



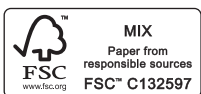
# 中策集團有限公司

## China Strategic Holdings Limited

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



Interim Report **2022**



**MIX**  
Paper from  
responsible sources  
**FSC® C132597**

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## Abbreviations

In this interim report, the following abbreviations have the following meanings unless otherwise specified:

|                                 |                                                                                                                   |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------|
| “Board”                         | Board of Directors of the Company                                                                                 |
| “Company”                       | China Strategic Holdings Limited                                                                                  |
| “Director(s)”                   | director(s) of the Company                                                                                        |
| “Group”                         | the Company and its subsidiaries                                                                                  |
| “Hong Kong Companies Ordinance” | Companies Ordinance (Chapter 622 of the Laws of Hong Kong)                                                        |
| “Hong Kong Stock Exchange”      | The Stock Exchange of Hong Kong Limited                                                                           |
| “Listing Rules”                 | Rules Governing the Listing of Securities on the Hong Kong Stock Exchange                                         |
| “Model Code”                    | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules |
| “SFO”                           | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)                                           |
| “HK\$” and “HK cent(s)”         | Hong Kong dollars and cent(s)                                                                                     |
| “%”                             | per cent.                                                                                                         |

*The Chinese version of this interim report is a translation of the English version and is for reference only, in case of any discrepancies or inconsistencies between the English version and the Chinese version, the English version shall prevail.*



## Corporate Information

### BOARD OF DIRECTORS

#### Non-executive Director

Dr. Or Ching Fai *SBS, JP (Chairman)*

#### Executive Directors

Mr. Sue Ka Lok *(Chief Executive Officer)*

Mr. Chow Kam Wah

Mr. Chow Man Wai, Tony

#### Independent Non-executive Directors

Ms. Ma Yin Fan

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

Mr. Lam Kin Fung, Jeffrey *GBS, JP*

### AUDIT COMMITTEE

Ms. Ma Yin Fan *(Chairlady)*

Mr. Chow Yu Chun, Alexander

Mr. Leung Hoi Ying

Mr. Lam Kin Fung, Jeffrey *GBS, JP*

### REMUNERATION COMMITTEE

Mr. Chow Yu Chun, Alexander *(Chairman)*

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

### NOMINATION COMMITTEE

Dr. Or Ching Fai *SBS, JP (Chairman)*

Ms. Ma Yin Fan

Mr. Leung Hoi Ying

### EXECUTIVE COMMITTEE

Mr. Sue Ka Lok *(Chairman)*

Mr. Chow Kam Wah

Mr. Chow Man Wai, Tony

### INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok *(Chairman)*

Mr. Chow Kam Wah

### COMPANY SECRETARY

Mr. Sue Ka Lok

### REGISTERED OFFICE

Rooms 3206-3210, 32nd Floor

China Resources Building

26 Harbour Road

Wanchai, Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

Bank of Communications Co., Ltd., Hong Kong Branch

Bank of Communications (Hong Kong) Limited

### LEGAL ADVISERS

Reed Smith Richards Butler

Stevenson, Wong & Co.

### AUDITOR

Deloitte Touche Tohmatsu

*Certified Public Accountants*

*Registered Public Interest Entity Auditors*

### SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

17/F, Far East Finance Centre,

16 Harcourt Road,

Hong Kong

### TRADING OF SHARES

The Stock Exchange of Hong Kong Limited

(Stock Code: 235)

### WEBSITE

<https://www.cshldgs.com>



## Management Discussion and Outlook

### **BUSINESS REVIEW**

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

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

### **Investment in Securities**

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

## Management Discussion and Outlook

At 30 June 2022, 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\$22,399,000 (31 December 2021: HK\$26,632,000); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio comprising debt securities listed in overseas stock exchange valued at HK\$25,104,000 (31 December 2021: HK\$63,960,000). As a whole, the Group's securities investments recorded a loss of HK\$21,280,000 (30 June 2021: HK\$148,094,000) and had no revenue for the current period (30 June 2021: HK\$21,249,000).

### **Financial assets at FVTPL**

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

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

At 30 June 2022, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$22,399,000 are as below:

