

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## CHINA STRATEGIC HOLDINGS LIMITED

### 中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2016 together with comparative figures as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	<b>117,199</b>	176,530
Cost of sales		<b>(33,818)</b>	(170,669)
Gross profit		<b>83,381</b>	5,861
Other income	5	<b>1,923</b>	534
Other gain (loss)	6	<b>128</b>	(259)
Selling and distribution costs		<b>(309)</b>	(524)
Administrative expenses		<b>(27,685)</b>	(21,664)
Net (loss) gain on financial assets at fair value through profit or loss	7	<b>(415,215)</b>	818,106
Finance costs	8	<b>(558)</b>	(15)
Gain on disposal of subsidiaries	9	<b>—</b>	102
(Loss) profit before tax		<b>(358,335)</b>	802,141
Income tax credit (expense)	10	<b>1,510</b>	(5,153)
<b>(Loss) profit for the period</b>	11	<b>(356,825)</b>	796,988

		<b>Six months ended 30 June</b>	
		<b>2016</b>	2015
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Other comprehensive (expense) income</b>			
Item that may be reclassified subsequently to profit or loss:			
Net fair value (loss) gain on available-for-sale investments		<u>(28,961)</u>	<u>17,670</u>
Other comprehensive (expense) income for the period		<u>(28,961)</u>	<u>17,670</u>
<b>Total comprehensive (expense) income for the period</b>		<b><u>(385,786)</u></b>	<b><u>814,658</u></b>
<b>(Loss) profit for the period attributable to:</b>			
Owners of the Company		(356,825)	796,780
Non-controlling interests		<u>–</u>	<u>208</u>
		<b><u>(356,825)</u></b>	<b><u>796,988</u></b>
<b>Total comprehensive (expense) income for the period attributable to:</b>			
Owners of the Company		(385,786)	814,450
Non-controlling interests		<u>–</u>	<u>208</u>
		<b><u>(385,786)</u></b>	<b><u>814,658</u></b>
			<i>(Restated)</i>
<b>(Loss) earnings per share attributable to owners of the Company</b>			
– Basic	<i>13</i>	<b><u>HK(2.10) cents</u></b>	<b><u>HK9.35 cents</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2016*

	<i>Notes</i>	As at <b>30 June 2016</b> <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		5,002	5,087
Prepaid lease payments		2,718	2,768
Goodwill	14	4,000	–
Club debentures		628	628
Available-for-sale investments	15	973,859	846,820
Deposit for acquisition of property, plant and equipment		<u>25,515</u>	<u>5,193</u>
Total non-current assets		<u>1,011,722</u>	<u>860,496</u>
<b>Current assets</b>			
Trade and other receivables	16	37,225	114,933
Prepaid lease payments		99	99
Loan receivables	17	585,836	480,099
Financial assets at fair value through profit or loss	18	1,340,238	1,713,832
Pledged bank deposits		56,689	52,342
Bank balances and cash		<u>218,508</u>	<u>371,950</u>
Total current assets		<u>2,238,595</u>	<u>2,733,255</u>
<b>Current liabilities</b>			
Trade and other payables	19	6,364	9,383
Income tax payable		20,489	13,247
Deferred tax liabilities		89,824	99,000
Bank borrowings	20	<u>148,426</u>	<u>101,121</u>
Total current liabilities		<u>265,103</u>	<u>222,751</u>
<b>Net current assets</b>		<u>1,973,492</u>	<u>2,510,504</u>
<b>Net assets</b>		<u>2,985,214</u>	<u>3,371,000</u>
<b>Capital and reserves</b>			
Share capital	21	3,012,877	3,012,877
Reserves		<u>(27,663)</u>	<u>358,123</u>
<b>Total equity</b>		<u>2,985,214</u>	<u>3,371,000</u>

Notes:

## 1. Basis of preparation

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

The audited financial information relating to the year ended 31 December 2015 that is included in these unaudited condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual audited 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 audited financial statements for the year ended 31 December 2015 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 had 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 unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, and are presented in Hong Kong dollars (“HK\$”) which is the functional currency of the Company.

