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CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 as the “Group”) for the six months ended 30 June 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	549,617	117,199
Purchases and related expenses		(431,486)	(34,127)
Other income	5	7,562	1,923
Other gain	6	590	128
Administrative expenses		(28,706)	(27,685)
Net loss on financial assets at fair value through profit or loss	7	(151,117)	(415,215)
Gain on disposal of available-for-sale investments		1,157	–
Gain on redemption of available-for-sale investments		7,800	–
Finance costs	8	(65,499)	(558)
Loss before tax		(110,082)	(358,335)
Income tax (expense) credit	9	(3,438)	1,510
Loss for the period	10	(113,520)	(356,825)

		Six months ended 30 June	
		2017	2016
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gain (loss) on available-for-sale investments		10,947	(28,961)
Released on disposal of available-for-sale investments		(1,157)	–
Released on redemption of available-for-sale investments		(7,800)	–
		<u> </u>	<u> </u>
Other comprehensive income (expense) for the period		<u> 1,990</u>	<u> (28,961)</u>
Total comprehensive expense for the period		<u><u> (111,530)</u></u>	<u><u> (385,786)</u></u>
Loss for the period attributable to owners of the Company		<u><u> (113,520)</u></u>	<u><u> (356,825)</u></u>
Total comprehensive expense for the period attributable to owners of the Company		<u><u> (111,530)</u></u>	<u><u> (385,786)</u></u>
Loss per share attributable to owners of the Company			
– Basic	<i>12</i>	<u><u> HK0.67 cent</u></u>	<u><u> HK2.10 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Notes</i>	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		27,765	29,324
Prepaid lease payments		2,619	2,669
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Available-for-sale investments	13	1,245,737	922,917
Loan receivables	14	–	135,000
Total non-current assets		1,282,049	1,095,838
Current assets			
Inventories		7,395	19,559
Available-for-sale investments	13	18,601	–
Loan receivables	14	1,996,983	619,212
Trade and other receivables	15	128,600	94,690
Prepaid lease payments		99	99
Income tax recoverable		2,970	–
Financial assets at fair value through profit or loss	16	806,971	744,407
Pledged bank deposits		30,645	30,531
Bank balances and cash		671,832	1,958,861
Total current assets		3,664,096	3,467,359
Current liabilities			
Trade and other payables	17	136,493	54,137
Income tax payable		25,037	23,575
Deferred tax liabilities		–	5,262
Bank borrowings	18	493,369	88,077
Total current liabilities		654,899	171,051
Net current assets		3,009,197	3,296,308
Total assets less current liabilities		4,291,246	4,392,146
Non-current liability			
Notes payable	19	1,481,549	1,470,919
Net assets		2,809,697	2,921,227
Capital and reserves			
Share capital		3,012,877	3,012,877
Reserves		(203,180)	(91,650)
Total equity		2,809,697	2,921,227

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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The audited financial information relating to the year ended 31 December 2016 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 2016 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 consolidated financial statements for the year ended 31 December 2016. The accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2016.

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 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRSs	As part of annual improvements to HKFRSs 2014 – 2016 cycle

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

3. Revenue

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of metal minerals, metal and coke products	414,261	33,670
Sales of electronic components	21,261	1,060
Dividend income from securities and available-for-sale ("AFS") investments	5,879	4,924
Interest income from securities and AFS investments	27,417	36,472
Interest income from money lending business	70,730	37,295
Arrangement fee income from money lending business	4,349	2,012
Commission and handling income from securities brokerage business	4,000	447
Underwriting fee income from securities brokerage business	1,720	1,319
	<u>549,617</u>	<u>117,199</u>

4. Segment information

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

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

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

Segment revenue and results

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

	Investment in securities HK\$'000 (Unaudited)	Trading HK\$'000 (Unaudited)	Money lending HK\$'000 (Unaudited)	Securities brokerage HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Six months ended 30 June 2017					
Segment Revenue					
External sales/sources	33,296	435,522	75,079	5,720	549,617
Results					
Segment results	(105,014)	4,384	74,171	4,254	(22,205)
Other income					1,421
Other loss					(79)
Central administrative expenses					(23,720)
Finance costs					(65,499)
Loss before tax					(110,082)
Income tax expense					(3,438)
Loss for the period					(113,520)
Six months ended 30 June 2016					
Segment Revenue					
External sales/sources	41,396	34,730	39,307	1,766	117,199
Results					
Segment results	(373,437)	422	39,008	1,140	(332,867)
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					(356,825)

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 2016. Segment (loss) profit represents loss incurred/profit earned by each segment without allocation of certain other income, certain other loss and certain central administrative expenses, finance costs and income tax (expense) credit.

