the Group during the period.

During the second half of 2020, the Company issued four tranches of notes comprising (i) the 2-year unsecured notes with nominal value of HK\$500,000,000 bearing interest of 5.5% per annum in July 2020 (the “**July 2020 Notes**”); (ii) the 1-year unsecured notes with nominal value of HK\$500,000,000 bearing interest of 3.0% per annum in August 2020 (the “**August 2020 Notes**”); (iii) the 270-day unsecured notes with nominal value of HK\$500,000,000 bearing interest of 2.0% per annum in September 2020 (the “**September 2020 Notes**”); and (iv) the 270-day unsecured notes with nominal value of HK\$200,000,000 bearing interest of 2.0% per annum in October 2020 (the “**October 2020 Notes**”). All the four tranches of notes carried options for the Company to early redeem the notes, by giving not less than 15 days' notice to the noteholders, in whole or in part at 100% of the principal amount outstanding, together with the interest accrued and unpaid at the date fixed for redemption.

In June 2021, the Company executed a supplemental deed poll to extend the maturity date of the September 2020 Notes to 15 March 2022. In July 2021, the Company executed another supplemental deed poll to extend the maturity date of the October 2020 Notes to 22 April 2022. In August 2021, both the July 2020 Notes and the August 2020 Notes were early redeemed.

In January 2022, the October 2020 Notes were early redeemed. In March 2022, the Company executed the second supplemental deed poll to further extend the maturity date of the September 2020 Notes to 10 December 2022, such notes were subsequently early redeemed in May 2022.

At 30 June 2022, the Company had no outstanding interest bearing notes payable (31 December 2021: HK\$692,107,000).

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$42,061,000 (31 December 2021: HK\$745,882,000) divided by the equity attributable to owners of the Company of HK\$2,288,895,000 (31 December 2021: HK\$2,414,080,000), was about 2% (31 December 2021: 31%). The decrease in the Group's gearing ratio was mainly due to the redemption of all outstanding notes payable during the period. The Group's finance costs decreased to HK\$12,955,000 (30 June 2021: HK\$73,274,000) was mainly a result of the decrease in the average amount of notes payable during the period.

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

PROSPECTS

During HY2022, the business environment of the Group remained challenging primarily owing to the prolonged continuation of the coronavirus epidemic, and the market uncertainties brought by the war between Russia and Ukraine, the heightened political and economic tensions between China and the US, and the interest rate hikes in some major economies including the US and the UK. Against this backdrop, the management will continue to adopt a cautious and disciplined approach in managing the businesses of the Group, as well as in seeking new business and investment opportunities which are expected to bring long-term benefits to the Group.

In April 2022, the Group completed the acquisition of an asset management company which is licensed by the Hong Kong Securities and Futures Commission to engage in advising on securities and asset management activities (i.e. Type 4 and 9 regulated activities). It is the plan that this company will engage in fund management activities for equity, fixed income as well as alternative investments, which are expected to create synergies with the Group's securities brokerage operation.

The management is in the course of evaluating several investment opportunities in respect of target companies which are engaged in the financial industry including the one which is engaged in insurance business in Hong Kong, with the intent to diversify the Group's business and income base. Announcements will be made to inform shareholders as and when there is further material development of these investment opportunities.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2022.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2022 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. The report on review of interim financial information by the auditor will be included in the 2022 Interim Report to be despatched to the shareholders of the Company.

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

During the six months ended 30 June 2022, 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, 26 August 2022

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), Mr. Chow Kam Wah and Mr. Chow Man Wai, Tony; and four Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander, Mr. Leung Hoi Ying and Mr. Lam Kin Fung, Jeffrey.