## 2. Principal accounting policies

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2015. The accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated interim financial statements:

Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these unaudited condensed consolidated interim financial statements and/or disclosures set out in these unaudited condensed consolidated interim financial statements.

### 3. Revenue

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	(Unaudited)
Trading of metal minerals and products	<b>33,670</b>	166,408
Sales of electronic components	<b>1,060</b>	5,972
Dividend income from securities and available-for-sale ("AFS") investments	<b>4,924</b>	2,814
Interest income from AFS investments	<b>36,472</b>	–
Arrangement fee income from money lending business	<b>2,012</b>	250
Interest income from money lending business	<b>37,295</b>	1,086
Securities brokerage income	<b>1,766</b>	–
	<b>117,199</b>	176,530

### 4. Segment information

The following is an analysis of the Group's revenue and results by operating segments, based on information provided to the chief operating decision maker representing the Board, for the purpose of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised. During the six months ended 30 June 2016, the Group acquired a subsidiary which is principally engaged in securities brokerage business with its result presented as a new reportable and operating segment.

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

1. Investment in securities
2. Trading of metal minerals and products and electronic components
3. Money lending
4. Securities brokerage

## Segment revenue and results

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

	Investment in securities <i>HK\$'000</i> (Unaudited)	Trading <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Securities brokerage <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
<b>Six months ended 30 June 2016</b>					
<b>Segment revenue</b>					
External sales	<u>41,396</u>	<u>34,730</u>	<u>39,307</u>	<u>1,766</u>	<u>117,199</u>
<b>Results</b>					
Segment results	<u>(373,437)</u>	<u>422</u>	<u>39,008</u>	<u>1,140</u>	<u>(332,867)</u>
Other income					64
Central administrative expenses					(24,974)
Finance costs					(558)
Loss before tax					(358,335)
Income tax credit					1,510
Loss for the period					<u>(356,825)</u>
<b>Six months ended 30 June 2015</b>					
<b>Segment revenue</b>					
External sales	<u>2,814</u>	<u>172,380</u>	<u>1,336</u>	<u>–</u>	<u>176,530</u>
<b>Results</b>					
Segment results	<u>819,716</u>	<u>834</u>	<u>1,119</u>	<u>–</u>	<u>821,669</u>
Gain on disposal of subsidiaries ( <i>Note 9</i> )					102
Other income					61
Other loss					(10)
Central administrative expenses					(19,666)
Finance costs					(15)
Profit before tax					802,141
Income tax expense					(5,153)
Profit for the period					<u>796,988</u>

The accounting policies of operating segments are the same as those adopted in the audited consolidated financial statements of the Company for the year ended 31 December 2015. Segment (loss) profit represents (loss) profit incurred/earned by each segment without allocation of gain on disposal of subsidiaries, certain other income, other loss and central administrative expenses, finance costs and income tax credit (expense).

### Segment assets and liabilities

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

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
<b>Segment assets</b>		
Investment in securities	2,376,395	2,802,255
Trading	147,835	223,120
Money lending	590,067	483,073
Securities brokerage	22,754	–
	<hr/>	<hr/>
Total segment assets	3,137,051	3,508,448
Goodwill	4,000	–
Property, plant and equipment	5,002	5,087
Prepaid lease payments	2,817	2,867
Bank balances and cash	73,115	66,351
Other unallocated assets	28,332	10,998
	<hr/>	<hr/>
Consolidated assets	<u>3,250,317</u>	<u>3,593,751</u>
<b>Segment liabilities</b>		
Investment in securities	221,839	106,514
Trading	25,033	102,387
Money lending	4,718	1,128
Securities brokerage	1,898	–
	<hr/>	<hr/>
Total segment liabilities	253,488	210,029
Other payables	3,100	8,017
Income tax payable	8,515	4,705
	<hr/>	<hr/>
Consolidated liabilities	<u>265,103</u>	<u>222,751</u>

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

- all assets are allocated to operating segments other than goodwill, property, plant and equipment, prepaid lease payments, certain bank balances and cash and certain other assets; and
- all liabilities are allocated to operating segments other than certain other payables and income tax payable.

