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CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The Board of Directors (the “**Board**”) of China Strategic Holdings Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Revenue	3	423,994	256,347
Trading income		222,394	4,062
Dividend income		987	7,033
Interest income		194,015	239,174
Commission, underwriting fee and other income		6,598	6,078
Purchases and related expenses		(222,142)	(4,023)
Other income	5	2,719	20,581
Other gain and loss, net	6	(648)	(628)
Staff costs		(30,537)	(27,630)
Provision for impairment losses under expected credit loss model, net of reversal	10	(273,695)	(221,796)
Other expenses		(65,063)	(39,849)
Net (loss) gain on financial assets at fair value through profit or loss	7	(3,674,811)	2,905,676
Loss on disposal of debt instruments at fair value through other comprehensive income		(78,780)	(17,079)
Finance costs	8	(111,713)	(158,640)
(Loss) profit before tax		(4,030,676)	2,712,959

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Income tax credit (expense)	9	<u>447,379</u>	<u>(429,772)</u>
(Loss) profit for the year attributable to owners of the Company	10	<u>(3,583,297)</u>	<u>2,283,187</u>
Other comprehensive (expense) income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income		(15,482)	5,208
Net fair value loss on debt instruments at fair value through other comprehensive income		(268,398)	(29,768)
Release on disposal of debt instruments at fair value through other comprehensive income		78,780	17,079
Provision for impairment loss on debt instruments at fair value through other comprehensive income included in profit or loss	10	<u>253,348</u>	<u>18,873</u>
Other comprehensive income for the year		<u>48,248</u>	<u>11,392</u>
Total comprehensive (expense) income for the year attributable to owners of the Company		<u><u>(3,535,049)</u></u>	<u><u>2,294,579</u></u>
(Loss) earnings per share attributable to owners of the Company			
– Basic	12	<u>HK(17.58) cents</u>	<u>HK13.29 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		14,745	18,196
Right-of-use assets		19,095	28,388
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Debt instruments at fair value through other comprehensive income	13	63,960	401,813
Deferred tax assets		29,856	27,067
Total non-current assets		133,584	481,392
Current assets			
Loan receivables	14	1,234,675	1,448,295
Trade and other receivables	15	234,712	175,487
Income tax recoverable		570	22,841
Financial assets at fair value through profit or loss	16	26,632	4,073,317
Pledged bank deposits		3,096	3,096
Bank balances and cash		1,526,693	2,277,270
Total current assets		3,026,378	8,000,306
Current liabilities			
Trade and other payables	17	26,539	68,240
Income tax payable		9,973	8,794
Borrowings	18	–	355,000
Notes payable	19	692,107	1,170,725
Lease liabilities		9,371	9,083
Total current liabilities		737,990	1,611,842
Net current assets		2,288,388	6,388,464
Total assets less current liabilities		2,421,972	6,869,856
Non-current liabilities			
Notes payable	19	–	478,152
Lease liabilities		7,892	17,263
Deferred tax liabilities		–	435,393
Total non-current liabilities		7,892	930,808
Net assets		2,414,080	5,939,048
Capital and reserves			
Share capital	20	3,216,110	3,216,110
Reserves		(802,030)	2,722,938
Total equity		2,414,080	5,939,048

Notes:

1. Basis of preparation of consolidated financial statements and significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and by the Hong Kong Companies Ordinance (the “**Companies Ordinance**”).

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

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

The financial information relating to the years ended 31 December 2021 and 2020 included in this preliminary final results announcement for the year ended 31 December 2021 does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2021 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports are unqualified; do not include a reference to any matters to which the auditor draws attention by way of emphasis without qualifying its reports; and do not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. Application of amendments to HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these financial statements.

3. Revenue

An analysis of the Group’s revenue for the year is as follows:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Trading of coke products	222,394	–
Sales of electronic components	–	4,062
Dividend income from financial assets at fair value through profit or loss (“FVTPL”)	987	7,033
Interest income from debt instruments at fair value through other comprehensive income (“FVTOCI”)	37,484	57,898
Interest income from securities margin financing business	6,626	1,125
Interest income from money lending business	149,905	180,151
Arrangement fee income from money lending business	425	613
Commission and handling income from securities brokerage business	6,173	5,128
Underwriting fee income from securities brokerage business	–	337
	<u>423,994</u>	<u>256,347</u>

Disaggregation of revenue from contracts with customers and reconciliation of total revenue:

