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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 2021

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 2021 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	325,476	143,085
Trading income		222,394	3,430
Dividend income		271	4,608
Interest income		99,493	131,815
Commission, underwriting fee and others		3,318	3,232
Purchases and related expenses		(222,142)	(3,393)
Other income	5	2,420	8,604
Other loss	6	(823)	(209)
Staff costs		(15,419)	(11,513)
Other expenses		(35,867)	(16,706)
Net (loss) gain on financial assets at fair value through profit or loss	7	(152,895)	249,770
Loss on disposal of debt instruments at fair value through other comprehensive income		(1,018)	(965)
Provision for impairment losses under expected credit loss model, net of reversal	10	(50,806)	(238,045)
Finance costs	8	(73,274)	(66,635)

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(Loss) profit before tax		(224,348)	63,993
Income tax credit (expense)	9	<u>27,723</u>	<u>(12,342)</u>
(Loss) profit for the period attributable to owners of the Company	10	<u>(196,625)</u>	<u>51,651</u>
Other comprehensive income (expense)			
<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	8,467
Net fair value loss on debt instruments at fair value through other comprehensive income		(60,376)	(55,502)
Provision for (reversal of) impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	15,562	(3,220)
Release on disposal of debt instruments at fair value through other comprehensive income		<u>1,018</u>	<u>965</u>
Other comprehensive expense for the period		<u>(31,434)</u>	<u>(49,290)</u>
Total comprehensive (expense) income for the period attributable to owners of the Company		<u>(228,059)</u>	<u>2,361</u>
(Loss) earnings per share attributable to owners of the Company			
– Basic	12	<u>HK(0.96) cent</u>	<u>HK0.30 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Non-current assets			
		16,515	18,196
Property, plant and equipment		23,742	28,388
Right-of-use assets		4,000	4,000
Goodwill		1,928	1,928
Club debentures		319,020	401,813
Debt instruments at fair value through other comprehensive income	13	115,080	–
Loan receivables	14	32,342	27,067
Deferred tax assets		<u>512,627</u>	<u>481,392</u>
Total non-current assets			
Current assets			
Loan receivables	14	1,372,724	1,448,295
Trade and other receivables	15	148,030	175,487
Income tax recoverable		20,998	22,841
Financial assets at fair value through profit or loss	16	3,920,722	4,073,317
Pledged bank deposits		3,096	3,096
Bank balances and cash		<u>2,243,859</u>	<u>2,277,270</u>
Total current assets		<u>7,709,429</u>	<u>8,000,306</u>
Current liabilities			
Trade and other payables	17	52,075	68,240
Income tax payable		8,794	8,794
Borrowings	18	350,000	355,000
Notes payable	19	1,180,235	1,170,725
Lease liabilities		<u>9,226</u>	<u>9,083</u>
Total current liabilities		<u>1,600,330</u>	<u>1,611,842</u>
Net current assets		<u>6,109,099</u>	<u>6,388,464</u>
Total assets less current liabilities		<u>6,621,726</u>	<u>6,869,856</u>

		At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Non-current liabilities			
Notes payable	<i>19</i>	484,929	478,152
Lease liabilities		12,614	17,263
Deferred tax liabilities		396,785	435,393
		<hr/>	<hr/>
Total non-current liabilities		894,328	930,808
		<hr/>	<hr/>
Net assets		5,727,398	5,939,048
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Share capital		3,216,110	3,216,110
Reserves		2,511,288	2,722,938
		<hr/>	<hr/>
Total equity		5,727,398	5,939,048
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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 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 2020 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 2020 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s audited consolidated financial statements for the year ended 31 December 2020.