Segment assets and liabilities

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

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Segment assets		
Investment in securities	2,155,324	2,491,717
Trading	237,348	808,753
Money lending	2,046,381	757,938
Securities brokerage	164,289	78,597
	<hr/>	<hr/>
Total segment assets	4,603,342	4,137,005
Property, plant and equipment	27,765	29,324
Prepaid lease payments	2,718	2,768
Bank balances and cash	304,812	384,095
Other unallocated assets	7,508	10,005
	<hr/>	<hr/>
Consolidated assets	<u>4,946,145</u>	<u>4,563,197</u>
Segment liabilities		
Investment in securities	438,217	78,945
Trading	89,916	39,166
Money lending	18,096	9,608
Securities brokerage	103,599	24,119
	<hr/>	<hr/>
Total segment liabilities	649,828	151,838
Other payables	5,071	11,975
Income tax payable	–	7,238
Notes payable	1,481,549	1,470,919
	<hr/>	<hr/>
Consolidated liabilities	<u>2,136,448</u>	<u>1,641,970</u>

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

- all assets are allocated to operating segments other than property, plant and equipment, 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, certain income tax payable and notes payable.

5. Other income

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Bank interest income	3,177	820
Others	4,385	1,103
	<u>7,562</u>	<u>1,923</u>

6. Other gain

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Exchange gain, net	590	128

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

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Net unrealised loss on financial assets at fair value through profit or loss ("FVTPL")	61,953	229,414
Net realised loss on sales of financial assets at FVTPL	89,164	185,801
	<u>151,117</u>	<u>415,215</u>

8. Finance costs

	Six months ended 30 June	
	2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Interest on advances drawn on bill receivables discounted with full recourse	492	417
Interest on bank borrowings	2,309	141
Interest on notes payable (<i>Note 19</i>)	62,698	–
	<u>65,499</u>	<u>558</u>

9. Income tax expense (credit)

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Tax charge (credit) comprises:		
Current tax		
– Hong Kong Profits Tax	8,700	7,672
Overprovision in prior year		
– Hong Kong Profits Tax	–	(6)
	<u>8,700</u>	<u>7,666</u>
Deferred tax	<u>(5,262)</u>	<u>(9,176)</u>
Income tax expense (credit) recognised in profit or loss	<u>3,438</u>	<u>(1,510)</u>

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

10. Loss for the period

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of prepaid lease payments	50	50
Depreciation of property, plant and equipment	<u>1,637</u>	<u>333</u>

11. Dividend

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2016: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

12. Loss per share

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of calculating basic loss per share	<u>113,520</u>	<u>356,825</u>

	Six months ended 30 June	
	2017	2016
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	<u>16,987,714</u>	<u>16,987,714</u>

Diluted loss per share for the six months ended 30 June 2017 and 2016 are not presented as there were no dilutive potential ordinary shares in issue during both periods.

13. Available-for-sale investments

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Unlisted investments, at fair value:		
– Debt securities (<i>Note (i)</i>)	49,085	827,250
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (ii)</i>)	47,619	56,485
– Debt securities listed in Hong Kong (<i>Note (iii)</i>)	289,919	–
– Debt securities listed in overseas (<i>Note (iii)</i>)	877,715	39,182
	<u>1,264,338</u>	<u>922,917</u>
Analysed as:		
Current portion	18,601	–
Non-current portion	<u>1,245,737</u>	<u>922,917</u>
	<u>1,264,338</u>	<u>922,917</u>

Notes:

- (i) The fair values of unlisted debt securities were determined based on the 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.
- (iii) The fair values of listed debt securities were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

14. Loan receivables

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Fixed-rate loan receivables	1,996,983	754,212
Analysed as:		
Current portion	1,996,983	619,212
Non-current portion	–	135,000
	1,996,983	754,212
Analysed as:		
Secured	1,969,845	702,125
Unsecured	27,138	52,087
	1,996,983	754,212

During the period ended 30 June 2017, the range of interest rate on the Group's loan receivables is 8% to 24% per annum (31 December 2016: 8% to 36% per annum). No loan receivable is past due but not impaired.