	Investment in securities HK\$'000	Trading HK\$'000	Money lending HK\$'000	Securities brokerage HK\$'000	Total HK\$'000
For the year ended 31 December 2021					
Types of goods and services					
Commission and other income	–	–	425	6,173	6,598
Trading income					
Coke products	–	222,394	–	–	222,394
	<u>–</u>	<u>222,394</u>	<u>–</u>	<u>–</u>	<u>222,394</u>
Revenue from contracts with customers					
	–	222,394	425	6,173	228,992
Dividend income	987	–	–	–	987
Interest income	37,484	–	149,905	6,626	194,015
	<u>37,484</u>	<u>–</u>	<u>149,905</u>	<u>6,626</u>	<u>194,015</u>
Total revenue	<u>38,471</u>	<u>222,394</u>	<u>150,330</u>	<u>12,799</u>	<u>423,994</u>

For the year ended 31 December 2020

Types of goods and services					
Commission, underwriting fee and other income	–	–	613	5,465	6,078
Trading income					
Electronic components	–	4,062	–	–	4,062
	<u>–</u>	<u>4,062</u>	<u>–</u>	<u>–</u>	<u>4,062</u>
Revenue from contracts with customers					
	–	4,062	613	5,465	10,140
Dividend income	7,033	–	–	–	7,033
Interest income	57,898	–	180,151	1,125	239,174
	<u>57,898</u>	<u>–</u>	<u>180,151</u>	<u>1,125</u>	<u>239,174</u>
Total revenue	<u>64,931</u>	<u>4,062</u>	<u>180,764</u>	<u>6,590</u>	<u>256,347</u>

During the years ended 31 December 2021 and 2020, the revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS15.

The Group recognises revenue from trading of coke products and electronic components. The Group acts as the principal for such transactions as it controls the specified goods before they are transferred to the customer and it is primarily responsible for fulfilment of the promise to provide the goods. Performance obligations are satisfied at a point in time once control of the goods has been transferred to the customers. For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days (2020: 30 to 180 days).

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Underwriting fee income is recognised at a point in time when the transactions are executed and services are completed. Other service income is recognised when the related services are rendered.

This is consistent with the revenue information disclosed for each operating segment.

4. Segment information

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

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

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

Segment revenues and results

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

	Investment in securities <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2021					
Segment revenue					
External sales/sources	<u>38,471</u>	<u>222,394</u>	<u>150,330</u>	<u>12,799</u>	<u>423,994</u>
Results					
Segment results	<u>(3,970,273)</u>	<u>180</u>	<u>123,434</u>	<u>9,084</u>	<u>(3,837,575)</u>
Other income					1,618
Other gain and loss, net					143
Central administrative expenses					(83,149)
Finance costs					<u>(111,713)</u>
Loss before tax					<u>(4,030,676)</u>
Income tax credit					<u>447,379</u>
Loss for the year					<u><u>(3,583,297)</u></u>
For the year ended 31 December 2020					
Segment revenue					
External sales/sources	<u>64,931</u>	<u>4,062</u>	<u>180,764</u>	<u>6,590</u>	<u>256,347</u>
Results					
Segment results	<u>2,939,628</u>	<u>(165)</u>	<u>(27,348)</u>	<u>3,671</u>	<u>2,915,786</u>
Other income					12,883
Other gain and loss, net					(95)
Central administrative expenses					(56,975)
Finance costs					<u>(158,640)</u>
Profit before tax					2,712,959
Income tax expense					<u>(429,772)</u>
Profit for the year					<u><u>2,283,187</u></u>

Segment (loss) profit represents the loss incurred/profit earned by each segment without allocation of certain other income, certain other gain and loss, net, central administrative expenses (including depreciation of property, plant and equipment and right-of-use assets), finance costs and income tax credit (expense).

Segment assets and liabilities

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

	2021	2020
	HK\$'000	HK\$'000
Segment assets		
Investment in securities	103,098	4,645,933
Trading	1,389	3,031
Money lending	1,439,280	1,549,021
Securities brokerage	486,245	309,037
	<hr/>	<hr/>
Total segment assets	2,030,012	6,507,022
Property, plant and equipment	14,745	18,196
Right-of-use assets	19,095	28,388
Bank balances and cash	1,089,566	1,921,585
Other unallocated assets	6,544	6,507
	<hr/>	<hr/>
Consolidated assets	3,159,962	8,481,698
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Investment in securities	4,875	796,621
Trading	114	334
Money lending	1,315	1,249
Securities brokerage	21,209	40,479
	<hr/>	<hr/>
Total segment liabilities	27,513	838,683
Other payables	8,999	28,744
Notes payable	692,107	1,648,877
Lease liabilities	17,263	26,346
	<hr/>	<hr/>
Consolidated liabilities	745,882	2,542,650
	<hr/> <hr/>	<hr/> <hr/>

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

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

5. Other income

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	1,919	11,167
Other interest income	800	7,013
Government grants (<i>Note</i>)	–	2,259
Others	–	142
	<u>2,719</u>	<u>20,581</u>

Note: During the year ended 31 December 2020, the Group recognised government grants of HK\$2,259,000 in respect of COVID-19-related subsidies, of which HK\$2,209,000 relates to Employment Support Scheme provided by the Hong Kong government.