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 periods beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-related rent concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest rate benchmark reform – phase 2

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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Trading of coke products	222,394	–
Sales of electronic components	–	3,430
Arrangement fee income from money lending business	225	388
Commission and handling income from securities brokerage business	3,093	2,507
Underwriting fee income from securities brokerage business	–	337
	<hr/>	<hr/>
Revenue from contracts with customers	225,712	6,662
Dividend income from financial assets at fair value through profit or loss (“FVTPL”)	271	4,608
Interest income from debt instruments at fair value through other comprehensive income (“FVTOCI”)	20,978	32,582
Interest income from securities margin financing business	3,016	505
Interest income from money lending business	75,499	98,728
	<hr/>	<hr/>
	325,476	143,085

During the periods ended 30 June 2021 and 2020, 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 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 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)
Six months ended 30 June 2020					
Segment Revenue					
External sales/sources	37,190	3,430	99,116	3,349	143,085
Results					
Segment results	291,996	113	(143,994)	1,937	150,052
Other income					5,019
Central administrative expenses					(24,443)
Finance costs					(66,635)
Profit before tax					63,993
Income tax expense					(12,342)
Profit for the period					51,651

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

Segment assets and liabilities

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

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Segment assets		
Investment in securities	4,254,178	4,645,933
Trading	1,557	3,031
Money lending	1,558,971	1,549,021
Securities brokerage	299,003	309,037
	<hr/>	<hr/>
Total segment assets	6,113,709	6,507,022
Property, plant and equipment	16,515	18,196
Right-of-use assets	23,742	28,388
Bank balances and cash	2,062,784	1,921,585
Other unallocated assets	5,306	6,507
	<hr/>	<hr/>
Consolidated assets	<u>8,222,056</u>	<u>8,481,698</u>
Segment liabilities		
Investment in securities	752,641	796,621
Trading	54	334
Money lending	74	1,249
Securities brokerage	28,171	40,479
	<hr/>	<hr/>
Total segment liabilities	780,940	838,683
Other payables	26,714	28,744
Notes payable	1,665,164	1,648,877
Lease liabilities	21,840	26,346
	<hr/>	<hr/>
Consolidated liabilities	<u>2,494,658</u>	<u>2,542,650</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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	1,432	5,130
Others (<i>Note</i>)	988	3,474
	<u>2,420</u>	<u>8,604</u>

Note: The amount mainly represented interest income of HK\$799,000 (six months ended 30 June 2020: HK\$3,189,000) from the note receivable disclosed in Note 15.

6. Other loss

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Exchange loss, net	823	209
	<u>823</u>	<u>209</u>

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net unrealised (loss) gain on financial assets at FVTPL	(152,895)	268,385
Net realised loss on sales of financial assets at FVTPL	–	(18,615)
	<u>(152,895)</u>	<u>249,770</u>

8. Finance costs

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	28	–
Interest on borrowings	12,167	8,204
Interest on notes payable (<i>Note 19</i>)	60,713	58,261
Interest on lease liabilities	366	170
	73,274	66,635

9. Income tax credit (expense)

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Tax (charge) credit comprises:		
Current tax	(3,798)	2,075
Deferred tax	31,521	(14,417)
Income tax credit (expense) recognised in profit or loss	27,723	(12,342)

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the current interim period (six months ended 30 June 2020: 16.5%).

10. (Loss) profit for the period

(Loss) profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Provision for (reversal of) impairment loss on debt instruments at FVTOCI, net (<i>Note 13</i>)	15,562	(3,220)
Provision for impairment loss on loan receivables (<i>Note 14</i>)	35,244	241,265
	<hr/>	<hr/>
Provision for impairment losses under expected credit loss (“ECL”) model, net of reversal	50,806	238,045
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Depreciation of property, plant and equipment	1,685	1,663
Depreciation of right-of-use assets	4,646	4,657
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11. Dividend

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2020: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

12. (Loss) earnings per share

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(Loss) earnings:		
(Loss) profit for the period attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	(196,625)	51,651
	<hr/> <hr/>	<hr/> <hr/>

	Six months ended 30 June	
	2021	2020
	<i>'000</i>	<i>'000</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	20,385,254	16,987,714
	<hr/> <hr/>	<hr/> <hr/>

Diluted (loss) earnings per share for the six months ended 30 June 2021 and 2020 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 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Listed investments, at fair value:		
– Debt securities listed in overseas (31 December 2020: Hong Kong or overseas) with fixed interests ranging from 8.75% to 9.50% (31 December 2020: 5.65% to 9.50%) per annum and maturity dates ranging from 29 March 2024 to 28 June 2025 (31 December 2020: 18 January 2023 to 28 June 2025)	<u>319,020</u>	<u>401,813</u>
Analysed as:		
Non-current portion	<u>319,020</u>	<u>401,813</u>

At 30 June 2021, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the overseas stock exchanges.