15. Trade and other receivables

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Trade receivables from securities brokerage business:		
– Cash clients	23,324	168
– Hong Kong Securities Clearing Company Limited (“HKSCC”)	–	21,810
– a broker	370	–
Trade receivables from trading business	344	608
Bill receivables discounted with full recourse (<i>Note 18</i>)	62,613	21,893
Interest receivables	19,392	35,308
Other receivables	22,557	14,903
	<u>128,600</u>	<u>94,690</u>

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 with a carrying amount of HK\$23,324,000 (31 December 2016: HK\$168,000) are neither past due nor impaired at the end of the reporting period.

For trading business, 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 dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
0 – 90 days	344	21,893
91 – 180 days	62,613	–
Over 180 days	–	608
	<u>62,957</u>	<u>22,501</u>

16. Financial assets at fair value through profit or loss

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Unlisted investments, at fair value:		
– Debt securities (<i>Note (i)</i>)	–	9,733
– Convertible securities (<i>Note (ii)</i>)	53,363	69,334
Listed securities, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (iii)</i>)	753,608	665,340
	<u>806,971</u>	<u>744,407</u>

Notes:

- (i) The fair value of unlisted debt securities was determined based on the quoted market price in the over-the-counter market.
- (ii) The fair value of unlisted convertible securities was determined based on some key parameters of risk free rate, expected volatility, dividend yield and discount rate by reference to listed bonds with similar rating.
- (iii) The fair values of listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

17. Trade and other payables

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Trade payables from securities brokerage business:		
– Cash clients	83,105	24,033
– HKSCC	20,398	–
Trade payables from trading business	8,326	3,898
Accrued charges and other payables	19,887	21,603
Interest payables	4,777	4,603
	<u>136,493</u>	<u>54,137</u>

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

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

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
0 – 90 days	3,416	3,898
91 – 180 days	3,223	–
Over 180 days	1,687	–
	<u>8,326</u>	<u>3,898</u>

The average credit period is 30 days for both periods.

18. Bank borrowings

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Advances drawn on bill receivables discounted with full recourse (<i>Note (i)</i>)	62,613	21,893
Short-term secured bank borrowings (<i>Note (ii)</i>)	430,756	66,184
	<u>493,369</u>	<u>88,077</u>

Notes:

- (i) The amount represents the Group's borrowings secured by the bill receivables discounted to bank with full recourse (*Note 15*). The amount is repayable within one year.
- (ii) The amount carries interest at variable rate and is repayable within one year. The secured bank borrowings contain repayment on demand clause in the loan agreement.

19. Notes payable

The movement of the unsecured notes payable for the period is set out below:

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Beginning of the period/year	1,470,919	–
Issue of notes payable	–	1,470,000
Effective interest charged (<i>Note 8</i>)	62,698	5,522
Interest paid/payable	<u>(52,068)</u>	<u>(4,603)</u>
End of the period/year	<u><u>1,481,549</u></u>	<u><u>1,470,919</u></u>
Repayable as follows:		
In the second year	<u><u>1,481,549</u></u>	<u><u>1,470,919</u></u>

The Company issued 2-year unsecured notes with nominal value of HK\$1,500,000,000 in December 2016 which are denominated in Hong Kong dollars. The interest for the notes is 7.00% per annum and 8.00% per annum for the first and second year respectively. The effective interest rate of the notes is 8.57% per annum.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2017 (30 June 2016: nil).

BUSINESS REVIEW

For the six months ended 30 June 2017, the Group continued to principally engage in the business of investment in securities, trading, money lending as well as securities brokerage.

For the period under review, the Group's revenue increased significantly by over 3.6 times to HK\$549,617,000 (30 June 2016: HK\$117,199,000) which was mainly due to the increase in interest income generated by the money lending business and the increase in sales of the trading operation.