6. Other gain and loss, net

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Gain on disposal of property, plant and equipment	350	–
Exchange loss, net	(998)	(628)
	<u>(648)</u>	<u>(628)</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net unrealised (loss) gain on financial assets at FVTPL	(4,885)	2,979,472
Net realised loss on sales of financial assets at FVTPL	(3,669,926)	(73,796)
	<u>(3,674,811)</u>	<u>2,905,676</u>

8. Finance costs

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on borrowings	17,605	11,687
Interest on notes payable (<i>Note 19</i>)	93,447	146,611
Interest on lease liabilities	661	342
	<u>111,713</u>	<u>158,640</u>

9. Income tax credit (expense)

	2021	2020
	HK\$'000	HK\$'000
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	(4,682)	(10,795)
(Under) overprovision in prior years		
– Hong Kong Profits Tax	(1,603)	2,705
	(6,285)	(8,090)
Deferred tax	453,664	(421,682)
Income tax credit (expense) recognised in profit or loss	447,379	(429,772)

Under the two-tiered profits rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

10. (Loss) profit for the year

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

	2021	2020
	HK\$'000	HK\$'000
Staff costs		
– directors' emoluments	9,174	7,591
– other staff salaries, wages and other benefits	20,518	19,192
– retirement benefit scheme contributions, excluding directors	845	847
Total staff costs	30,537	27,630
Provision for impairment loss on loan receivables	20,347	202,923
Provision for impairment loss on debt instruments at FVTOCI	253,348	18,873
Total impairment losses	273,695	221,796
Auditor's remuneration	2,050	2,058
Depreciation of property, plant and equipment	3,275	3,369
Depreciation of right-of-use assets	9,293	9,582
Cost of inventories recognised as expenses	191,549	4,021

11. Dividends

No dividend was paid or proposed for the years ended 31 December 2021 and 2020, nor has any dividend been proposed since the end of the reporting periods.

12. (Loss) earnings per share

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(Loss) earnings:		
(Loss) profit for the year attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	<u><u>(3,583,297)</u></u>	<u><u>2,283,187</u></u>
	2021 '000	2020 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u><u>20,385,254</u></u>	<u><u>17,182,655</u></u>

Diluted (loss) earnings per share for the years ended 31 December 2021 and 2020 are not presented as there were no dilutive potential ordinary shares in issue during both years.

13. Debt instruments at fair value through other comprehensive income

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Listed investments, at fair value:		
– Debt securities listed in overseas (2020: Hong Kong or overseas) with fixed interest(s) at 9.50% (2020: ranging from 5.65% to 9.50%) per annum and maturity date(s) on 29 March 2024 (2020: ranging from 18 January 2023 to 28 June 2025)	<u><u>63,960</u></u>	<u><u>401,813</u></u>
Analysed as:		
Non-current portion	<u><u>63,960</u></u>	<u><u>401,813</u></u>

At 31 December 2021 and 31 December 2020, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the Hong Kong Stock Exchange or the overseas stock exchanges.

The Group provided impairment allowance of HK\$253,348,000 (2020: HK\$18,873,000) on debt instruments at FVTOCI for the current year.

At 31 December 2021, no debt securities (2020: HK\$401,813,000) were pledged as security for credit facilities granted to the Group.

14. Loan receivables

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivables	1,491,216	1,821,549
Less: impairment allowance	(256,541)	(373,254)
	1,234,675	1,448,295
Analysed as:		
Current portion	1,234,675	1,448,295
Analysed as:		
Secured	1,223,824	1,436,779
Unsecured	10,851	11,516
	1,234,675	1,448,295

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

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivables:		
Within one year or on demand	1,234,675	1,448,295

The Group provided impairment allowance of HK\$20,347,000 (2020: HK\$202,923,000) on loan receivables for the current year.