The Group provided impairment allowance of HK\$15,562,000 (six months ended 30 June 2020: reversal of impairment loss of HK\$3,220,000) for the current interim period.

At 30 June 2021, debt securities of HK\$319,020,000 (31 December 2020: HK\$401,813,000) were pledged as security for credit facilities granted to the Group.

14. Loan receivables

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables	1,908,107	1,821,549
Less: impairment allowance	<u>(420,303)</u>	<u>(373,254)</u>
	<u>1,487,804</u>	<u>1,448,295</u>
Analysed as:		
Current portion	1,372,724	1,448,295
Non-current portion	<u>115,080</u>	<u>–</u>
	<u>1,487,804</u>	<u>1,448,295</u>
Analysed as:		
Secured	1,476,879	1,436,779
Unsecured	<u>10,925</u>	<u>11,516</u>
	<u>1,487,804</u>	<u>1,448,295</u>

At 30 June 2021, the range of interest rates and maturity dates attributed to the Group's performing loan receivables was 8.5% to 13% (31 December 2020: 10% to 14.25%) per annum and from 4 September 2021 to 27 December 2022 (31 December 2020: 19 February 2021 to 31 May 2021) respectively.

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

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables:		
Within one year or on demand	1,372,724	1,448,295
In more than one year but not more than two years	<u>115,080</u>	<u>–</u>
	<u>1,487,804</u>	<u>1,448,295</u>

The Group provided impairment allowance of HK\$35,244,000 (six months ended 30 June 2020: HK\$241,265,000) for the current interim period.

15. Trade and other receivables

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Trade receivables of securities brokerage business:		
– Cash clients (<i>Note (i)</i>)	2,614	2,941
– Margin clients (<i>Note (i)</i>)	124,976	100,153
Other receivables (<i>Note (ii)</i>)	20,440	26,793
Note receivable (<i>Note (iii)</i>)	–	45,600
	<u>148,030</u>	<u>175,487</u>

Notes:

- (i) For the securities brokerage business, the normal settlement terms of trade receivables from cash clients are two days after trade date. The trade receivables from cash clients and margin clients with carrying amounts of HK\$127,590,000 (31 December 2020: HK\$103,094,000) were not past due as 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 are determined based on a discount on the market value of securities pledged to the Group. Any excess in lending ratio will trigger margin calls for which the clients concerned have to make good the shortfall. At 30 June 2021, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK\$1,681,977,000 (31 December 2020: HK\$2,062,243,000).

- (ii) Included in other receivables were unrestricted deposits of HK\$3,674,000 (31 December 2020: HK\$3,433,000) placed with securities brokers. The remaining balance of other receivables represented mainly interest 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 the note 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 year ended 31 December 2020, outstanding principal of HK\$3,800,000 was settled and the repayment date of the remaining outstanding principal had been further extended to 14 October 2020 and bearing interest at the rate of 16% per annum. The outstanding principal of the note was fully settled during the current interim period.

At 30 June 2021, trade and other receivables of HK\$15,999,000 (31 December 2020: HK\$66,670,000) were pledged as security for credit facilities granted to the Group.

16. Financial assets at fair value through profit or loss

	At 30 June 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (i)</i>)	3,920,422	4,073,317
Unlisted investments, at fair value:		
– Unlisted equity securities (<i>Note (ii)</i>)	300	–
	<u>3,920,722</u>	<u>4,073,317</u>
Analysed as:		
Current portion	<u>3,920,722</u>	<u>4,073,317</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 are the deemed resale price of the investments.

At 30 June 2021, equity securities of HK\$3,920,422,000 (31 December 2020: HK\$4,073,317,000) were pledged as security for credit facilities granted to the Group.