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

## Management Discussion and Outlook

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

| Investee company's name and its principal activities <sup>#</sup>    | Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio | Approximate weighting to the carrying amount of the Group's total assets at 30 June 2022 | % of shareholding interest | *Acquisition costs during the period/ carrying amount at 1 January 2022 | Market/fair value at 30 June 2022 | Unrealised loss recognised during the six months ended 30 June 2022 | <sup>#</sup> Investee company's financial performance                                                                                                                                                          | <sup>#</sup> Future prospect of the investee company                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                      | %                                                                                                | %                                                                                        | %                          | HK\$'000                                                                | HK\$'000                          | HK\$'000                                                            |                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                                      |                                                                                                  |                                                                                          |                            | A                                                                       | B                                 | C = B - A                                                           |                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Emperor International Holdings Limited (HKEX stock code: 163)</b> |                                                                                                  |                                                                                          |                            |                                                                         |                                   |                                                                     |                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Property investment and development and hospitality businesses       | 92.65                                                                                            | 0.89                                                                                     | 0.69                       | 23,537                                                                  | 20,753                            | (2,784)                                                             | For the year ended 31 March 2022, revenue increased by 77% to approximately HK\$2,329 million and loss for the year decreased by 15% to approximately HK\$740 million as compared to the prior financial year. | For property investment business, the investee company possesses a geographically balanced property portfolio which focuses on commercial buildings and quality street-level retail spaces in prominent locations. For property sales business, it pursues a strategy of providing quality residential properties including luxury composite buildings in popular urban areas, and low-rise detached houses in unique spots. |
| Others                                                               | 7.35                                                                                             | 0.07                                                                                     | N/A                        | 2,795                                                                   | 1,646                             | (1,149)                                                             | -                                                                                                                                                                                                              | -                                                                                                                                                                                                                                                                                                                                                                                                                            |
|                                                                      | 100.00                                                                                           | 0.96                                                                                     |                            | 26,332                                                                  | 22,399                            | (3,933)                                                             |                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                              |

<sup>#</sup> Extracted from published financial information of the investee company.

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





## Management Discussion and Outlook

### *Debt instruments at FVTOCI*

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

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

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

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

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

## Management Discussion and Outlook

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

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

### Trading

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

### Money Lending

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



## Management Discussion and Outlook

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

The Group has a system in place to closely monitor the recoverability of its loan portfolio, its credit monitoring measures include regular collateral value reviews against market information and regular communication with the borrowers of their financial positions, through which the Group will be able to keep updated with the latest credit profile and risk associated with each individual borrower and could take appropriate actions for recovery of a loan at the earliest time. If circumstances require, the Group will commence legal actions against the borrowers for recovery of the overdue loans and taking possession of the collaterals pledged. At 30 June 2022, the balance of impairment allowance increased by 37% or HK\$96,146,000 to HK\$352,687,000 (31 December 2021: HK\$256,541,000), which comprised a sum of HK\$91,297,000 being impairment allowance for the current interim period, and a sum of HK\$12,316,000 being reversal of allowance owing to settlement of loans and improvement in credit quality of the borrowers. There was no change in the method used in determining the impairment allowance on loan receivables from the prior financial year.

## Management Discussion and Outlook

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

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

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

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

## Management Discussion and Outlook

The following is a summary of the key internal controls of the Group's money lending operation:

### Information Verification

Information provided by the loan applicant including financial statements and income proof will be checked and verified by the designated loan officer, where appropriate, legal, credit and bankruptcy search on the loan applicant, and land search and site visit on the property offered as collateral, will be conducted.

### Credit Assessment

Detailed assessment on the credit history and financial background of the loan applicant, as well as the value and characteristics of the collateral to be pledged, will be conducted. There will be credit assessment including analysis on the repayment ability and credit history of the loan applicant, and analysis on the potential recovery upon realisation of the collateral. The credit assessment process will be conducted by the designated loan officer and reviewed by the designated loan manager.

### Execution of Loan Documentations

If a loan application is approved by the respective board of directors of the Group's money lending subsidiaries, the designated loan officer and loan manager will arrange preparation and proper execution of the loan documentations, usually with the support of professional lawyers.

### Continuous Loan Monitoring

There will be continuous monitoring on the repayments from borrower, regular communication with the borrower, and regular review on credit limit of the loan granted and market value of the collateral pledged performed by the designated loan officer and manager.

### Collection, Recovery and Enforcement

Reminder and legal demand letter will be issued to the borrower if there is overdue repayment. Where appropriate, legal action will be initiated against the borrower for the recovery of the amount due and taking possession of the collateral pledged.





## Management Discussion and Outlook

All loans will be granted under the approval of the respective board of directors of the Group's money lending subsidiaries and with the endorsement from the Company's Investment & Credit Committee.

### Securities Brokerage

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

### Overall Results

For HY2022, the Group recorded a 47% decrease in loss attributable to owners of the Company to HK\$104,350,000 (30 June 2021: HK\$196,625,000) and a basic loss per share of HK0.51 cent (30 June 2021: HK0.96 cent). The Group reported a total comprehensive expense attributable to owners of the Company of HK\$126,073,000 (30 June 2021: HK\$228,059,000) which included a net fair value loss on debt securities of HK\$38,856,000 (30 June 2021: HK\$60,376,000). The loss results recorded by the Group were mainly due to the losses recognised for the Group's securities investments and money lending operation of HK\$21,280,000 (30 June 2021: HK\$148,094,000) and HK\$19,023,000 (30 June 2021: profit of HK\$36,628,000) respectively, though the losses were partly offset by the profitable results of the securities brokerage operation of HK\$4,449,000 (30 June 2021: HK\$4,139,000) and the trading operation of HK\$626,000 (30 June 2021: HK\$244,000).

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

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



## Management Discussion and Outlook

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

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

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

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

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

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



## Management Discussion and Outlook

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

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

### **Foreign Currency Management**

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in Hong Kong dollars and United States dollars. During HY2022, the Group had not experienced any significant exposure to exchange rate fluctuations, as such, the Group had not entered into any foreign currency forward contracts, currency swaps or other financial derivatives for hedging purposes.