15. Trade and other receivables

	2021 HK\$'000	2020 HK\$'000
Trade receivables of securities brokerage business:		
– Cash clients (<i>Note (i)</i>)	4,169	2,941
– Margin clients (<i>Note (i)</i>)	119,633	100,153
– Hong Kong Securities Clearing Company Limited (“HKSCC”) (<i>Note (i)</i>)	86,822	–
	<u>210,624</u>	<u>103,094</u>
Other receivables (<i>Note (ii)</i>)	24,088	26,793
Note receivable (<i>Note (iii)</i>)	–	45,600
	<u>234,712</u>	<u>175,487</u>

Notes:

- (i) For securities brokerage business, the normal settlement terms of trade receivables from cash clients and HKSCC are two days after trade date. The trade receivables from cash clients, margin clients and HKSCC with carrying amounts totalling HK\$210,624,000 (2020: HK\$103,094,000) 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 lending ratio will trigger a margin call for which the clients concerned have to make good the shortfall. At 31 December 2021, the market value of securities pledged by clients to the Group as collateral against margin client receivables amounted to HK\$1,501,969,000 (2020: HK\$2,062,243,000).

- (ii) Included in other receivables were unrestricted deposits of HK\$4,261,000 (2020: HK\$3,433,000) placed with securities brokers. The remaining balance of other receivables represented mainly interest receivable, prepayment and deposits for office use.

- (iii) The amount represented the outstanding principal of a convertible note subscribed by the Group, which was originally due for repayment on 15 December 2019. Pursuant to a deed entered into between the relevant parties on 10 February 2020, the conversion rights under the note were removed and the note ceased to be convertible into shares of the issuer. The repayment date of the outstanding principal of the note of HK\$49,400,000 was extended from 15 December 2019 to 15 May 2020 with the note bearing interest at the rate of 12% per annum. During the year ended 31 December 2020, outstanding principal of the note of HK\$3,800,000 was settled and the repayment date of the remaining outstanding principal of the note was further extended to 14 October 2020 with the note bearing interest at the rate of 16% per annum. The remaining outstanding principal of the note was fully settled during the current year.

At 31 December 2021, no trade and other receivables (2020: HK\$66,670,000) were pledged as security for credit facilities granted to the Group.

16. Financial assets at fair value through profit or loss

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (i)</i>)	26,332	4,073,317
Unlisted investments, at fair value:		
– Unlisted equity securities (<i>Note (ii)</i>)	300	–
	<u>26,632</u>	<u>4,073,317</u>
Analysed as:		
Current portion	<u>26,632</u>	<u>4,073,317</u>

Notes:

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

At 31 December 2021, no equity securities (2020: HK\$4,073,317,000) were pledged as security for credit facilities granted to the Group.

17. Trade and other payables

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables of securities brokerage business:		
– Cash clients (<i>Note</i>)	20,059	27,142
– Margin clients (<i>Note</i>)	581	12,305
– HKSCC (<i>Note</i>)	–	924
Accrued charges and other payables	4,715	7,653
Interest payables	1,184	20,216
	<u>26,539</u>	<u>68,240</u>

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

18. Borrowings

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Short-term secured borrowings (<i>Note</i>)	–	355,000

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Fixed-rate borrowing	–	350,000
Variable-rate borrowing	–	5,000
	–	355,000

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

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

19. Notes payable

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At the beginning of the year	1,648,877	1,253,171
Redemption of notes (<i>Notes (i) and (ii)</i>)	(1,000,000)	(1,250,000)
Issue of notes (<i>Note (ii)</i>)	–	1,628,553
Effective interest charged (<i>Note 8</i>)	93,447	146,611
Interest paid	(40,136)	(129,458)
Gain on non-substantial modification (<i>Note (ii)</i>)	(24,278)	–
Loss on early redemption (<i>Note (ii)</i>)	14,197	–
	<u>692,107</u>	<u>1,648,877</u>
At the end of the year	<u>692,107</u>	<u>1,648,877</u>
Analysed as:		
Current portion	692,107	1,170,725
Non-current portion	–	478,152
	<u>692,107</u>	<u>1,648,877</u>

Notes:

- (i) In December 2016, the Company issued 2-year unsecured notes (the “2016 Notes”) with nominal value of HK\$1,500,000,000 denominated in Hong Kong dollars. The interest for the 2016 Notes was 7.00% per annum and 8.00% per annum for the first and second year respectively, and the effective interest rate of the 2016 Notes was 8.57% per annum. In December 2018, the 2016 Notes of nominal value of HK\$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining 2016 Notes with nominal value of HK\$1,300,000,000 for further two years to 16 December 2020. The interest for the 2016 Notes was 9.50% per annum and 10.00% per annum for the third and fourth year respectively, and the effective interest rate of the 2016 Notes was 9.74% per annum. The 2016 Notes carried an option for the Company to early redeem the notes, by giving not less than 15 days’ nor more than 30 days’ notice to the noteholders, on the third anniversary date and/or 16 June 2020, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. During the years ended 31 December 2020 and 2019, the 2016 Notes of nominal value of HK\$50,000,000 and HK\$250,000,000 were early redeemed respectively. In December 2020, the remaining 2016 Notes with nominal value of HK\$1,000,000,000 were redeemed at maturity.