Investment in Securities

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges and over-the-counter markets with good liquidity that can facilitate swift execution of securities transactions. 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 2017, the Group's investment in securities operation held a financial asset at FVTPL portfolio valued at HK\$806,971,000 (31 December 2016: HK\$744,407,000), comprising listed equity securities in Hong Kong and unlisted convertible securities, and an AFS investment portfolio (constituted by non-current and current portions) valued at HK\$1,264,338,000 (31 December 2016: HK\$922,917,000), comprising unlisted and listed debt securities in Hong Kong and overseas and listed equity securities in Hong Kong. As a whole, the operation recorded a revenue of HK\$33,296,000 (30 June 2016: HK\$41,396,000) and a loss of HK\$105,014,000 (30 June 2016: HK\$373,437,000).

Financial assets at FVTPL

At 30 June 2017, the Group held a financial asset at FVTPL portfolio amounting to HK\$806,971,000 measured at market/fair value. During the review period, the portfolio generated a revenue of HK\$6,538,000 (30 June 2016: HK\$2,793,000) representing dividends from equity securities of HK\$4,062,000 (30 June 2016: HK\$2,793,000) and interest income from unlisted convertible and debt securities of HK\$2,476,000 (30 June 2016: nil). The Group recognised a net loss on financial assets at FVTPL of HK\$151,117,000, which comprised net unrealised loss and net realised loss of HK\$61,953,000 and HK\$89,164,000 respectively (30 June 2016: HK\$415,215,000, which comprised net unrealised loss and net realised loss of HK\$229,414,000 and HK\$185,801,000 respectively). Such loss incurred by the financial asset at FVTPL portfolio was due primarily to the worse-than-expected price performance of various listed equity securities held/disposed of by the Group during the first half of 2017.

At 30 June 2017, 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\$806,971,000 are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio
	%
Banking	1.62
Conglomerate	24.91
Entertainment and media	27.56
Infrastructure	18.31
Mining and resources	2.37
Property	14.42
Others	10.81
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	100.00
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At 30 June 2017, the weightings of the Group's top five investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$806,971,000 (together with other information) are as below:

Company name	Approximate	% of	Acquisition	*Acquisition	Market/fair	Accumulated	Unrealised
	weighting to the market/ fair value of the Group's financial asset at FVTPL portfolio			shareholding interest		costs	costs during the period/ carrying amount as at 1 January 2017
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			A	B	C	D = C - A	E = C - B
Evergrande Health Industry Group Limited (stock code: 708)	24.44	1.45	99,533	184,632	197,192	97,659	12,560
The Cross-Harbour (Holdings) Limited (stock code: 32)	18.31	3.39	77,377	141,422	147,736	70,359	6,314
OCI International Holdings Limited (stock code: 329)	10.55	4.81	45,780	81,060	85,170	39,390	4,110
Emperor International Holdings Limited (stock code: 163)	10.40	0.89	77,630	77,940	83,900	6,270	5,960
Master Glory Group Limited (stock code: 275)	9.31	4.89	100,800	99,540	75,096	(25,704)	(24,444)
Others	26.99	-	434,764	284,330	217,877	(216,887)	(66,453)
	<u>100.00</u>		<u>835,884</u>	<u>868,924</u>	<u>806,971</u>	<u>(28,913)</u>	<u>(61,953)</u>

* The amount represented the acquisition costs of the securities during the six months ended 30 June 2017 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.

AFS investments

At 30 June 2017, the Group's AFS investment portfolio (constituted by non-current and current portions) of HK\$1,264,338,000 was measured at market/fair value. During the period under review, the Group's AFS investment portfolio generated total revenue amounting to HK\$26,758,000 (30 June 2016: HK\$38,603,000) representing dividends from equity securities of HK\$1,817,000 (30 June 2016: HK\$2,131,000) and interest income from listed and unlisted debt securities of HK\$24,941,000 (30 June 2016: HK\$36,472,000). According to the maturity of the AFS investments, part of the AFS investment portfolio of HK\$18,601,000 is classified as current assets.

During the period under review, the Group invested approximately HK\$1,150,631,000 to acquire bonds issued by various aircraft leasing company, banking company and property company listed on the Stock Exchange.

At the period end, an overall net fair value gain on the AFS investment portfolio amounting to HK\$10,947,000 was recognised as other comprehensive income (30 June 2016: loss of HK\$28,961,000).

During the period under review, the Group disposed of bonds amounting to HK\$40,157,000 and bonds of HK\$780,000,000 were redeemed by an issuer. A gain on disposal and on redemption totalling HK\$8,957,000 was released from the Group's investment revaluation reserve and reclassified as profit in the current period (30 June 2016: nil).