17. Trade and other payables

	At 30 June 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
Trade payables of securities brokerage business:		
– Cash clients (<i>Note</i>)	26,454	27,142
– Margin clients (<i>Note</i>)	331	12,305
– Hong Kong Securities Clearing Company Limited (“HKSCC”) (<i>Note</i>)	1,309	924
Accrued charges and other payables	4,063	7,653
Interest payables	19,918	20,216
	<u>52,075</u>	<u>68,240</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. Borrowings

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
Short-term secured borrowing (<i>Note</i>)	<u><u>350,000</u></u>	<u><u>355,000</u></u>

An analysis of the Group's borrowings is as follows:

	At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Fixed-rate borrowings	350,000	350,000
Variable-rate borrowings	<u>–</u>	<u>5,000</u>
	<u><u>350,000</u></u>	<u><u>355,000</u></u>

Note: The amount of HK\$350,000,000 (31 December 2020: HK\$350,000,000) carried interest at 7% per annum and was repayable within one year. The loan agreement of the borrowings contains a repayment on demand clause. The borrowings were secured by two share charges each charging over the issued share of a wholly-owned subsidiary of the Company and two debentures each incorporating a first floating charge over all the assets of a wholly-owned subsidiary of the Company.

At 31 December 2020, the amount of HK\$5,000,000 carried interest at Hong Kong Interbank Offered Rate plus certain basis points per annum and was repayable within one year. The loan agreement of the borrowings contained a repayment on demand clause. The borrowings were secured by certain debt securities and were settled during current interim period.

19. Notes payable

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

	At 30 June 2021 <i>HK\$'000</i> (Unaudited)	At 31 December 2020 <i>HK\$'000</i> (Audited)
At the beginning of the period/year	1,648,877	1,253,171
Redemption of notes (<i>Note (i)</i>)	–	(1,250,000)
Issue of notes (<i>Note (ii)</i>)	–	1,628,553
Effective interest charged (<i>Note 8</i>)	60,713	146,611
Interest paid	(28,017)	(129,458)
Gain on non-substantial modification (<i>Note (ii)</i>)	(16,409)	–
	<u>1,665,164</u>	<u>1,648,877</u>
Analysed as:		
Current portion	1,180,235	1,170,725
Non-current portion	484,929	478,152
	<u>1,665,164</u>	<u>1,648,877</u>

Notes:

- (i) 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, and the effective interest rate of the 2016 Notes was 8.57% per annum. In December 2018, the 2016 Notes of nominal value of HK\$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining 2016 Notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020. The interest for the 2016 Notes was 9.50% per annum and 10.00% per annum for the third and fourth year respectively, and the effective interest rate of the 2016 Notes was 9.74% per annum. The 2016 Notes carried option for the Company to early redeem the notes, by giving not less than 15 days’ nor more than 30 days’ notice to the noteholders on the third anniversary date and/or 16 June 2020, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. During the years ended 31 December 2020 and 2019, the 2016 Notes of nominal value of HK\$50,000,000 and HK\$250,000,000 were early redeemed, respectively. In December 2020, the remaining 2016 Notes with nominal value of HK\$1,000,000,000 were redeemed at maturity.

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 was 9.50% per annum and 10.00% per annum for the first and second year respectively, and the effective interest rate of the 2018 Notes was 9.74% per annum. The 2018 Notes carried 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. In August 2020, the 2018 Notes with nominal value of HK\$200,000,000 were redeemed at maturity.

- (ii) 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 interest for the notes was 5.50% per annum with effective interest rate of 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 interest for the notes was 3.00% per annum with effective interest rate of 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 interest for the notes was 2.00% per annum with effective interest rate of 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 interest for the notes was 2.00% per annum with effective interest rate of 7.48% per annum.

All four notes carry option 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. Early redemption options of the Company are regarded as embedded derivatives not closely related to the host contract. The directors of the Company considered that the fair values of the early redemption options are 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 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 270-day notes issued in September 2020 with nominal value of HK\$500,000,000 for 270 days to 15 March 2022. The interest for the extended notes was 2% per annum with effective interest rate of 6.56% per annum. The extension of the abovementioned notes is considered a non-substantial modification of financial liability and a modification gain amounting to HK\$16,409,000 was recognised as 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 2021 (30 June 2020: nil).