**5. Other income**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Bank interest income	820	433
Others	1,103	101
	<u>1,923</u>	<u>534</u>

**6. Other gain (loss)**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Exchange gain (loss), net	128	(259)

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net unrealised (loss) gain on financial assets at fair value through profit or loss ("FVTPL")	(229,414)	778,627
Net realised (loss) gain on sales of financial assets at FVTPL	(185,801)	39,479
	<u>(415,215)</u>	<u>818,106</u>

**8. Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest on advances drawn on bill receivables discounted with full recourse	417	–
Interest on bank borrowings	141	15
	<u>558</u>	<u>15</u>



## 9. Gain on disposal of subsidiaries

On 19 June 2015, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire equity interest of a group of subsidiaries which was mainly engaged in money lending business previously. The disposal was completed on the same date.

The net assets of the subsidiaries being disposed of at the date of disposal was determined as follows:

	<i>HK\$'000</i>
<b>Net assets disposed of:</b>	
Bank balances and cash	2,854
Other payables	(83)
Income tax payable	(519)
	<hr/>
	2,252
Non-controlling interests	(1,079)
Gain on disposal of subsidiaries	102
	<hr/>
Net proceeds received from disposal of subsidiaries	<u>1,275</u>
<b>Satisfied by:</b>	
Cash consideration	<u>1,275</u>
<b>Net cash outflow from disposal of subsidiaries:</b>	
Cash consideration received	1,275
Bank balances and cash disposed of	(2,854)
	<hr/>
	<u>(1,579)</u>

## 10. Income tax (credit) expense

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Tax (credit) charge comprises:		
Current tax		
– Hong Kong Profits Tax	7,672	5,773
Overprovision in prior year		
– Hong Kong Profits Tax	(6)	(620)
	<hr/>	<hr/>
	7,666	5,153
Deferred tax – current period	(9,176)	–
	<hr/>	<hr/>
Income tax (credit) expenses recognised in profit or loss	<u>(1,510)</u>	<u>5,153</u>

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the periods under review.

**11. (Loss) profit for the period**

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Amortisation of prepaid lease payments	<b>50</b>	50
Depreciation of property, plant and equipment	<b>333</b>	275
	<b><u>383</u></b>	<b><u>325</u></b>

**12. Dividend**

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2015: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

**13. (Loss) earnings per share attributable to owners of the Company**

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>

**(Loss) earnings:**

(Loss) profit attributable to owners of the Company

for the purpose of calculating basic (loss) earnings per share

	<b><u>(356,825)</u></b>	<b><u>796,780</u></b>
--	-------------------------	-----------------------

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>'000</b>	<b>'000</b>
		<i>(Restated)</i>

**Number of shares:**

Weighted average number of ordinary shares for the

purpose of calculating basic (loss) earnings per share (*Note*)

	<b><u>16,987,714</u></b>	<b><u>8,518,932</u></b>
--	--------------------------	-------------------------

*Note:* The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the prior period has been retrospectively adjusted for the effect of the rights issue completed in August 2015 (*Note* 21).

Diluted (loss) earnings per share for the six months ended 30 June 2016 and 2015 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

#### 14. Acquisition of a subsidiary

On 22 February 2016, the Group acquired 100% equity interests in Harmony Securities Limited (“Harmony Securities”) (now known as CS Wealth Securities Limited) from independent third parties at a consideration of approximately HK\$18,312,000 and the acquisition was settled by cash on the completion date. The acquisition has been accounted for using the purchase method. Harmony Securities is engaged in securities brokerage business and the purpose of the acquisition is to expand the Group’s business portfolio.

Assets and liabilities of Harmony Securities as at the date of acquisition were as follows:

	<i>HK\$’000</i>
Property, plant and equipment	19
Trade and other receivables	5,802
Pledged bank deposits	3,078
Bank balances and cash	11,445
Trade and other payables	(6,032)
	<hr/>
Net assets acquired	14,312
Goodwill	4,000
	<hr/>
Consideration transferred	<u>18,312</u>

Goodwill arose in the acquisition of Harmony Securities because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Harmony Securities.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

	<i>HK\$’000</i>
<b>Net cash outflow for acquisition of a subsidiary:</b>	
Cash consideration paid	18,312
Bank balances and cash acquired	(11,445)
	<hr/>
	<u>6,867</u>

Acquisition-related costs amounting to approximately HK\$697,000 have been excluded from the consideration transferred and have been recognised as an expense in the current period’s profit or loss.