In August 2018, the Company issued a new tranche of 2-year unsecured notes (the “**2018 Notes**”) with nominal value of HK\$200,000,000 denominated in Hong Kong dollars. The interest for the 2018 Notes was 9.50% per annum and 10.00% per annum for the first and second year respectively, and the effective interest rate of the 2018 Notes was 9.74% per annum. The 2018 Notes carried an option for the Company to early redeem the notes, by giving early redemption notice to the noteholders, on the first anniversary date, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption. In August 2020, the 2018 Notes with nominal value of HK\$200,000,000 were redeemed at maturity.

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

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

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

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

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

All four notes carrying 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 are regarded as embedded derivatives not closely related to the host contract. The directors of the Company considered that the fair values of the early redemption options 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 for the extended notes was 2% per annum with effective interest rate of 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 for the extended notes was 2% per annum with effective interest rate of 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.

20. Share capital of the Company

	Number of shares		Share capital	
	2021 '000	2020 '000	2021 HK\$'000	2020 HK\$'000
Issued and fully paid				
At the beginning of the year	20,385,254	16,987,714	3,216,110	3,012,877
Issue of shares (<i>Note</i>)	–	3,397,540	–	203,852
Transaction costs attributable to issue of shares	–	–	–	(619)
At the end of the year	<u>20,385,254</u>	<u>20,385,254</u>	<u>3,216,110</u>	<u>3,216,110</u>

Note: On 11 December 2020, the Company completed a placing of 3,397,540,000 new shares under the general mandate at a placing price of HK\$0.06 per placing share. The net proceeds from the placing, after deducting directly attributable costs of HK\$619,000, were approximately HK\$203,233,000. Details of which were set out in the announcements of the Company dated 20 November 2020 and 11 December 2020.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

BUSINESS REVIEW

During the year ended 31 December 2021 (“FY2021”), the Group was principally engaged in the business of investment in securities, trading of coke products, money lending as well as securities brokerage.

During the year, the Group continued to face the unprecedented business challenges brought by the prolonged continuance of the COVID-19 epidemic and the market uncertainties resulted from the heightened political and economic tensions between China and the US. Economics activities in Hong Kong were slowed down owing to restrictive measures imposed by the government on social distancing among citizens, mode of business operation and entry of overseas travellers. The Group was operating in a complex business environment during FY2021 with the result that the management had adopted a cautious and disciplined approach in managing the Group’s businesses. For FY2021, the Group recorded an increase in revenue by 65% to HK\$423,994,000 (2020: HK\$256,347,000), mainly due to the increase in sales of the trading operation, and a loss attributable to owners of the Company of HK\$3,583,297,000 (2020: profit of HK\$2,283,187,000), largely resulted from the overall loss of its securities investments of HK\$3,970,273,000 (2020: profit of HK\$2,939,628,000).

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 macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospects, industry and macroeconomic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in the form of capital appreciation and dividend/interest income. For securities investments other than for long-term holding, the Company mainly emphasises on return of investment in the form of trading gains.

At 31 December 2021, the Group's securities investments comprised (i) a financial asset at FVTPL portfolio comprising mainly equity securities listed in Hong Kong valued at HK\$26,632,000 (2020: HK\$4,073,317,000); and (ii) a debt instrument at FVTOCI portfolio comprising debt securities listed in overseas (2020: Hong Kong or overseas) valued at HK\$63,960,000 (2020: HK\$401,813,000). As a whole, the Group's securities investments recorded a revenue of HK\$38,471,000 (2020: HK\$64,931,000) and a loss of HK\$3,970,273,000 (2020: profit of HK\$2,939,628,000).

Financial assets at FVTPL

At 31 December 2021, the Group held a financial asset at FVTPL portfolio amounting to HK\$26,632,000 measured at market/fair value. During FY2021, the portfolio generated a revenue of HK\$987,000 (2020: HK\$7,033,000) representing dividends from equity securities. The Group recognised a net loss on financial assets at FVTPL of HK\$3,674,811,000, which comprised net unrealised loss and net realised loss of HK\$4,885,000 and HK\$3,669,926,000 respectively (2020: net gain of HK\$2,905,676,000, which comprised net unrealised gain and net realised loss of HK\$2,979,472,000 and HK\$73,796,000 respectively).

The net loss on financial assets at FVTPL represented mainly the net realised loss on disposal of the Group's listed equity investments during FY2021. Such net realised loss mainly comprised the loss on disposal of the Group's investment in listed shares of China Evergrande New Energy Vehicle Group Limited ("**Evergrande Vehicle**", HKEX stock code: 708) amounting to HK\$3,684,532,000, which was in sharp contrast to the increase in fair value of the same block of shares of HK\$2,996,648,000 recognised in last year.