### **Contingent Liability**

At 30 June 2022, the Group had no significant contingent liability (31 December 2021: nil).

### **Pledge of Assets**

At 30 June 2022, the credit facility for settlement of the Group's securities brokerage activities was secured by the Group's bank deposits of HK\$3,096,000 (31 December 2021: HK\$3,096,000).

### **Capital Commitment**

At 30 June 2022, the Group had no significant capital commitment (31 December 2021: nil).



## Management Discussion and Outlook

### **HUMAN RESOURCES AND REMUNERATION POLICY**

At 30 June 2022, the Group had 47 (30 June 2021: 57) employees including directors of the Company and staff costs (including directors' emoluments) for the period amounted to HK\$14,708,000 (30 June 2021: HK\$15,419,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, training subsidy, discretionary bonus and participation in the Company's share option scheme.

The Group's contributions to the MPF Scheme vest fully and immediately with the employees, thus there were no forfeited contributions available to the Group to reduce the existing level of contributions to the MPF Scheme.

### **PROSPECTS**

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

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

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



## Report on Review of Interim Financial Information

# Deloitte.

# 德勤

### TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

*(Incorporated in Hong Kong with limited liability)*

#### Introduction

We have reviewed the condensed consolidated financial statements of China Strategic Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 17 to 43, which comprise the condensed consolidated statement of financial position as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### Scope of review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

26 August 2022



## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022

|                                                                                                                               | Notes | Six months ended 30 June        |                                 |
|-------------------------------------------------------------------------------------------------------------------------------|-------|---------------------------------|---------------------------------|
|                                                                                                                               |       | 2022<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) |
| <b>Revenue</b>                                                                                                                | 3     | <b>258,750</b>                  | 325,476                         |
| Trading income                                                                                                                |       | <b>188,301</b>                  | 222,394                         |
| Dividend income                                                                                                               |       | –                               | 271                             |
| Interest income                                                                                                               |       | <b>67,831</b>                   | 99,493                          |
| Commission, handling income and others                                                                                        |       | <b>2,618</b>                    | 3,318                           |
| Purchases and related expenses                                                                                                |       | <b>(188,070)</b>                | (222,142)                       |
| Other income                                                                                                                  | 5     | <b>997</b>                      | 2,420                           |
| Other gain and loss, net                                                                                                      | 6     | <b>243</b>                      | (823)                           |
| Staff costs                                                                                                                   |       | <b>(14,708)</b>                 | (15,419)                        |
| Other expenses                                                                                                                |       | <b>(16,792)</b>                 | (35,867)                        |
| Net loss on financial assets at fair value through profit or loss                                                             | 7     | <b>(3,933)</b>                  | (152,895)                       |
| Loss on disposal of debt instruments at fair value through other comprehensive income                                         |       | –                               | (1,018)                         |
| Provision for impairment losses under expected credit loss model, net of reversal                                             | 10    | <b>(96,114)</b>                 | (50,806)                        |
| Finance costs                                                                                                                 | 8     | <b>(12,955)</b>                 | (73,274)                        |
| Loss before tax                                                                                                               |       | <b>(72,582)</b>                 | (224,348)                       |
| Income tax (expense) credit                                                                                                   | 9     | <b>(31,768)</b>                 | 27,723                          |
| <b>Loss for the period attributable to owners of the Company</b>                                                              | 10    | <b>(104,350)</b>                | (196,625)                       |
| <b>Other comprehensive (expense) income</b>                                                                                   |       |                                 |                                 |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                                                         |       |                                 |                                 |
| Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income                   |       | –                               | 12,362                          |
| Net fair value loss on debt instruments at fair value through other comprehensive income                                      |       | <b>(38,856)</b>                 | (60,376)                        |
| Provision for impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss | 10    | <b>17,133</b>                   | 15,562                          |
| Release on disposal of debt instruments at fair value through other comprehensive income                                      |       | –                               | 1,018                           |
| <b>Other comprehensive expense for the period</b>                                                                             |       | <b>(21,723)</b>                 | (31,434)                        |
| <b>Total comprehensive expense for the period attributable to owners of the Company</b>                                       |       | <b>(126,073)</b>                | (228,059)                       |
| <b>Loss per share attributable to owners of the Company</b>                                                                   |       |                                 |                                 |
| – Basic                                                                                                                       | 12    | <b>HK(0.51) cent</b>            | HK(0.96) cent                   |