### Impact of acquisition on the results of the Group

Included in the loss for the period is profit of HK\$1,140,000 attributable to Harmony Securities. Revenue for the interim period includes HK\$1,766,000 is attributable to Harmony Securities.

Had the acquisition of Harmony Securities been effected at the beginning of the current period, the total amount of revenue of the Group for six months ended 30 June 2016 would have been HK\$117,352,000, and the amount of the loss for the interim period would have been HK\$357,309,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the current period, nor is it intended to be a projection of future results.

In determining the “pro-forma” revenue and loss of the Group had Harmony Securities been acquired at the beginning of the interim period, the directors of the Company calculated depreciation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

### 15. Available-for-sale investments

AFS investments comprise:

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Unlisted investments, at fair value:		
– Debt securities ( <i>Note (i)</i> )	916,731	775,320
Listed investments, at fair value:		
– Equity securities listed in Hong Kong ( <i>Note (ii)</i> )	57,128	71,500
	<u>973,859</u>	<u>846,820</u>

*Notes:*

- (i) The fair values of unlisted debt securities were determined based on cash flows discounted using a rate based on the market interest rate and risk premium specific to the unlisted securities/quoted market price in the over-the-counter market.
- (ii) The fair value of the listed equity securities was determined based on the quoted market closing price available on the Stock Exchange.

## 16. Trade and other receivables

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Trade receivables	3,424	3,028
Bill receivables	174	387
Bill receivables discounted with full recourse ( <i>Note 20</i> )	23,642	101,121
Dividend income receivables	2,131	–
Other receivables	7,854	10,397
	<u>37,225</u>	<u>114,933</u>

The Group normally allows credit period for trade customers ranging from 30 days to 180 days. The following is an aged analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period:

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
0 – 90 days	27,240	48,020
91 – 180 days	–	54,575
Over 180 days	–	1,941
	<u>27,240</u>	<u>104,536</u>

## 17. Loan receivables

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables	<u>585,836</u>	<u>480,099</u>
Analysed as:		
Current portion	585,836	480,099
Non-current portion	–	–
	<u>585,836</u>	<u>480,099</u>

During the period ended 30 June 2016, the range of interest rate on the Group's loan receivables is 10% to 36% per annum (31 December 2015: 10% to 24% per annum). No loan receivable is past due but not impaired.

## 18. Financial assets at fair value through profit or loss

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Held for trading, at fair value:		
Unlisted debt securities ( <i>Note (i)</i> )	–	20,000
Unlisted convertible securities ( <i>Note (ii)</i> )	51,399	–
Equity securities listed in Hong Kong ( <i>Note (iii)</i> )	1,288,839	1,693,832
	<u>1,340,238</u>	<u>1,713,832</u>

### Notes:

- (i) The fair values of unlisted debt securities were determined based on quoted market prices in the over-the-counter markets.
- (ii) The fair value of unlisted convertible securities was determined based on cash flows discounted using a rate based on market interest rate and risk premium specific to the unlisted convertible securities.
- (iii) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

## 19. Trade and other payables

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Trade payables	1,969	–
Accrued charges and other payables	4,395	9,383
	<u>6,364</u>	<u>9,383</u>

The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
0 – 90 days	<u>1,969</u>	<u>–</u>

The average credit period is 30 days for both periods.

## 20. Bank borrowings

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Advances drawn on bill receivables discounted with full recourse ( <i>Note (i)</i> )	23,642	101,121
Short-term secured bank borrowing ( <i>Note (ii)</i> )	124,784	–
	<u>148,426</u>	<u>101,121</u>

### Notes:

- (i) The amount represents the Group's borrowings secured by the bill receivables discounted to bank with full recourse (Note 16), and the amount is repayable within one year.
- (ii) During the current interim period, the Group obtained secured bank borrowing amounting to approximately HK\$124,784,000, which carries interest at variable rate and is repayable within one year. The secured bank borrowing contains repayment on demand clause in the loan agreement.