At 30 June 2017, the Group invested in corporate bonds and equity securities of various aircraft leasing company, banking company, insurance company and property company and their respective weightings to the market/fair value of the Group's AFS investment portfolio of HK\$1,264,338,000 (together with other information) are as below:

Category of companies	Approximate	% of	Yield to	Acquisition	*Acquisition	Market/fair	Accumulated	Fair value
	weighting to				costs during			
	the market/ fair value of the Group's AFS investment portfolio	shareholding interest	maturity on acquisition date	costs	the period/ carrying amount as at 1 January 2017	value as at 30 June 2017	fair value gain (loss) recognised up to 30 June 2017	gain (loss) recognised during the period ended 30 June 2017
	%	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				A	B	C	D = C - A	E = C - B
Aircraft leasing								
– debt securities	11.45	–	5.09	148,348	148,348	144,710	(3,638)	(3,638)
Banking								
– debt securities	12.73	–	3.73 - 3.91	156,999	156,999	160,964	3,965	3,965
– equity securities	3.77	0.46	–	54,599	56,485	47,619	(6,980)	(8,866)
Insurance								
– debt securities	3.88	–	3.00	50,000	47,250	49,085	(915)	1,835
Property								
– debt securities	68.17	–	4.68 - 9.50	845,284	845,284	861,960	16,676	16,676
	<u>100.00</u>			<u>1,255,230</u>	<u>1,254,366</u>	<u>1,264,338</u>	<u>9,108</u>	<u>9,972</u>

* The amount represented the acquisition costs of the securities during the six months ended 30 June 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current interim period.

The yield to maturity on acquisition of corporate bonds which were held by the Group at the period end ranged from 3.73% to 9.50%.

Trading

During the first half year, the Group's trading operation continued to focusing on trading of metal minerals, metal products and electronic components, and has further expanded its business scope to coke products. The operation recorded a significant growth in revenue by over 11.5 times to HK\$435,522,000 (30 June 2016: HK\$34,730,000), and an increase in profit of over 9.3 times to HK\$4,384,000 (30 June 2016: HK\$422,000) compared to the previous period. The significant increases in revenue and profit of the operation were principally attributed to the increase in volume of metal minerals and coke products transacted during the period, which was in turn resulting from the improvement of sentiments and outlook of commodity markets in general, as well as the management's successful efforts in expanding the business scope of the operation.

Money Lending

The Group's money lending operation continued to deliver encouraging results by posting a significant growth in revenue of 91% to HK\$75,079,000 (30 June 2016: HK\$39,307,000), and an increase in profit of 90% to HK\$74,171,000 (30 June 2016: HK\$39,008,000) over the prior period. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the current period and the efforts of management in enlarging the operation's clientele base. During the review period, there was no default in repayments from borrowers and no impairment loss was recognised against loan receivables. The loan portfolio held by the Group amounting to HK\$1,996,983,000 at the period end (31 December 2016: HK\$754,212,000) with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio	Interest rate per annum	Maturity
	%	%	
Individual	42.71	9.50 - 24.00	Within one year
Corporate	57.29	8.25 - 18.00	Within one year
	<u>100.00</u>		

Before granting loans to potential customers, the Group uses credit assessment process to assess the potential borrower's credit quality and defines its credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

Securities Brokerage

The Group's securities brokerage business is conducted through its wholly owned subsidiary licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the review period, the securities brokerage business achieved significant increases in revenue and profit by over 2.2 times to HK\$5,720,000 (30 June 2016: HK\$1,766,000) and by over 2.7 times to HK\$4,254,000 (30 June 2016: HK\$1,140,000) respectively. The encouraging results registered by the operation are primarily due to the effort of management in promoting its business and has expanded its business scope to participation of corporate share placing and underwriting exercises.