BUSINESS REVIEW

During the six months ended 30 June 2021 (“**HY2021**”), the Group continued to principally engaged in the business of investment in securities, trading of merchandise, money lending as well as securities brokerage.

During HY2021, there are signs that the global pandemic situation has gradually improved and is under control following the launch of vaccination programs in many countries and regions, however, the emergence of the coronavirus variants recently and the new wave of outbreaks in some countries have created new uncertainties to the world community. There are also indicators that the conditions of major economies including China, the US and the UK have stabilised and on their recovery path from which the Group would be able to benefit, though the heightened political and economic tensions between China and the US have brought to the Group new business challenges. The Group was thus operating in an exceptionally complex business environment during HY2021 and had been cautious in managing its businesses. For HY2021, the Group recorded an increase in revenue by 127% to HK\$325,476,000 (30 June 2020: HK\$143,085,000), mainly due to the increase in sales of the trading operation, and a loss attributable to owners of the Company of HK\$196,625,000 (30 June 2020: profit of HK\$51,651,000), largely resulting from the net fair value loss on listed equity securities held by the Group.

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 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 2021, the Group's securities investments comprised (i) a financial asset at fair value through profit or loss (“**FVTPL**”) portfolio, comprising mainly equity securities listed in Hong Kong, valued at HK\$3,920,722,000 (31 December 2020: HK\$4,073,317,000); and (ii) a debt instrument at fair value through other comprehensive income (“**FVTOCI**”) portfolio comprising listed debt securities, valued at HK\$319,020,000 (31 December 2020: HK\$401,813,000). As a whole, the Group's securities investments recorded a revenue of HK\$21,249,000 (30 June 2020: HK\$37,190,000) and a loss of HK\$148,094,000 (30 June 2020: profit of HK\$291,996,000).

Financial assets at FVTPL

At 30 June 2021, the Group held a financial asset at FVTPL portfolio amounting to HK\$3,920,722,000 measured at market/fair value. During HY2021, the portfolio generated a revenue of HK\$271,000 (30 June 2020: HK\$4,608,000) representing dividends from equity securities. The Group recognised a net loss on financial assets at FVTPL of HK\$152,895,000, which comprised net unrealised loss of HK\$152,895,000 for listed equity securities held by the Group at the period end (30 June 2020: net gain 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).

The net loss on financial assets at FVTPL recognised was mainly attributed to the net decrease in fair value of the Group's listed equity securities portfolio during the interim period. Such net decrease in fair value mainly comprised the decrease in fair value of the Group's investment in listed shares of China Evergrande New Energy Vehicle Group Limited (“**Evergrande Vehicle**” HKEX stock code: 708) which amounted to HK\$173,680,000 for HY2021, in contrast to the increase in fair value of HK\$348,696,000 recognised in the prior period.

The Group has started to invest in Evergrande Vehicle since March 2015, including the unrealised fair value loss recognised in the current period, up to 30 June 2021, the accumulative holding gain of this investment amounted to HK\$3,641,728,000 (as shown in the table below about the Group's top two investments). At the period end, the Group held 133,600,000 ordinary shares in Evergrande Vehicle which represented approximately 1.37% of its issued shares, and the carrying value of the Group's investment in Evergrande Vehicle amounted to HK\$3,861,040,000 which represented approximately 46.96% of the Group's total assets. Evergrande Vehicle is principally engaged in technology research and development, production and sales of new energy vehicles as well as health management businesses including “Internet+” community health management, international hospitals, elderly care and rehabilitation. According to its latest published annual financial information, its healthcare business generated revenue of RMB15.3 billion while its new energy vehicle business recorded revenue of

RMB187.5 million. Evergrande Vehicle has established a full industry chain of new energy vehicles covering automobile manufacturing, electric motor control, power batteries, vehicle sales, smart charging, shared mobility and other aspects and built advanced intelligent manufacturing bases in Tianjin, Shanghai, Guangzhou and other locations in accordance with the Industry 4.0 Standard. Evergrande Vehicle will endeavor to facilitate the mass production of the nine Hengchi models at full speed, and continue to devote itself to the innovation and application of new energy vehicle technologies and product R&D as well as to introduce additional vehicle models to enrich its product mix and elevate the smart manufacturing standards in China.