The Group started to invest in Evergrande Vehicle since March 2015 and the accumulative holding gain of this investment amounted to HK\$3,815,408,000 up to 31 December 2020. At the prior year end, the Group held 133,600,000 ordinary shares in Evergrande Vehicle (the "**Evergrande Vehicle Shares**") with total carrying value of HK\$4,034,720,000. Upon the disposals of the whole block of the Evergrande Vehicle Shares held (the "**Disposed Evergrande Vehicle Shares**") and received the net proceeds of HK\$350,188,000 during FY2021, the Group realised a loss of HK\$3,684,532,000 (as aforementioned) when comparing against the carrying value of the Disposed Evergrande Vehicle Shares of HK\$4,034,720,000 standing in the books of the Group as at 31 December 2020. As an illustration, if the net proceeds of HK\$350,188,000 is compared against the historical acquisition costs of the Disposed Evergrande Vehicle Shares of HK\$219,312,000, the Group would have realised a profit of HK\$130,876,000 upon the disposal, this amount effectively represents the realisation of the cumulative holding gain of the Disposed Evergrande Vehicle Shares of HK\$3,815,408,000 as at 31 December 2020 after setting off the realised loss on disposal of the Disposed Evergrande Vehicles Shares during FY2021 of HK\$3,684,532,000. Further details of the disposals of the 133,600,000 Evergrande Vehicle Shares in aggregation were contained in the Company's announcements dated 21 September 2021 and 29 September 2021 and the Company's circular dated 29 October 2021.

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 31 December 2021, 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\$26,632,000 were as below:

Category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %
Property	88.38
Conglomerate	8.73
Others	2.89
	100.00

At 31 December 2021, 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\$26,632,000 (together with other information) were as below:

Investee company's name and its principal activities [#]	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	Approximate weighting to the carrying amount of the Group's total assets at 31 December 2021 %	% of shareholding interest %	*Acquisition costs during the year/carrying amount at 1 January 2021 HK\$'000 A	Market/ fair value at 31 December 2021 HK\$'000 B	Unrealised loss recognised during the year ended 31 December 2021 HK\$'000 C = B - A	Dividend income recognised during the year ended 31 December 2021 HK\$'000
Emperor International Holdings Limited (HKEX stock code: 163) Property investment and development and hospitality businesses	88.38	0.74	0.69	27,839	23,537	(4,302)	976
Others	11.62	0.10	N/A	3,678	3,095	(583)	11
	100.00	0.84		31,517	26,632	(4,885)	987

Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during FY2021 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 FY2021.

Debt instruments at FVTOCI

At 31 December 2021, the Group's debt instrument at FVTOCI portfolio of HK\$63,960,000 was measured at market/fair value. During FY2021, the Group's debt instrument at FVTOCI portfolio generated a revenue of HK\$37,484,000 (2020: HK\$57,898,000) representing interest income from debt securities. According to the maturity of the debt securities, the debt instruments at FVTOCI were classified as non-current assets.

At the year 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\$268,398,000 (2020: HK\$29,768,000) was recognised as other comprehensive expense.

During FY2021, the Group received proceeds from disposal of debt securities amounting to HK\$69,455,000 (2020: HK\$525,780,000) and a loss on disposal of HK\$78,780,000 (2020: HK\$17,079,000) was released from the Group's investment revaluation reserve and recognised as a loss for the year.

For FY2021, the Group recognised impairment loss of HK\$253,348,000 (2020: HK\$18,873,000) on debt instruments at FVTOCI as the credit risks of these debt instruments had increased significantly since initial recognition. During FY2021, the credit ratings of these debt instruments, which were corporate bonds issued by a property company based in the Mainland, were downgraded by the rating agencies as the credit risks of these bonds had increased significantly due to the bond issuer's defaults in making interest and principal payments for its indebtedness. As the Group expected the financial uncertainties of this bond issuer would ultimately affect the collection of contractual cash flows of these bonds, an allowance for credit losses on debt instruments at FVTOCI of HK\$253,348,000 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 year, the management had work closely with the independent professional valuer and taking into accounts factors including the downgrading of credit rating of the debt instruments by the rating agencies

and the defaults of the bond issuer in making payments of interest and principal for its indebtedness, as well as forward-looking information including the future macro-economic conditions at places where the bond issuer is operating. There was no change in the method used in determining the impairment allowance on debt instruments at FVTOCI from last year.