# Condensed Consolidated Statement of Financial Position

At 30 June 2022

|                                                                      | Notes | At<br>30 June<br>2022<br>HK\$'000<br>(Unaudited) | At<br>31 December<br>2021<br>HK\$'000<br>(Audited) |
|----------------------------------------------------------------------|-------|--------------------------------------------------|----------------------------------------------------|
| <b>Non-current assets</b>                                            |       |                                                  |                                                    |
| Property, plant and equipment                                        | 13    | 11,775                                           | 14,745                                             |
| Right-of-use assets                                                  |       | 13,199                                           | 19,095                                             |
| Goodwill                                                             |       | 4,000                                            | 4,000                                              |
| Club debentures                                                      |       | 1,928                                            | 1,928                                              |
| Debt instruments at fair value through other<br>comprehensive income | 14    | 25,104                                           | 63,960                                             |
| Loan receivables                                                     | 15    | 17,907                                           | –                                                  |
| Deferred tax assets                                                  | 16    | 972                                              | 29,856                                             |
| <b>Total non-current assets</b>                                      |       | <b>74,885</b>                                    | <b>133,584</b>                                     |
| <b>Current assets</b>                                                |       |                                                  |                                                    |
| Loan receivables                                                     | 15    | 1,184,541                                        | 1,234,675                                          |
| Trade and other receivables                                          | 17    | 145,211                                          | 234,712                                            |
| Income tax recoverable                                               |       | 2,163                                            | 570                                                |
| Financial assets at fair value through profit or loss                | 18    | 22,399                                           | 26,632                                             |
| Pledged bank deposits                                                | 19    | 3,096                                            | 3,096                                              |
| Bank balances and cash                                               | 19    | 898,661                                          | 1,526,693                                          |
| <b>Total current assets</b>                                          |       | <b>2,256,071</b>                                 | <b>3,026,378</b>                                   |
| <b>Current liabilities</b>                                           |       |                                                  |                                                    |
| Trade and other payables                                             | 20    | 23,788                                           | 26,539                                             |
| Income tax payable                                                   |       | 7,042                                            | 9,973                                              |
| Notes payable                                                        | 21    | –                                                | 692,107                                            |
| Lease liabilities                                                    |       | 7,431                                            | 9,371                                              |
| <b>Total current liabilities</b>                                     |       | <b>38,261</b>                                    | <b>737,990</b>                                     |
| <b>Net current assets</b>                                            |       | <b>2,217,810</b>                                 | <b>2,288,388</b>                                   |
| <b>Total assets less current liabilities</b>                         |       | <b>2,292,695</b>                                 | <b>2,421,972</b>                                   |
| <b>Non-current liability</b>                                         |       |                                                  |                                                    |
| Lease liabilities                                                    |       | 3,800                                            | 7,892                                              |
| <b>Net assets</b>                                                    |       | <b>2,288,895</b>                                 | <b>2,414,080</b>                                   |
| <b>Capital and reserves</b>                                          |       |                                                  |                                                    |
| Share capital                                                        | 22    | 3,216,110                                        | 3,216,110                                          |
| Reserves                                                             |       | (927,215)                                        | (802,030)                                          |
| <b>Total equity</b>                                                  |       | <b>2,288,895</b>                                 | <b>2,414,080</b>                                   |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

|                                                                                                             | Share capital<br>HK\$'000 | Shareholder's contribution reserve<br>HK\$'000 | Investment revaluation reserve<br>HK\$'000 | Retained profits (accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------------------------|--------------------------------------------|---------------------------------------------------|-------------------|
| At 1 January 2021 (audited)                                                                                 | 3,216,110                 | 71,447                                         | (7,526)                                    | 2,659,017                                         | 5,939,048         |
| Loss for the period                                                                                         | -                         | -                                              | -                                          | (196,625)                                         | (196,625)         |
| Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income | -                         | -                                              | 12,362                                     | -                                                 | 12,362            |
| Net fair value loss on debt instruments at fair value through other comprehensive income                    | -                         | -                                              | (60,376)                                   | -                                                 | (60,376)          |
| Provision for impairment loss on debt instruments at fair value through other comprehensive income          | -                         | -                                              | 15,562                                     | -                                                 | 15,562            |
| Release on disposal of debt instruments at fair value through other comprehensive income                    | -                         | -                                              | 1,018                                      | -                                                 | 1,018             |
| Total comprehensive expense for the period                                                                  | -                         | -                                              | (31,434)                                   | (196,625)                                         | (228,059)         |
| Shareholder's contribution (Note 21)                                                                        | -                         | 16,409                                         | -                                          | -                                                 | 16,409            |
| At 30 June 2021 (unaudited)                                                                                 | 3,216,110                 | 87,856                                         | (38,960)                                   | 2,462,392                                         | 5,727,398         |
| At 1 January 2022 (audited)                                                                                 | 3,216,110                 | 81,528                                         | 40,722                                     | (924,280)                                         | 2,414,080         |
| Loss for the period                                                                                         | -                         | -                                              | -                                          | (104,350)                                         | (104,350)         |
| Net fair value loss on debt instruments at fair value through other comprehensive income                    | -                         | -                                              | (38,856)                                   | -                                                 | (38,856)          |
| Provision for impairment loss on debt instruments at fair value through other comprehensive income          | -                         | -                                              | 17,133                                     | -                                                 | 17,133            |
| Total comprehensive expense for the period                                                                  | -                         | -                                              | (21,723)                                   | (104,350)                                         | (126,073)         |
| Shareholder's contribution (Note 21)                                                                        | -                         | 16,408                                         | -                                          | -                                                 | 16,408            |
| Loss on early redemption (Note 21)                                                                          | -                         | (15,520)                                       | -                                          | -                                                 | (15,520)          |
| At 30 June 2022 (unaudited)                                                                                 | 3,216,110                 | 82,416                                         | 18,999                                     | (1,028,630)                                       | 2,288,895         |