## 21. Share capital

	Number of shares '000	Share capital <i>HK\$'000</i>
Issued and fully paid:		
At 1 January 2015 and 30 June 2015		
– Ordinary shares with no par value	6,658,476	1,505,032
Issue of shares ( <i>Note</i> )	10,329,238	1,549,386
Transaction costs attributable to issue of shares ( <i>Note</i> )	–	(41,541)
	<u>16,987,714</u>	<u>3,012,877</u>
At 1 January 2016 and 30 June 2016	<u>16,987,714</u>	<u>3,012,877</u>

*Note:* On 20 August 2015, the Company completed an issue and allotment of 3,329,237,945 rights shares at a subscription price of HK\$0.15 per rights share. The net proceeds from the rights issue, after deducting directly attributable costs of HK\$13,389,000, were approximately HK\$485,997,000. Details of which were set out in the announcement of the Company dated 20 May 2015, circular of the Company dated 29 June 2015 and prospectus of the Company dated 29 July 2015.

On the same date, the Company completed a placing of 7,000,000,000 new shares under the specific mandate at a placing price of HK\$0.15 per placing share. The net proceeds from the placing, after deducting directly attributable costs of HK\$28,152,000, were approximately HK\$1,021,848,000. Details of which were set out in the announcement of the Company dated 20 May 2015 and circular of the Company dated 29 June 2015.

## **INTERIM DIVIDEND**

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016 (30 June 2015: nil).

## **BUSINESS REVIEW**

During the six months ended 30 June 2016, the Group continued to principally engage in the business of investment in securities, trading as well as money lending. In February 2016, the Group successfully completed the acquisition of a securities brokerage company and has horizontally expanded its financial services business now comprising money lending and securities brokerage service.

For the period under review, the Group's revenue declined by 34% to HK\$117,199,000 (30 June 2015: HK\$176,530,000) whereas the Group's gross profit increased by over 13 times to HK\$83,381,000 (30 June 2015: HK\$5,861,000). The decline in the Group's revenue was mainly due to the decrease in sales of the Group's metal minerals trading business whilst the substantial increase in the Group's gross profit was mainly attributed to the increase in profit generated by the Group's money lending operation and interest income earned from debt securities held.

### **Investment in Securities**

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges with good liquidity that can facilitate swift execution of securities transactions. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospect, industry and macro-economic 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 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 form of trading gains.

At 30 June 2016, the Group's investment in securities operation held a securities investments portfolio valued at HK\$1,340,238,000 and a long-term available-for-sale investments portfolio valued at HK\$973,859,000. As a whole, the operation recorded a revenue of HK\$41,396,000 (30 June 2015: HK\$2,814,000) and a loss of HK\$373,437,000 (30 June 2015: profit of HK\$819,716,000).



### ***Financial assets at fair value through profit or loss***

At 30 June 2016, the Group's securities investments portfolio of HK\$1,340,238,000 was measured at market/fair value. During the review period, the Group's securities investments portfolio generated a revenue of HK\$2,793,000 (30 June 2015: HK\$2,814,000) representing dividends from investments in equity securities and recognised a net loss on financial assets at fair value through profit or loss of HK\$415,215,000, which comprised net unrealised loss and net realised loss of HK\$229,414,000 and HK\$185,801,000 respectively (30 June 2015: net gain on financial assets at fair value through profit or loss of HK\$818,106,000, which comprised net unrealised gain and net realised gain of HK\$778,627,000 and HK\$39,479,000 respectively). Such loss on securities investments was due primarily to the volatile Hong Kong stock market during the first half of 2016 and notable price decrease of certain securities held by/disposed of by the Group.

### ***Securities investments***

At 30 June 2016, the Group invested in different category of companies and their weightings to the market/fair value of the Group's securities investments portfolio of HK\$1,340,238,000 (31 December 2015: HK\$1,713,832,000) were as below:

<b>Category of companies</b>	<b>Approximate weighting to the market/fair value of the Group's securities investments portfolio</b>
	<b>%</b>
Banking company	0.61
Conglomerate company	8.78
Entertainment and media company	11.32
Financial services and investment company	45.76
Food catering company	4.15
Healthcare services company	1.43
Industrial materials company	1.19
Infrastructure company	9.95
Mining and resources company	7.82
Property company	4.55
Others	4.44
	<hr/>
	100.00
	<hr/> <hr/>