At 31 December 2021, the Group invested in the debt securities of a Mainland based property company with details as below:

Category of companies	Approximate weighting to the carrying amount of the Group's total assets at 31 December 2021	Yield to maturity on acquisition	Acquisition costs	*Acquisition costs during the year/ carrying amount at 1 January 2021	Market/fair value at 31 December 2021	Accumulated fair value loss recognised up to 31 December 2021	Fair value loss recognised during the year ended 31 December 2021
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			A	B	C	D = C - A	E = C - B

Debt securities listed overseas

Property	2.02	9.50	312,000	273,315	63,960	(248,040)	(209,355)
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* The amount represented the costs of the securities acquired during FY2021 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 FY2021.

Trading

During FY2021, the Group's trading operation was focused on the trading of coke products. The operation reported an increase in revenue of over 53 times to HK\$222,394,000 (2020: HK\$4,062,000) and a turnaround in results by posting a profit of HK\$180,000 (2020: loss of HK\$165,000). The improvements in financial performance of the operation were mainly due to the resumption of the commodities trading business which in turn was a result of the general improvement of market conditions in Europe. The management will continue stepping up its effort to explore new 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 FY2021, the operation recorded a decrease in

revenue of 17% to HK\$150,330,000 (2020: HK\$180,764,000) while its results experienced a turnaround by recording a profit of HK\$123,434,000 (2020: loss of HK\$27,348,000). The decrease in revenue was mainly due to the lower average amount of loans advanced to borrowers during FY2021 whilst the turnaround in operating results was mainly due to the decrease in net impairment allowance by 90% to HK\$20,347,000 (2020: HK\$202,923,000).

The Group performs impairment assessment on loan receivables under the ECL model. The measurement of ECL is a function of the probability of default, the loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default (i.e. the magnitude of the loss after accounting for value of the collateral if there is a default). The assessment of probability of default and loss given default is based on historical data and forward-looking information, whilst the valuation of the properties and assets pledged to the Group as collaterals are performed by independent professional valuers engaged by the Group at each reporting date for the purpose of determining ECL. In accordance with the Group's loan impairment policy, the amount of ECL is updated at each reporting date to reflect the changes in credit risk on loan receivables since initial recognition. For FY2021, the net impairment allowance recognised primarily represented the credit risk involved in collectability of certain default and non-default loans determined under the Group's loan impairment policy, with reference to factors including the credit history 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 macro-economic conditions affecting the borrowers (the negative impact of the COVID-19 pandemic on the state of the Hong Kong economy had also been considered).

The Group has a system in place to closely monitor the recoverability of its loan portfolio, its credit monitoring measures include regular collateral value reviews against market information and regular communication with the borrowers of their financial position, through which the Group will be able to keep updated with the latest credit profile and risk associated with each individual borrower and could take appropriate actions for recovery of a loan at the earliest time. If circumstances require, the Group will commence legal actions against the borrowers for recovery of the overdue loans and taking possession of the collaterals pledged. At the year end, the balance of the impairment allowance was reduced by 31% or HK\$116,713,000 to HK\$256,541,000 (2020: HK\$373,254,000), of which a sum of HK\$103,089,000 was impairment allowance for the current year, a sum of HK\$82,742,000 was reversal of allowance owing to settlement of loans and improvement in credit quality of the borrowers, and a sum of HK\$163,720,000 was related to the write-off of long overdue loans with no realistic prospect of recovery.

The size of the Group's loan portfolio was reduced during the year as the management has been prudent in granting new loans in light of the prevailing economic conditions in Hong Kong. The carrying value of the loan portfolio, after impairment allowance, amounted to HK\$1,234,675,000 (2020: HK\$1,448,295,000) at the year end with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio %	Interest rate per annum %	Maturity
Individual	37.85	10.125-18.00	Within one year
Corporate	62.15	8.50-18.00	Within one year
	<u>100.00</u>		

At 31 December 2021, 99% (2020: 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% (2020: 1%) being unsecured. At the year end, the loans made to all borrowers were term loans with maturity within one year, and the loan made to the largest borrower and the five largest borrowers accounted for 25% and 60% respectively of the Group's loan portfolio (on a net of impairment allowance basis).

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

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly-owned subsidiary of the Company licensed by the Hong Kong Securities and Futures Commission to engage in dealing in securities activities. During FY2021, revenue and profit of the operation increased by 94% to HK\$12,799,000 (2020: HK\$6,590,000) and 147% to HK\$9,084,000 (2020: HK\$3,671,000) respectively. The increase in revenue of the operation was the combined effect of the increase in its brokerage commission income, which rose by 20% to HK\$6,173,000 (2020: HK\$5,128,000) owing to the general improvement in investment sentiments of the Hong Kong stock market during FY2021, and the increase in its interest income from margin financing, which rose by about 5 times to HK\$6,626,000 (2020: HK\$1,125,000) owing to its enlarged margin financing portfolio throughout FY2021 that amounted to HK\$119,633,000 (2020: HK\$100,153,000) at the year end.