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

|                                                                                                                              | Notes | Six months ended 30 June        |                                 |
|------------------------------------------------------------------------------------------------------------------------------|-------|---------------------------------|---------------------------------|
|                                                                                                                              |       | 2022<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) |
| <b>Net cash from (used in) operating activities</b>                                                                          |       | <b>83,229</b>                   | (39,645)                        |
| <b>Net cash from investing activities</b>                                                                                    |       |                                 |                                 |
| Proceeds from disposal of debt instruments at fair value through other comprehensive income                                  |       | -                               | 22,417                          |
| Proceeds from disposal of property, plant and equipment                                                                      | 13    | 1,500                           | 510                             |
| Purchase of property, plant and equipment                                                                                    | 13    | (2)                             | (325)                           |
| Repayment from note receivable                                                                                               |       | -                               | 45,600                          |
| Interest received                                                                                                            |       | -                               | 1,432                           |
|                                                                                                                              |       | <b>1,498</b>                    | 69,634                          |
| <b>Net cash used in financing activities</b>                                                                                 |       |                                 |                                 |
| Repayments of borrowings                                                                                                     |       | -                               | (5,000)                         |
| Repayments of lease liabilities                                                                                              |       | (3,651)                         | (4,506)                         |
| Redemption of notes issued                                                                                                   | 21    | (700,000)                       | -                               |
| Interest paid                                                                                                                |       | (5,358)                         | (40,876)                        |
|                                                                                                                              |       | <b>(709,009)</b>                | (50,382)                        |
| <b>Net decrease in cash and cash equivalents</b>                                                                             |       | <b>(624,282)</b>                | (20,393)                        |
| <b>Cash and cash equivalents at the beginning of the period</b>                                                              |       | <b>1,509,152</b>                | 2,240,732                       |
| <b>Cash and cash equivalents at the end of the period, represented by bank balances and cash – general accounts and cash</b> | 19    | <b>884,870</b>                  | 2,220,339                       |



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 1. BASIS OF PREPARATION

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

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

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

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.





# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 2. PRINCIPAL ACCOUNTING POLICIES

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

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

### Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 3. REVENUE

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

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

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

## 4. SEGMENT INFORMATION

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 4. SEGMENT INFORMATION (continued)

### Segment revenue and results

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 4. SEGMENT INFORMATION (continued)

### Segment assets and liabilities

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

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

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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 5. OTHER INCOME

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

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

## 6. OTHER GAIN AND LOSS, NET

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

## 7. NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 8. FINANCE COSTS

|                                                                                 | Six months ended 30 June        |                                 |
|---------------------------------------------------------------------------------|---------------------------------|---------------------------------|
|                                                                                 | 2022<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) |
| Interest on advances drawn on bill receivables<br>discounted with full recourse | 38                              | 28                              |
| Interest on borrowings                                                          | –                               | 12,167                          |
| Interest on notes payable (Note 21)                                             | 12,726                          | 60,713                          |
| Interest on lease liabilities                                                   | 191                             | 366                             |
|                                                                                 | <b>12,955</b>                   | <b>73,274</b>                   |

## 9. INCOME TAX (EXPENSE) CREDIT

|                                                          | Six months ended 30 June        |                                 |
|----------------------------------------------------------|---------------------------------|---------------------------------|
|                                                          | 2022<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) |
| Tax (charge) credit comprises:                           |                                 |                                 |
| Current tax                                              | (2,884)                         | (3,798)                         |
| Deferred tax (Note 16)                                   | (28,884)                        | 31,521                          |
| Income tax (expense) credit recognised in profit or loss | <b>(31,768)</b>                 | <b>27,723</b>                   |

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



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 10. LOSS FOR THE PERIOD

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

|                                                                                | <b>Six months ended 30 June</b>                      |                                        |
|--------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------|
|                                                                                | <b>2022</b><br><i>HK\$'000</i><br><b>(Unaudited)</b> | 2021<br><i>HK\$'000</i><br>(Unaudited) |
| Provision for impairment loss on debt instruments at FVTOCI ( <i>Note 14</i> ) | <b>17,133</b>                                        | 15,562                                 |
| Provision for impairment loss on loan receivables ( <i>Note 15</i> )           | <b>78,981</b>                                        | 35,244                                 |
| Total impairment losses                                                        | <b>96,114</b>                                        | 50,806                                 |
| Depreciation of property, plant and equipment                                  | <b>1,481</b>                                         | 1,685                                  |
| Depreciation of right-of-use assets                                            | <b>3,728</b>                                         | 4,646                                  |

## 11. DIVIDEND

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

## 12. LOSS PER SHARE

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 12. LOSS PER SHARE (continued)

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

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

## 13. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of property, plant and equipment with proceeds of HK\$1,500,000 (six months ended 30 June 2021: HK\$510,000) and acquired property, plant and equipment of HK\$2,000 (six months ended 30 June 2021: HK\$325,000).