At 30 June 2016, the weightings of the Group's top five investments to the market/fair value of the Group's securities investments portfolio of HK\$1,340,238,000 (together with other information) were as below:

Company name	Approximate weighting to the market/fair value of the Group's securities investments portfolio %	% of shareholding interest	Acquisition costs HK\$'000	*Acquisition costs during the period/ carrying amount as at 1 January 2016 HK\$'000	Market/fair value as at 30 June 2016 HK\$'000	Accumulated unrealised gain (loss) recognised up to 30 June 2016 HK\$'000	Unrealised gain (loss) recognised during the six months ended 30 June 2016 HK\$'000
			A	B	C	D = C - A	E = C - B
China Innovative Finance Group Limited (stock code: 412)	45.76	3.97	49,538	636,295	613,296	563,758	(22,999)
The Cross-Harbour (Holdings) Limited (stock code: 32)	9.95	3.39	77,377	130,816	133,341	55,964	2,525
Evergrande Health Industry Group Limited (stock code: 708)	9.65	1.45	99,533	291,392	129,368	29,835	(162,024)
Hanny Holdings Limited (stock code: 275)	6.30	4.98	100,800	83,720	84,420	(16,380)	700
Newton Resources Ltd (stock code: 1231)	4.18	1.75	66,500	52,500	56,000	(10,500)	3,500
Others	<u>24.16</u>	-	<u>406,747</u>	<u>374,929</u>	<u>323,813</u>	<u>(82,934)</u>	<u>(51,116)</u>
	<u>100.00</u>		<u>800,495</u>	<u>1,569,652</u>	<u>1,340,238</u>	<u>539,743</u>	<u>(229,414)</u>

\* The amount represented the acquisition cost for the securities for the six months ended 30 June 2016 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.

### *Available-for-sale investments*

At 30 June 2016, the Group's long-term available-for-sale investments portfolio of HK\$973,859,000 was measured at market/fair value. During the review period, the Group's long-term securities investments portfolio generated total revenue amounting to HK\$38,603,000 representing mainly interest income on debt securities held and dividend income from equity securities.

During the review period, the Group invested approximately HK\$156,000,000 to subscribe at par the bonds in the aggregate principal amount of US\$20,000,000 issued by a blue-chip international bank listed on the Stock Exchange. At the period end, a fair value gain on the investment amounting to HK\$4,646,000 (30 June 2015: nil) was recognised as other comprehensive income whereas for the period under review, the investment generated an interest income of approximately HK\$592,000.

In December 2015, the Group invested approximately HK\$772,200,000 to subscribe at par the 9% perpetual securities in the aggregate principal amount of US\$100,000,000 issued by Evergrande Real Estate Group Limited, a company listed on the Stock Exchange which is principally engaged in the development of large-scale residential properties and integrated commercial properties. At the period end, a fair value loss on the investment amounting to HK\$19,235,000 (30 June 2015: nil) was recognised as other comprehensive expense mainly due to the change in risk factors when conducting valuation on the perpetual securities. During the period under review, the investment generated an interest income of approximately HK\$35,880,000.

In December 2014, the Group invested in H shares of Shengjing Bank Co., Ltd., a commercial bank established in the People's Republic of China whose shares are listed on the Stock Exchange. At the period end, a fair value loss on the investment amounting to HK\$14,372,000 (30 June 2015: gain of HK\$17,670,000) was recognised as other comprehensive expenses to reflect the drop in market value of the shares. During the current interim period, a dividend of approximately HK\$2,131,000 was earned from the investment.