The Company noted that recently there are certain negative news about China Evergrande Group, the holding company of Evergrande Vehicle, and that the share price of Evergrande Vehicle has dropped significantly from the period end date to the date of this announcement, with the value of the Group's investment in listed shares of Evergrande Vehicle, determined based on the closing share price of Evergrande Vehicle of HK\$5.18 quoted on the Hong Kong Stock Exchange as at the date of this announcement, decreased by 82% to HK\$692,048,000 compared to the value of the Group's investment as at the period end of HK\$3,861,040,000. Depending on a number of factors including without limitation the publicly available information about the business development and prospects of Evergrande Vehicle, prevailing market sentiments and market conditions, the Group will consider to dispose of part or all of its investment in listed shares of Evergrande Vehicle as and when the Company considers it appropriate to do so. The Company will inform shareholders as and when there is further material development of this matter.

At 30 June 2021, the Group invested in Evergrande Vehicle and other categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$3,920,722,000 are as below:

Name/category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %
Evergrande Vehicle	98.48
Conglomerate	0.71
Property	0.78
Others	0.03
	100.00

At 30 June 2021, the weightings of the Group's investment in Evergrande Vehicle and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$3,920,722,000 (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 2021 %	% of shareholding interest %	Acquisition costs HK\$'000	*Acquisition costs during the period/carrying amount at 1 January 2021 HK\$'000	Market/fair value at 30 June 2021 HK\$'000	Accumulated unrealised gain (loss) recognised up to 30 June 2021 HK\$'000	Unrealised gain (loss) recognised during the period ended 30 June 2021 HK\$'000	Dividend income recognised during the period ended 30 June 2021 HK\$'000
				A	B	C	D = C - A	E = C - B	
Evergrande Vehicle (HKEX stock code: 708)	98.48	46.96	1.37	219,312	4,034,720	3,861,040	3,641,728	(173,680)	-
Emperor International Holdings Limited (HKEX stock code: 163)	0.78	0.37	0.74	62,311	29,819	30,632	(31,679)	813	271
Others	0.74	0.35	N/A	194,646	9,078	29,050	(165,596)	19,972	-
	<u>100.00</u>	<u>47.68</u>		<u>476,269</u>	<u>4,073,617</u>	<u>3,920,722</u>	<u>3,444,453</u>	<u>(152,895)</u>	<u>271</u>

* The amount represented the costs of the securities acquired during the six months ended 30 June 2021 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 2021, the Group's debt instrument at FVTOCI portfolio of HK\$319,020,000 was measured at market/fair value. During HY2021, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK\$20,978,000 (30 June 2020: HK\$32,582,000), representing interest income from debt securities. According to the maturity of the debt securities, all debt instruments at FVTOCI were classified as non-current assets. During HY2021, the Group did not acquire any debt securities (30 June 2020: nil).

At the period end, a net fair value loss on the debt instrument at FVTOCI portfolio amounting to HK\$60,376,000 (30 June 2020: HK\$55,502,000) was recognised as other comprehensive expense.

During HY2021, the Group disposed of debt securities for consideration of HK\$22,417,000 (30 June 2020: HK\$309,172,000). A loss on disposal of HK\$1,018,000 (30 June 2020: HK\$965,000) was released from the Group's investment revaluation reserve and recognised as loss during the current period.

For HY2021, the Group recognised impairment loss of HK\$15,562,000 (30 June 2020: reversal of impairment loss of HK\$3,220,000) on debt instruments at FVTOCI by reference to exposures at default, recovery rate and adjustments for forward looking information.

At 30 June 2021, the Group invested in debt securities of a property company with details 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 2021 %	Yield to maturity on acquisition %	Acquisition costs HK\$'000	* Acquisition costs during the period/ carrying amount at 1 January 2021 HK\$'000	Market/fair value at 30 June 2021 HK\$'000	Accumulated fair value loss recognised up to 30 June 2021 HK\$'000	Fair value loss recognised during the period ended 30 June 2021 HK\$'000
				A	B	C	D = C - A	E = C - B

Debt securities listed overseas

Property	100.00	3.88	8.75 - 9.50	436,800	380,571	319,020	(117,780)	(61,551)
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* The amount represented the costs of the securities acquired during the six months ended 30 June 2021 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 8.75% to 9.50% per annum.