## 14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

The Group assessed the expected credit loss (“ECL”) for debt instruments at FVTOCI by reference to the credit rating of the debt instruments announced by the recognised rating agencies, the macroeconomic factors affecting the issuer, and the probability of default and loss given default of the debt instruments. The Group also took into account forward-looking information that was reasonably and supportably available to the Group without undue cost or effort.

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

The following table shows reconciliation of the loss allowances that have been recognised for debt instruments of FVTOCI:

|                                                                       | 12-month<br>("12m") ECL<br>HK\$'000 | Lifetime<br>ECL<br>(credit-<br>impaired)<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------------------------------------------|-------------------------------------|------------------------------------------------------|-------------------|
| At 1 January 2021 (audited)                                           | 35,414                              | –                                                    | 35,414            |
| Changes due to financial instruments<br>recognised at 1 January 2021: |                                     |                                                      |                   |
| – Impairment losses recognised                                        | –                                   | 264,280                                              | 264,280           |
| – Impairment losses reversed                                          | (10,932)                            | –                                                    | (10,932)          |
| – Transfer to lifetime ECL                                            | (24,482)                            | 24,482                                               | –                 |
| At 31 December 2021 and 1 January 2022<br>(audited)                   | –                                   | 288,762                                              | 288,762           |
| Changes due to financial instruments<br>recognised at 1 January 2022: |                                     |                                                      |                   |
| – Impairment losses recognised                                        | –                                   | 17,133                                               | 17,133            |
| <b>At 30 June 2022 (unaudited)</b>                                    | <b>–</b>                            | <b>305,895</b>                                       | <b>305,895</b>    |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 15. LOAN RECEIVABLES

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

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 15. LOAN RECEIVABLES (continued)

The following table shows reconciliation of the loss allowances that have been recognised for loan receivables:

|                                                                    | 12m ECL<br>HK\$'000 | Lifetime<br>ECL<br>(not credit-<br>impaired)<br>HK\$'000 | Lifetime<br>ECL<br>(credit-<br>impaired)<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------------------------------------------------|---------------------|----------------------------------------------------------|------------------------------------------------------|-------------------|
| At 1 January 2021 (audited)                                        | 5,119               | 8,863                                                    | 359,272                                              | 373,254           |
| Changes due to financial instruments recognised at 1 January 2021: |                     |                                                          |                                                      |                   |
| – Impairment losses recognised                                     | –                   | –                                                        | 103,089                                              | 103,089           |
| – Impairment losses reversed                                       | (1,173)             | (303)                                                    | (81,266)                                             | (82,742)          |
| – Transfer to lifetime ECL (credit-impaired)                       | (549)               | (6,539)                                                  | 7,088                                                | –                 |
| – Transfer to lifetime ECL (not credit-impaired)                   | –                   | 733                                                      | (733)                                                | –                 |
| – Unwinding of discount                                            | –                   | –                                                        | 26,660                                               | 26,660            |
| – Write offs                                                       | –                   | –                                                        | (163,720)                                            | (163,720)         |
| At 31 December 2021 and 1 January 2022 (audited)                   | 3,397               | 2,754                                                    | 250,390                                              | 256,541           |
| Changes due to financial instruments recognised at 1 January 2022: |                     |                                                          |                                                      |                   |
| – Impairment losses recognised                                     | –                   | –                                                        | 90,710                                               | 90,710            |
| – Impairment losses reversed                                       | (1)                 | (113)                                                    | (12,202)                                             | (12,316)          |
| – Transfer to lifetime ECL (credit-impaired)                       | –                   | (733)                                                    | 733                                                  | –                 |
| – Unwinding of discount                                            | –                   | –                                                        | 17,165                                               | 17,165            |
| New financial assets originated or purchased                       | 587                 | –                                                        | –                                                    | 587               |
| <b>At 30 June 2022 (unaudited)</b>                                 | <b>3,983</b>        | <b>1,908</b>                                             | <b>346,796</b>                                       | <b>352,687</b>    |

During the current interim period, the changes in loss allowances mainly comprised:

- (i) loan receivables with gross carrying amount totalling HK\$26,830,000 that have become credit-impaired for which lifetime ECL has been provided, resulted in recognition of ECL of HK\$6,655,000; and
- (ii) loan receivables with gross carrying amount totalling HK\$650,758,000 that continued to be credit-impaired for which lifetime ECL has been provided, resulted in recognition of ECL of HK\$84,055,000.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 16. DEFERRED TAX ASSETS

|                     | <b>At<br/>30 June<br/>2022<br/>HK\$'000<br/>(Unaudited)</b> | At<br>31 December<br>2021<br>HK\$'000<br>(Audited) |
|---------------------|-------------------------------------------------------------|----------------------------------------------------|
| Deferred tax assets | <b>972</b>                                                  | 29,856                                             |

