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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 2020

The Board of Directors (the “**Board**”) of China Strategic Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	143,085	604,991
Trading income		3,430	392,379
Dividend income		4,608	11,781
Interest income		131,815	189,423
Commission, underwriting fee and others		3,232	11,408
Purchases and related expenses		(3,393)	(390,440)
Other income	5	8,604	753
Other (loss) gain	6	(209)	161
Staff costs		(11,513)	(11,024)
Other expenses		(16,706)	(13,903)
Net gain (loss) on financial assets at fair value through profit or loss	7	249,770	(304,339)
(Loss) gain on disposal of debt instruments at fair value through other comprehensive income		(965)	1,182
Gain on redemption of debt instruments at fair value through other comprehensive income		–	109
Impairment losses under expected credit loss model, net of reversal	10	(238,045)	(15,362)
Finance costs	8	(66,635)	(90,917)

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit (loss) before tax		63,993	(218,789)
Income tax (expense) credit	9	<u>(12,342)</u>	<u>79,287</u>
Profit (loss) for the period attributable to owners of the Company	10	<u>51,651</u>	<u>(139,502)</u>
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		8,467	(9,193)
Net fair value (loss) gain on debt instruments at fair value through other comprehensive income		(55,502)	57,897
(Reversal of) provision for impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	(3,220)	891
Release on disposal of debt instruments at fair value through other comprehensive income		965	(1,182)
Release on redemption of debt instruments at fair value through other comprehensive income		<u>–</u>	<u>(109)</u>
Other comprehensive (expense) income for the period		<u>(49,290)</u>	<u>48,304</u>
Total comprehensive income (expense) for the period attributable to owners of the Company		<u>2,361</u>	<u>(91,198)</u>
Earnings (loss) per share attributable to owners of the Company			
– Basic	12	<u>HK0.30 cent</u>	<u>HK(0.82) cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

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

Notes:

1. Basis of preparation

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

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

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

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

Application of amendments to HKFRSs

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

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

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

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

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

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

3. Revenue

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

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

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

4. Segment information

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

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

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

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

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

Segment assets and liabilities

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

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
Segment assets		
Investment in securities	2,291,501	2,528,601
Trading	3,153	43,474
Money lending	1,261,698	2,435,497
Securities brokerage	123,499	124,337
	<hr/>	<hr/>
Total segment assets	3,679,851	5,131,909
Property, plant and equipment	18,439	19,788
Right-of-use assets	11,401	10,434
Bank balances and cash	1,512,611	24,211
Other unallocated assets	13,158	8,949
	<hr/>	<hr/>
Consolidated assets	<u>5,235,460</u>	<u>5,195,291</u>
Segment liabilities		
Investment in securities	208,960	472,389
Trading	390,059	334
Money lending	1,149	14,394
Securities brokerage	38,359	61,514
	<hr/>	<hr/>
Total segment liabilities	638,527	548,631
Other payables	13,846	15,594
Notes payable	1,201,506	1,253,171
Lease liabilities	9,431	8,106
	<hr/>	<hr/>
Consolidated liabilities	<u>1,863,310</u>	<u>1,825,502</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	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	5,130	438
Others (<i>Note</i>)	3,474	315
	<u>8,604</u>	<u>753</u>

Note: The amount mainly represented interest income of HK\$3,189,000 (six months ended 30 June 2019: nil) from note receivable as disclosed in Note 16.

6. Other (loss) gain

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

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

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

8. Finance costs

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	–	954
Interest on bank borrowings	1,562	4,711
Interest on margin financing	6,642	12,526
Interest on notes payable (<i>Note 19</i>)	58,261	72,481
Interest on lease liabilities	170	245
	<u>66,635</u>	<u>90,917</u>

9. Income tax (expense) credit

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Tax credit (charge) comprises:		
Current tax	2,075	(17,294)
Deferred tax	(14,417)	96,581
	<u>(12,342)</u>	<u>79,287</u>

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

10. Profit (loss) for the period

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

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

11. Dividend

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2019: nil). The directors have determined that no dividend will be paid in respect of the interim period.