Overall Results

For FY2021, the Group recorded loss attributable to owners of the Company of HK\$3,583,297,000 (2020: profit of HK\$2,283,187,000) and basic loss per share of 17.58 cents (2020: basic earnings per share of HK13.29 cents). The Group reported total comprehensive expense attributable to owners of the Company of HK\$3,535,049,000 (2020: total comprehensive income of HK\$2,294,579,000) which included a net fair value loss on debt securities of HK\$268,398,000 (2020: HK\$29,768,000). The loss results recorded by the Group were mainly attributed to the substantial overall loss recognised for the Group's securities investments of HK\$3,970,273,000 (2020: profit of HK\$2,939,628,000), though its loss results were partly offset by the profitable results of the money lending operation of HK\$123,434,000 (2020: loss of HK\$27,348,000), the securities brokerage operation of HK\$9,084,000 (2020: HK\$3,671,000) and the trading operation of HK\$180,000 (2020: loss of HK\$165,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For FY2021, the Group financed its businesses mainly by funds generated from operations, credit facilities provided by bank and finance company, and funds raised through issuance of interest bearing notes. At the year end, the Group had current assets of HK\$3,026,378,000 (2020: HK\$8,000,306,000) 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\$1,535,484,000 (2020: HK\$6,314,049,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$737,990,000 (2020: HK\$1,611,842,000), was at a ratio of about 4.1 (2020: 5.0).

At 31 December 2021, the Group's trade and other receivables amounted to HK\$234,712,000 (2020: HK\$175,487,000), which mainly comprised trade receivables from margin clients of the securities brokerage business of HK\$119,633,000 (2020: HK\$100,153,000). Since the market value of securities pledged by clients to the Group

as collaterals against these margin client receivables amounted to HK\$1,501,969,000 (2020: HK\$2,062,243,000), accordingly, no impairment allowance had been provided on these receivables. The Group had deferred tax assets amounting to HK\$29,856,000 (2020: HK\$27,067,000) and no deferred tax liabilities (2020: HK\$435,393,000), which were principally related to the allowance for expected credit losses of loan receivables and net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses at the year end.

At 31 December 2021, the equity attributable to owners of the Company amounted to HK\$2,414,080,000 (2020: HK\$5,939,048,000) and was equivalent to an amount of approximately HK11.84 cents (2020: HK29.13 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK\$3,524,968,000 was mainly a result of the loss recognised by the Group during the year.

At 31 December 2021, the Group had no borrowings as all borrowings were fully settled during the year. At 31 December 2020, the Group's borrowings represented short-term secured borrowings that bore interests at fixed or floating rate and were repayable within one year or on demand.

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 carrying 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.

The Group's gearing ratio, calculated on the basis of total liabilities of HK\$745,882,000 (2020: HK\$2,542,650,000) divided by the equity attributable to owners of the Company of HK\$2,414,080,000 (2020: HK\$5,939,048,000), was about 31% (2020: 43%). The decrease in the Group's gearing ratio was mainly due to decreases in borrowings, notes payable and deferred tax liabilities during the year. The Group's finance costs decreased to HK\$111,713,000 (2020: HK\$158,640,000) were primarily a result of the decreases in the average amount of borrowings and notes payable during the year.

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

PROSPECTS

With the growing vaccination coverage on the population, the epidemic situation in Hong Kong was once stabilised and under control. However, the recent outbreak of Omicron in Hong Kong followed by a sudden surge of infected cases has put the local economy in a very difficult operating environment. Moreover, the conflict between Russia and Ukraine has also caused a lot of volatilities in the global capital and commodity markets. Against the backdrop of this uncertain economic environment, the Group's management will continue to adopt a cautious and disciplined approach in managing the businesses of the Group, as well as in seizing new business and investment opportunities. The Group is still continuing with its evaluation process of acquiring the equity interests in a target company engaging in insurance business in Hong Kong, with the view to diversify its businesses and income base. Announcements will be made to inform shareholders as and when there is further material development of this investment opportunity.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2021.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2021 have been reviewed by the Audit Committee and duly approved by the Board under the recommendation of the Audit Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the above preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 28 March 2022

As at the date of this announcement, the Board comprises one Non-executive Director, namely Dr. Or Ching Fai (Chairman); three Executive Directors, namely Mr. Sue Ka Lok (Chief Executive Officer), Mr. Chow Kam Wah and Mr. Chow Man Wai, Tony; and four Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander, Mr. Leung Hoi Ying and Mr. Lam Kin Fung, Jeffrey.