The movement of deferred tax assets (liabilities) for the period is as follows:

|                                                     | <b>Allowance<br/>for ECL<br/>HK\$'000</b> | <b>Tax losses<br/>HK\$'000</b> | <b>Temporary<br/>difference<br/>related to net<br/>unrealised<br/>gain/loss on<br/>financial assets<br/>at FVTPL<br/>and debt<br/>instruments<br/>at FVTOCI<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|-----------------------------------------------------|-------------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| At 1 January 2021 (audited)                         | 32,910                                    | 178,666                        | (619,902)                                                                                                                                                                    | (408,326)                 |
| Credited (charged) to profit or loss                | 2,789                                     | (164,776)                      | 615,651                                                                                                                                                                      | 453,664                   |
| Charged to other comprehensive income               | (5,843)                                   | –                              | (9,639)                                                                                                                                                                      | (15,482)                  |
| At 31 December 2021 and 1 January 2022<br>(audited) | 29,856                                    | 13,890                         | (13,890)                                                                                                                                                                     | 29,856                    |
| Charged to profit or loss (Note 9)                  | <b>(28,884)</b>                           | –                              | –                                                                                                                                                                            | <b>(28,884)</b>           |
| <b>At 30 June 2022 (unaudited)</b>                  | <b>972</b>                                | <b>13,890</b>                  | <b>(13,890)</b>                                                                                                                                                              | <b>972</b>                |



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 17. TRADE AND OTHER RECEIVABLES

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

Notes:

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Notes:

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 19. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

|                                        | At<br>30 June<br>2022<br>HK\$'000<br>(Unaudited) | At<br>31 December<br>2021<br>HK\$'000<br>(Audited) |
|----------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Bank balances and cash:                |                                                  |                                                    |
| – General accounts and cash (Note (i)) | 884,870                                          | 1,509,152                                          |
| – Client accounts (Note (ii))          | 13,791                                           | 17,541                                             |
|                                        | <b>898,661</b>                                   | <b>1,526,693</b>                                   |

Notes:

- (i) The amount represented cash and short-term bank deposits with original maturity of three months or less held by the Group. The amounts carried interest ranging from 0.01% to 1.30% (31 December 2021: 0.01%) per annum.
- (ii) The Group's securities brokerage business receives and holds money deposited by clients during the course of conducting its regulated activities in its ordinary course of business. Such clients' monies are maintained in a segregated bank account. The Group has recognised the corresponding account payables to the respective clients.

Pledged bank deposits represented deposits pledged to banks to secure the banking facilities granted to the Group. At 30 June 2022, a deposit amounting to HK\$3,096,000 (31 December 2021: HK\$3,096,000) was pledged to a bank to secure the credit facility for settlement of securities brokerage activities. The pledged bank deposit will be released upon termination of the credit facility for settlement of securities brokerage activities and is therefore classified as current asset.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 20. TRADE AND OTHER PAYABLES

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

*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.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 21. NOTES PAYABLE

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

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

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

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

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

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 21. NOTES PAYABLE (continued)

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

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

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

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

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



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 21. NOTES PAYABLE (continued)

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

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

## 22. SHARE CAPITAL OF THE COMPANY

|                                                                                              | Number of<br>shares<br>'000 | Share<br>capital<br>HK\$'000 |
|----------------------------------------------------------------------------------------------|-----------------------------|------------------------------|
| <b>Issued and fully paid:</b>                                                                |                             |                              |
| At 1 January 2021, 30 June 2021, 31 December 2021,<br>1 January 2022 and <b>30 June 2022</b> | <b>20,385,254</b>           | <b>3,216,110</b>             |

## 23. PLEDGE OF ASSETS

As disclosed in Note 19, the Group's credit facility for settlement of securities brokerage activities was secured by the Group's bank deposit of HK\$3,096,000 (31 December 2021: HK\$3,096,000).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

### Fair value measurements and valuation processes

The directors of the Company have closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed below.

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The fair values of these financial assets are determined (in particular, the valuation technique(s) and input(s) used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3), based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

| Financial assets                     | Fair value at                           |                                           | Fair value hierarchy | Valuation technique(s) and key input(s)                                                                                                         |
|--------------------------------------|-----------------------------------------|-------------------------------------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
|                                      | 30 June 2022<br>HK\$'000<br>(Unaudited) | 31 December 2021<br>HK\$'000<br>(Audited) |                      |                                                                                                                                                 |
| <b>1) Financial assets at FVTPL</b>  |                                         |                                           |                      |                                                                                                                                                 |
| Listed equity securities             | <b>22,399</b>                           | 26,332                                    | Level 1              | Quoted market closing prices in an active market                                                                                                |
| Unlisted equity securities           | –                                       | 300                                       | Level 3              | The fair value was determined with reference to the net asset value of the unlisted equity, which mainly comprised bank balance ( <i>Note</i> ) |
| <b>2) Debt instruments at FVTOCI</b> |                                         |                                           |                      |                                                                                                                                                 |
| Listed debt securities               | <b>25,104</b>                           | 63,960                                    | Level 1              | Quoted market closing prices in an active market                                                                                                |

*Note:* In the opinion of the directors of the Company, the fluctuations in the key unobservable inputs in determining the fair value of the unlisted equity securities were not significant to the Group, accordingly, no sensitivity analysis was presented.