Trading

During HY2021, the Group's trading operation was focused on trading of coke products. The operation reported an increase in revenue by over 63 times to HK\$222,394,000 (30 June 2020: HK\$3,430,000), and recorded profit of HK\$244,000 (30 June 2020: HK\$113,000). The increase in revenue and profit earned were principally due to the resumption of the commodities trading business resulting mainly from the improvement in conditions of the European economy in general. The management is stepping up its effort to explore new business opportunities in order to 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. For HY2021, the operation recorded a decrease in revenue of 24% to HK\$75,724,000 (30 June 2020: HK\$99,116,000) and achieved a turnaround of results by recording a profit of HK\$36,628,000 (30 June 2020: loss of HK\$143,994,000). The decrease in revenue was mainly due to the lower average amount of loans advanced to borrowers during HY2021, and there was a reduction in net impairment allowance against loan receivables which amounting to HK\$35,244,000 for the current period (30 June 2020: HK\$241,265,000).

The net impairment allowance 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 of the borrowers, the realisation value of collaterals pledged to the Group, and the prevailing economic conditions (the negative impact of the COVID-19 pandemic on the current state of the Hong Kong economy has also been considered). The Group is considering various actions for recovery of the default and non-default loans. At the period end, the balance of the impairment allowance was HK\$420,303,000 (31 December 2020: HK\$373,254,000).

The outstanding principal of the Group's loan portfolio (before impairment allowance) increased by 5% to HK\$1,908,107,000 (31 December 2020: HK\$1,821,549,000), during the current period, the management continued to be prudent in granting new loans in light of the prevailing economic conditions in Hong Kong. The carrying value of the loan portfolio, after impairment allowance, amounted to HK\$1,487,804,000 (31 December 2020: HK\$1,448,295,000) with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio	Interest rate per annum	Maturity
	%	%	
Individual	47.49	9.5 - 18.0	Within 1 year
Corporate	44.78	10.0 - 18.0	Within 1 year
Corporate	7.73	8.5	Over 1 year but within 2 years
	<u>100.00</u>		

At 30 June 2021, 99% (31 December 2020: 99%) of the carrying amount of the loan portfolio (after impairment allowance) is secured by collaterals and with the remaining 1% (31 December 2020: 1%) 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, which is licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During HY2021, revenue of the operation increased by 82% to HK\$6,109,000 (30 June 2020: HK\$3,349,000) and profit increased by 114% to HK\$4,139,000 (30 June 2020: HK\$1,937,000). The increase in revenue of the operation was the combined effect of the increase in its brokerage income, which rose by 23% to HK\$3,093,000 (30 June 2020: HK\$2,507,000), mainly due to the improvement in investment sentiments of the Hong Kong stock market during the period, and the increase in its interest income from margin financing, which rose by about 5 times to HK\$3,016,000 (30 June 2020: HK\$505,000), due to its enlarged margin financing portfolio which amounted to HK\$124,976,000 at the period end.