Accordingly, at 30 June 2016, the Group invested in bonds of a banking company, perpetual securities of a property company and equity shares of a banking company as long-term investments and their respective weighting to the market/fair value of the Group's available-for-sale investments portfolio of HK\$973,859,000 (31 December 2015: HK\$846,820,000) (together with other information) were as below:

Category of companies	Approximate weighting to the market/fair value of the Group's available-for-sale investments portfolio	% of shareholding interest	Acquisition costs	*Acquisition costs during the period/ carrying amount as at	Market/fair value as at	Accumulated fair value gain (loss) recognised up to	Fair value gain (loss) recognised during the six months ended
				1 January 2016			
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			A	B	C	D = C - A	E = C - B
Banking company							
– debt securities	16.50	–	156,000	156,000	160,646	4,646	4,646
– equity securities	5.87	0.46	54,599	71,500	57,128	2,529	(14,372)
Property company							
– debt securities	77.63	–	772,200	775,320	756,085	(16,115)	(19,235)
	<u>100.00</u>		<u>982,799</u>	<u>1,002,820</u>	<u>973,859</u>	<u>(8,940)</u>	<u>(28,961)</u>

\* The amount represented the acquisition cost for the securities for the six months ended 30 June 2016 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.

## Trading

During the period under review, the Group's trading operation continued to focus on the trading of metal minerals and electronic components and has expanded its business scope to metal products. When compared to the previous period, the segment recorded an 80% drop in revenue to HK\$34,730,000 (30 June 2015: HK\$172,380,000) and a 49% decrease in segment profit to HK\$422,000 (30 June 2015: HK\$834,000). The significant drop in the operation's revenue and profit were principally due to the decrease in volume of metal minerals and electronic components transacted during the period, which was in turn due to the increased competition among suppliers and the sluggish demand from customers based in Mainland China resulting from slowdown of the economy.

## Money Lending

The money lending operation showed a significant growth in revenue by over 28 times to HK\$39,307,000 (30 June 2015: HK\$1,336,000). Such increase was mainly due to the higher average amount of loans advanced to customers during the first half of 2016 comparing to the corresponding period in 2015. The loans portfolio held by the Group amounted to HK\$585,836,000 at the period end (31 December 2015: HK\$480,099,000) and all loans were secured by collaterals and/or guaranteed. During the review period, there was no default in repayments of loan principal and interest from borrowers and no impairment loss was recognised against loan receivables.

At 30 June 2016, the Group had made loans to individual and corporate clients with details as follows:

<b>Category of borrowers</b>	<b>Approximate weighting to the value of the Group's loan portfolio</b>	<b>Interest rate per annum</b>	<b>Maturity</b>
	%	%	
Individual	33.64	15-36	Within one year
Corporate	66.36	10-18	Within one year
	<u>100.00</u>		

## Securities Brokerage

In February 2016, the Group successfully acquired the entire issued share capital of Harmony Securities for a cash consideration of approximately HK\$18,312,000. Harmony Securities is a securities brokerage company and is licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activity. The acquisition of Harmony Securities represents a further step of the Group to diversify its financial services business and tap into the vast business opportunities of Hong Kong financial markets. During the period under review, the securities brokerage business contributed segment revenue and profit of HK\$1,766,000 and HK\$1,140,000 respectively.

## **Overall Results**

For the six months ended 30 June 2016, the Group recorded loss attributable to owners of the Company of HK\$356,825,000 (30 June 2015: profit attributable to owners of the Company of HK\$796,780,000) and basic loss per share of HK2.10 cents (30 June 2015: basic earnings per share of HK9.35 cents). The Group also booked total comprehensive expense attributable to owners of the Company of HK\$385,786,000 (30 June 2015: total comprehensive income attributable to owners of the Company of HK\$814,450,000). The loss results recorded by the Group were mainly attributed to the substantial loss recognised by the Group's securities investment operation of HK\$373,437,000 (30 June 2015: profit of HK\$819,716,000) despite there was a significant increase in profit generated by the Group's money lending business amounting to HK\$39,008,000 (30 June 2015: HK\$1,119,000).

## **FINANCIAL REVIEW**

### **Liquidity, Financial Resources and Capital Structure**

For the six months ended 30 June 2016, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and shareholders' funds. At the period end, the Group had current assets of HK\$2,238,595,000 (31 December 2015: HK\$2,733,255,000) and liquid assets comprising cash and financial assets (comprising mainly listed equity securities and convertible securities) totalling HK\$1,558,746,000 (31 December 2015: HK\$2,085,782,000) (excluding pledged bank deposits). The Group's current ratio, calculated based on current assets over current liabilities of HK\$265,103,000 (31 December 2015: HK\$222,751,000), was at a very strong ratio of about 8.4 (31 December 2015: 12.3). At 30 June 2016, the Group's trade and other receivables amounted to HK\$37,225,000 (31 December 2015: HK\$114,933,000), which mainly comprised trade and bill receivables arising from the Group's trading activities and unrestricted deposits placed with securities brokers for securities trading activities. The Group also had deferred tax liabilities amounted to HK\$89,824,000 (31 December 2015: HK\$99,000,000) which was related to net unrealised gain on financial assets valued at market/fair value at the period end.