There was no transfer between Level 1, 2 and 3 for the period ended 30 June 2022.

### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the condensed consolidated financial statements approximate their fair values.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

## 25. RELATED PARTY DISCLOSURES

### Compensation of key management personnel

The remuneration of the directors of the Company who are also identified as members of key management is as follows:

|                          | Six months ended 30 June        |                                 |
|--------------------------|---------------------------------|---------------------------------|
|                          | 2022<br>HK\$'000<br>(Unaudited) | 2021<br>HK\$'000<br>(Unaudited) |
| Short-term benefits      | 3,535                           | 4,063                           |
| Post-employment benefits | 68                              | 94                              |
|                          | <b>3,603</b>                    | <b>4,157</b>                    |

The remuneration of directors and key executives of the Company are determined by the Remuneration Committee having regard to the competence, performance and experience of the individuals and prevailing market terms.



## Other Information

### **INTERIM DIVIDEND**

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

### **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30 June 2022, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

### **SHARE OPTION SCHEME**

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 29 June 2020. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the Company or any of the subsidiaries and associated companies of the Company.

In the annual general meeting of the Company held on 28 June 2021, the shareholders of the Company approved the refreshment of the scheme mandate limit (the "Scheme Mandate Limit Refreshment"). The total number of shares of the Company available for issue under the Share Option Scheme is 2,038,525,383 shares, representing approximately 10% of the issued shares of the Company as at the date of approval of the Scheme Mandate Limit Refreshment and the date of this interim report.

No share options were granted, exercised, cancelled or lapsed during the six months ended 30 June 2022 and 2021 and no share options were outstanding as at 30 June 2022 and 2021.

Further details of the Share Option Scheme were set out in the Company's 2021 Annual Report.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save for the share option scheme of the Company as mentioned above, at no time during the six months ended 30 June 2022 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

## Other Information

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2022, the following interests of more than 5% of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

#### Long positions in the shares of the Company:

| Name of shareholder                                        | Capacity and nature of interest    | Number of shares held         | Approximate percentage of the Company's issued shares<br>(Note (i)) |
|------------------------------------------------------------|------------------------------------|-------------------------------|---------------------------------------------------------------------|
| Dr. Cheng Kar-Shun, Henry <i>GBM, GBS</i><br>("Dr. Cheng") | Interest of controlled corporation | 3,397,540,000<br>(Note (ii))  | 16.67%                                                              |
| Courage Star Global Limited<br>("Courage Star")            | Beneficial owner                   | 3,397,540,000<br>(Note (ii))  | 16.67%                                                              |
| Mr. Suen Cho Hung, Paul ("Mr. Suen")                       | Interest of controlled corporation | 1,680,000,000<br>(Note (iii)) | 8.24%                                                               |
| Pioneer Success Development Limited<br>("Pioneer Success") | Beneficial owner                   | 1,680,000,000<br>(Note (iii)) | 8.24%                                                               |

#### Notes:

- (i) The approximate percentage of the Company's issued shares was calculated on the basis of 20,385,253,835 shares of the Company in issue as at 30 June 2022.
- (ii) These shares were held by Courage Star, a company which was wholly owned by Dr. Cheng. Accordingly, Dr. Cheng was deemed to be interested in 3,397,540,000 shares of the Company under the SFO.
- (iii) These shares were held by Pioneer Success, a company which was wholly owned by Mr. Suen. Accordingly, Mr. Suen was deemed to be interested in 1,680,000,000 shares of the Company under the SFO.

The interests of Dr. Cheng and Courage Star in 3,397,540,000 shares of the Company referred to in Note (ii) above related to the same parcel of shares.

The interests of Mr. Suen and Pioneer Success in 1,680,000,000 shares of the Company referred to in Note (iii) above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 30 June 2022 as required pursuant to section 336 of the SFO.





## Other Information

### **CORPORATE GOVERNANCE**

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

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2022.

### **UPDATES ON DIRECTORS' INFORMATION**

The following is updated information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Company's last published annual report up to 26 August 2022, being the date of this interim report:

- Mr. Sue Ka Lok has become a fellow certified practising accountant of the CPA Australia with effect from 8 June 2022.
- Mr. Lam Kin Fung, Jeffrey ceased to be the chairman of the Independent Commission Against Corruption (ICAC) Complaints Committee in March 2022; and retired as a director of Hong Kong Mortgage Corporation Limited on 27 June 2022.
- Mr. Chow Yu Chun, Alexander retired as an independent non-executive director of Aquis Entertainment Limited (ASX stock code: AQS) (a company listed on Australian Securities Exchange Limited) on 6 April 2022.

### **REVIEW OF INTERIM FINANCIAL INFORMATION**

The Group's condensed consolidated financial statements for the six months ended 30 June 2022 have not been audited, but have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of interim financial information by the auditor is set out on page 16 of this interim report.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

**Dr. Or Ching Fai**

*Chairman*

Hong Kong, 26 August 2022