12. Earnings (loss) per share

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

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings (loss):		
Profit (loss) for the period attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	51,651	(139,502)
	<u><u>51,651</u></u>	<u><u>(139,502)</u></u>
	Six months ended 30 June	
	2020	2019
	<i>'000</i>	<i>'000</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	16,987,714	16,987,714
	<u><u>16,987,714</u></u>	<u><u>16,987,714</u></u>

Diluted earnings (loss) per share for the six months ended 30 June 2020 and 2019 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

13. Debt instruments at fair value through other comprehensive income

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

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

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

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

14. Loan receivables

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

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

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

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

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

15. Financial assets at fair value through profit or loss

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

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

16. Trade and other receivables

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

Notes:

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

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

- (ii) Included in other receivables were unrestricted deposits of HK\$12,284,000 (31 December 2019: HK\$9,672,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly dividend receivables, prepayment and deposits for office use.

- (iii) The amount represented the outstanding principal of a convertible note subscribed by the Group, which was originally due for repayment on 15 December 2019. Pursuant to a deed entered into between the relevant parties on 10 February 2020, the conversion rights under the note were removed and ceased to be convertible into shares of the issuer. The repayment date of the outstanding principal of the note of HK\$49,400,000 was extended from 15 December 2019 to 15 May 2020 and bearing interest at the rate of 12% per annum. During the period, the outstanding principal of HK\$3,800,000 of the note was repaid with the repayment date of the remaining principal of the note being further extended to 14 October 2020 and bearing interest at the rate of 16% per annum.

17. Trade and other payables

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

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

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

	At 30 June 2020 <i>HK\$'000</i> (Unaudited)	At 31 December 2019 <i>HK\$'000</i> (Audited)
0 – 180 days	<u>6</u>	<u>–</u>

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

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

18. Borrowings

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

Notes:

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

19. Notes payable

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

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

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

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

During the six months ended 30 June 2020, nominal value of HK\$50,000,000 (year ended 31 December 2019: HK\$250,000,000) of the 2016 Notes were redeemed.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (30 June 2019: nil).

BUSINESS REVIEW

For the six months ended 30 June 2020 (“**HY2020**”), the Group continued to principally engage in the business of investment in securities, trading of electronic components, money lending as well as securities brokerage.

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

Investment in Securities

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

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

Financial assets at FVTPL

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

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

The Group has started to invest in Evergrande Health since March 2015, up to 30 June 2020, the accumulative holding gain of this investment amounted to HK\$1,167,456,000 (as shown in the table below about the Group's top three investments). At the period end, the Group held 133,600,000 ordinary shares in Evergrande Health which represented approximately 1.55% of its issued share capital, and the carrying value of the Group's investment in Evergrande Health amounted to HK\$1,386,768,000 which represented approximately 26% of the Group's total assets. Evergrande Health is principally engaged in healthcare business in the People's Republic of China (the “**PRC**”) as well as the technology research and development, production and sales of new energy vehicles in the PRC and other countries. According to its latest published financial information, its healthcare business generated revenue of about RMB5 billion in 2019 and it has completed the layout of the new energy vehicle industry chain, and

aims to become a major and powerful new energy vehicle group in the world. Although Evergrande Health recorded an overall loss for its 2019 annual results primarily owing to the development of its new energy vehicle business which led to the increase in expenditure relating to the purchase of fixed assets and equipment, research and development and interest payments, with the reveal of its six first-phase “Hengchi” vehicle models as mentioned in its announcement dated 3 August 2020, the Group is optimistic about the prospect of Evergrande Health in the medium to long term. Subject to market conditions, the Group presently has no intention to realise this investment.

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

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

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

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

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

[#] The percentage of shareholding interest was calculated on the basis of 1,669,800,000 H shares of Bank of Zhengzhou Co., Ltd. (HKEX stock code: 6196) in issue at 30 June 2020.

Debt instruments at FVTOCI

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

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

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

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

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

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

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

Trading

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

Money Lending

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

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

At 30 June 2020, 99% (31 December 2019: 90%) of the carrying amount the loan portfolio was collateral loans, nil (31 December 2019: 3%) was guaranteed by credible guarantors, and with the remaining 1% (31 December 2019: 7%) being unsecured.

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

Securities Brokerage

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

Overall Results

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

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

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

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

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

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

PROSPECTS

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

CORPORATE GOVERNANCE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2020 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA. The report on review of interim financial information by the auditor will be included in the 2020 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 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
China Strategic Holdings Limited
Dr. Or Ching Fai
Chairman

Hong Kong, 24 August 2020

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