At period end, the equity attributable to owners of the Company amounted to HK\$2,985,214,000 (31 December 2015: HK\$3,371,000,000) and was equivalent to an attributable amount of approximately HK17.57 cents (31 December 2015: HK19.84 cents) per share of the Company. The decrease in the equity attributable to owners of the Company was mainly a result of the loss incurred by the Group during the interim period. At 30 June 2016, the Group's bank borrowings represented advances from banks drawn on bill receivables discounted with full recourse and bank borrowings raised for acquiring debt securities. The borrowings bore interests at floating rates, secured by the relevant bill receivables and debt securities and were repayable within one year or on demand. The Group's gearing ratio, calculated on the basis of total liabilities of HK\$265,103,000 (31 December 2015: HK\$222,751,000) divided by the equity attributable to owners of the Company of HK\$2,985,214,000 (31 December 2015:

HK\$3,371,000,000), was at a low ratio of about 8.9% (31 December 2015: 6.6%). The finance costs for the review period amounted to HK\$558,000 (30 June 2015: HK\$15,000), representing mainly interests on bill receivables discounted to banks and bank borrowings. With the amount of liquid assets on hand as well as credit facilities granted by banks, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

## **PROSPECTS**

The business environment of the Group was challenging in the first half of 2016 and is expected to be filled with uncertainties in the remaining time of the year. The concerns of the slowdown of the China economy, the instabilities in the European economy followed by the United Kingdom's referendum on Brexit in June 2016, and the uncertainties about the pace of increase in interest rate in the United States have all posed negative impact to the sentiments of global financial and investment markets including Hong Kong, and the Group's business environment. Despite there has been a sign of recovery of the Hong Kong stock market in July 2016, the market has been volatile in the past months and has led the management to take a more cautious approach in managing the Group's securities investments portfolio. The management may further restructure and divest part of the Group's securities investments portfolio in view of the recent increased volatility of the Hong Kong stock market. As for the money lending business, the Group will continue to develop this business under prudent management by allocating adequate financial resources to it so as to accomplish the target that this business will contribute a stable income stream and favourable returns to the Group in future years. As for the Group's trading business, the management will step up its effort in exploring new business opportunities in order to improve the financial performance of this business. Following completion of the acquisition of Harmony Securities in February 2016, the Group has taken further step to diversify its financial services business and tap into the vast business opportunities of Hong Kong financial markets. The newly acquired securities brokerage business is expected to create synergy benefits with the Group's existing business in securities investment and money lending, it is also the Group's plan that additional financial resources will be devoted to develop this business and other related business activities with the view that it will become a principal business of the Group in future.

Looking forward, the management is committed to continue developing the Group's existing businesses and step up its effort to improve the Group's financial performance as well as to seize potential investment opportunities with good prospects aiming to enhance shareholders' value.

## **CORPORATE GOVERNANCE**

The Company has complied with all the applicable provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, except for the following deviations with reasons as explained:

### **Chairman and chief executive**

#### *Code Provision A.2.1*

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

#### *Deviation*

The Company has deviated from the requirement during the six months ended 30 June 2016. The Board believes that vesting the roles of chairman and chief executive officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

### **Responsibilities of directors**

#### *Code Provision A.6.7*

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

#### *Deviation*

One independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 28 June 2016 (the “2016 AGM”) as he had other important business engagement. However, there were three executive directors and two independent non-executive directors of the Company present at the 2016 AGM to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

## **AUDIT COMMITTEE**

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2016 have not been audited, but have been reviewed by the Audit Committee of the Company and are duly approved by the Board under the recommendation of the Audit Committee.



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

During the six months ended 30 June 2016, 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, 18 August 2016

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