Overall Results

For the six months ended 30 June 2017, the Group recorded loss attributable to owners of the Company of HK\$113,520,000 (30 June 2016: HK\$356,825,000) and basic loss per share of HK0.67 cent (30 June 2016: HK2.10 cents), both reduced by 68% from the prior period. The Group also recorded total comprehensive expense attributable to owners of the Company of HK\$111,530,000 (30 June 2016: HK\$385,786,000). The loss results recorded by the Group were mainly due to the loss recognised by the Group's securities investment operation of HK\$105,014,000 (30 June 2016: HK\$373,437,000), despite there were significant increases in profit generated by the Group's money lending, trading as well as securities brokerage business amounting to HK\$74,171,000 (30 June 2016: HK\$39,008,000), HK\$4,384,000 (30 June 2016: HK\$422,000) and HK\$4,254,000 (30 June 2016: HK\$1,140,000) respectively.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the six months ended 30 June 2017, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, issuance of interest bearing notes in December 2016 and shareholders' funds. At the period end, the Group had current assets of HK\$3,664,096,000 (31 December 2016: HK\$3,467,359,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK\$1,416,016,000 (31 December 2016: HK\$2,698,983,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$654,899,000 (31 December 2016: HK\$171,051,000), was at a strong ratio of about 5.6 (31 December 2016: 20.3). At 30 June 2017, the Group's trade and other receivables amounted to HK\$128,600,000 (31 December 2016: HK\$94,690,000), which mainly comprised bill receivables arising from the Group's trading activities, trade receivables from cash clients of the securities brokerage business and interest receivables from the Group's securities investments. The Group had net unrealised loss on financial assets valued at market/fair value at the period end and thus no deferred tax liabilities were recognised (31 December 2016: HK\$5,262,000, related to the net unrealised gain on financial assets valued at market/fair value).

At 30 June 2017, the equity attributable to owners of the Company amounted to HK\$2,809,697,000 (31 December 2016: HK\$2,921,227,000) and was equivalent to an attributable amount of approximately HK16.54 cents (31 December 2016: HK17.20 cents) per share of the Company. The decrease in 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 2017, 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. In December 2016, the Company issued 2-year notes with aggregate principal amount of HK\$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. The Group's gearing ratio, calculated on the basis of total liabilities of HK\$2,136,448,000 (31 December 2016: HK\$1,641,970,000) divided by the equity attributable to owners of the Company of HK\$2,809,697,000 (31 December 2016: HK\$2,921,227,000), was of about 76% (31 December 2016: 56%). The increase in the Group's gearing ratio was mainly due to the new bank borrowings raised for acquiring debt securities. The Group's finance costs increased significantly to HK\$65,499,000 (30 June 2016: HK\$558,000) were primarily due to the interests on the 2-year notes issued in December 2016 and the new bank borrowings raised during the review period.

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

Having gone through a challenging year in 2016, the business environment of the Group has shown some signs of stabilisation in the first half of 2017. There have been indications showing modest recovery in business confidence and investor sentiments in major economies, including China and the United States, and increase in international trade flows including commodities. Nevertheless, certain market uncertainties still persist including the geopolitical risks in Korean peninsula, the pace of interest rate increase in the United States, and the instabilities in the European economy arising from the Brexit negotiations. The investment and stock markets in Hong Kong have been rather volatile recently in light of these market uncertainties, in order to alleviate their adverse impact to the Group, the management has continued to adopt a cautious approach in managing the Group's securities investment portfolio and has increased the Group's investments in corporate bonds during the review period which offer more stable returns. In appropriate circumstances, the Group may also gear up its corporate bond investments with bank borrowings in order to enhance their yields. The Group's money lending business has delivered very encouraging results for the current period. It is the intention of the management to continue developing this business under prudent credit management with the aim that it will continue to contribute a stable and favorable income stream to the Group in future years. The Group's trading business has also shown significant progress during the interim period, the management will continue its effort in exploring new business opportunities to further improve the financial performance of the operation. The Group's securities brokerage business has been creating synergy benefits with the Group's securities investment and money lending businesses and it is the Group's plan to devote additional financial resources for developing this business aiming it will become a principal business of the Group in future.

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 to the Listing Rules throughout the six months ended 30 June 2017, except for the following deviation with reason 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 2017. 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.

REVIEW OF INTERIM RESULTS

The Group’s interim results for the six months ended 30 June 2017 have not been audited, but have been reviewed by the Audit Committee and the Company’s auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the HKICPA. The report on review of interim financial information by the auditor will be included in the Interim Report 2017 to the shareholders of the Company.

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

During the six months ended 30 June 2017, 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, 31 August 2017

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.