Overall Results

For HY2021, the Group recorded loss attributable to owners of the Company of HK\$196,625,000 (30 June 2020: profit of HK\$51,651,000) and basic loss per share of HK0.96 cent (30 June 2020: earnings per share of HK0.30 cent). The Group reported total comprehensive expense attributable to owners of the Company of HK\$228,059,000 (30 June 2020: total comprehensive income of HK\$2,361,000) which included a net fair value loss on debt securities of HK\$60,376,000 (30 June 2020: HK\$55,502,000). The loss results recorded by the Group were mainly attributed to the substantial overall loss recognised for the Group's securities investments of HK\$148,094,000 (30 June 2020: profit of HK\$291,996,000), though the loss results were partly offset by the profit earned by the money lending operation of HK\$36,628,000 (30 June 2020: loss of HK\$143,994,000) and profit earned by the securities brokerage operation of HK\$4,139,000 (30 June 2020: HK\$1,937,000). The trading operation recorded an increased profit of HK\$244,000 (30 June 2020: HK\$113,000) for the current period.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For HY2021, the Group financed its businesses mainly by cash generated from operations, credit facilities available from banks, finance company and securities brokers, and funds raised through issuance of interest bearing notes. At the period end, the Group had current assets of HK\$7,709,429,000 (31 December 2020: HK\$8,000,306,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$6,141,061,000 (31 December 2020: HK\$6,314,049,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$1,600,330,000 (31 December 2020: HK\$1,611,842,000), was at a ratio of about 4.8 (31 December 2020: 5.0). At 30 June 2021, the Group's trade and other receivables amounted to HK\$148,030,000 (31 December 2020: HK\$175,487,000), which mainly comprised trade receivables from cash and margin clients of the securities brokerage business, and deposits placed with securities brokers. The Group had deferred tax assets amounting to HK\$32,342,000 (31 December 2020: HK\$27,067,000) and deferred tax liabilities of HK\$396,785,000 (31 December 2020: HK\$435,393,000) which were principally related to the allowance for expected credit losses for loan receivables and debt instruments at FVTOCI, net unrealised gain/loss on financial assets at FVTPL and debt instruments at FVTOCI, and unused tax losses at the period end.

At 30 June 2021, the equity attributable to owners of the Company amounted to HK\$5,727,398,000 (31 December 2020: HK\$5,939,048,000) and was equivalent to an amount of approximately HK28.10 cents (31 December 2020: HK29.13 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK\$211,650,000 was mainly a result of the loss for the current period recognised by the Group. At 30 June 2021, the Group's borrowings represented short-term secured borrowings that bore interests at fixed rate and were repayable within one year or on demand. The borrowings were secured by two share charges each charging over the issued share of a wholly-owned subsidiary of the Company, two debentures each incorporating a first floating charge over all the assets of a wholly-owned subsidiary of the Company, and certain debt and equity securities held by the Group.

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; (ii) the 1-year unsecured notes with nominal value of HK\$500,000,000 bearing interest of 3.0% per annum in August 2020; (iii) the 270-day unsecured notes with nominal value of HK\$500,000,000 bearing interest of 2.0% per annum in September 2020; 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. All the four tranches of notes carry 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. In June 2021, the Company executed a supplemental deed poll to extend the maturity date of the 270-day notes issued in September 2020 with nominal value of HK\$500,000,000 for 270 days to 15 March 2022.

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$2,494,658,000 (31 December 2020: HK\$2,542,650,000) divided by the equity attributable to owners of the Company of HK\$5,727,398,000 (31 December 2020: HK\$5,939,048,000), was about 44% (31 December 2020: 43%). The Group's finance costs increased to HK\$73,274,000 (30 June 2020: HK\$66,635,000) were primarily a result of the increase in the average amount of borrowings during the period. With the amount of liquid assets on hand as well as credit facilities available from banks, finance company and securities brokers, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

PROSPECTS

There are signs that the conditions of major economies have stabilized and gaining the momentum to recovery, particularly for those countries like China, the US and the UK which has a high or growing vaccination coverage on the population. China has achieved positive GDP growth in the first half of 2021 and there are indicators that its economy is undergoing a stable and sustainable recovery, from which Hong Kong, being one of the nation's major cities and gateways, is well positioned to be benefited. The pandemic situation in Hong Kong has been stabilised following the launch of the vaccination program by the government and there are strong signs that the economy is on the recovery path. However, with the emergence of the new variant virus and the new wave of outbreaks in some countries, it is difficult to predict the evolution and duration of the pandemic. Looking forward, the Group's management will thus continue to adopt a cautious and disciplined approach in managing the Group's businesses as well as in seizing business and investment opportunities. The Group is continuing with its evaluation process of acquiring the entire equity interests in a target company engaging in insurance business in Hong Kong, with the view to diversify the Group's businesses and income base and to create value for shareholders. Announcements will be made to inform shareholders as and when there is further material development of this investment opportunity.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2021.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Group's condensed consolidated financial statements for the six months ended 30 June 2021 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 2021 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 2021, 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 2021

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.