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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 2016

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 as the “Group”) for the year ended 31 December 2016 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
Revenue	3	270,706	239,466
Cost of sales		(81,054)	(205,874)
Gross profit		189,652	33,592
Other income	5	3,184	6,476
Other (loss) gain	6	(47)	4,506
Selling and distribution costs		(4,022)	(1,859)
Administrative expenses		(68,631)	(52,069)
Net (loss) gain on financial assets at fair value through profit or loss	7	(635,753)	665,601
Gain on disposal of available-for-sale investments		4,212	36,955
Finance costs	8	(6,735)	(409)
Gain on disposal of subsidiaries	9	–	102
(Loss) profit before tax		(518,140)	692,895
Income tax credit (expense)	10	81,270	(108,539)
(Loss) profit for the year	11	(436,870)	584,356

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Net fair value (loss) gain on available-for-sale investments		(8,691)	56,289
Released on disposal of available-for-sale investments		(4,212)	(36,955)
		<u>(12,903)</u>	<u>19,334</u>
Other comprehensive (expense) income for the year		<u>(12,903)</u>	<u>19,334</u>
Total comprehensive (expense) income for the year		<u>(449,773)</u>	<u>603,690</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(436,870)	584,148
Non-controlling interests		–	208
		<u>(436,870)</u>	<u>584,356</u>
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(449,773)	603,482
Non-controlling interests		–	208
		<u>(449,773)</u>	<u>603,690</u>
(Loss) earnings per share attributable to owners of the Company			
– Basic	<i>13</i>	<u>HK(2.57) cents</u>	<u>HK5.02 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		29,324	5,087
Prepaid lease payments		2,669	2,768
Goodwill		4,000	–
Club debentures		1,928	628
Available-for-sale investments	14	922,917	846,820
Deposit for acquisition of property, plant and equipment		–	5,193
Loan receivables	15	135,000	–
		<hr/>	<hr/>
Total non-current assets		1,095,838	860,496
Current assets			
Inventories		19,559	–
Loan receivables	15	619,212	480,099
Trade and other receivables	16	94,690	114,933
Prepaid lease payments		99	99
Financial assets at fair value through profit or loss	17	744,407	1,713,832
Pledged bank deposits		30,531	52,342
Bank balances and cash		1,958,861	371,950
		<hr/>	<hr/>
Total current assets		3,467,359	2,733,255
Current liabilities			
Trade and other payables	18	54,137	9,383
Income tax payable		23,575	13,247
Deferred tax liabilities		5,262	99,000
Bank borrowings		88,077	101,121
		<hr/>	<hr/>
Total current liabilities		171,051	222,751
Net current assets		<hr/> 3,296,308 <hr/>	<hr/> 2,510,504 <hr/>
Total assets less current liabilities		<hr/> 4,392,146 <hr/>	<hr/> 3,371,000 <hr/>
Non-current liability			
Notes payable	19	1,470,919	–
		<hr/>	<hr/>
Net assets		<hr/> 2,921,227 <hr/>	<hr/> 3,371,000 <hr/>
Capital and reserves			
Share capital	20	3,012,877	3,012,877
Reserves		(91,650)	358,123
		<hr/>	<hr/>
Total equity		<hr/> 2,921,227 <hr/>	<hr/> 3,371,000 <hr/>

Notes:

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). 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 “Stock Exchange”) and by the Hong Kong Companies Ordinance (Cap. 622) (“CO”).

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

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary final results announcement for the year ended 31 December 2016 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 CO is as follows:

The Company has delivered the 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 CO and will deliver the financial statements for the year ended 31 December 2016 in due course.

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

2. Application of new and amendments to HKFRSs

The Group has applied for the first time in current year the following amendments to HKFRSs issued by the HKICPA.

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 HKAS 27	Equity method in separate financial statements
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 amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

3. Revenue

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

	2016	2015
	HK\$'000	HK\$'000
Trading of metal minerals and products	85,288	202,241
Sales of electronic components	985	7,015
Dividend income from securities and available-for-sale ("AFS") investments	15,146	14,768
Interest income from securities and AFS investments	74,698	–
Interest income from money lending business	86,548	12,525
Arrangement fee income from money lending business	2,985	2,917
Commission and handling income from securities brokerage business	3,245	–
Underwriting fee income from securities brokerage business	1,811	–
	270,706	239,466

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 of the Company, 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 year, 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 ("Trading")
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:

For the year ended 31 December 2016

	Investment in securities HK\$'000	Trading HK\$'000	Money lending HK\$'000	Securities brokerage HK\$'000	Total HK\$'000
Segment revenue					
External sales	<u>89,844</u>	<u>86,273</u>	<u>89,533</u>	<u>5,056</u>	<u>270,706</u>
Results					
Segment results	<u>(549,495)</u>	<u>1,534</u>	<u>87,971</u>	<u>3,417</u>	<u>(456,573)</u>
Other income					589
Central administrative expenses					(55,421)
Finance costs					<u>(6,735)</u>
Loss before tax					(518,140)
Income tax credit					<u>81,270</u>
Loss for the year					<u>(436,870)</u>
Other segment information					
Amortisation of prepaid lease payments	99	-	-	-	99
Depreciation of property, plant and equipment	1,499	4	240	9	1,752
Net loss on financial assets at fair value through profit or loss ("FVTPL")	(635,753)	-	-	-	(635,753)
Gain on disposal of AFS investments	<u>4,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,212</u>

For the year ended 31 December 2015

	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>
Segment revenue					
External sales	<u>14,768</u>	<u>209,256</u>	<u>15,442</u>	<u>–</u>	<u>239,466</u>
Results					
Segment results	<u>720,121</u>	<u>2,777</u>	<u>14,436</u>	<u>–</u>	<u>737,334</u>
Gain on disposal of subsidiaries (Note 9)					102
Other income					2,907
Other loss					(105)
Central administrative expenses					(46,934)
Finance costs					<u>(409)</u>
Profit before tax					692,895
Income tax expense					<u>(108,539)</u>
Profit for the year					<u>584,356</u>
Other segment information					
Amortisation of prepaid lease payments	99	–	–	–	99
Depreciation of property, plant and equipment	580	2	12	–	594
Net gain on financial assets at FVTPL	665,601	–	–	–	665,601
Gain on disposal of AFS investments	<u>36,955</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>36,955</u>

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

Revenue from major products and services

The Group's revenue is arising from investment in securities, trading, money lending and securities brokerage businesses.

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC") and Hong Kong.

Information about the Group's revenue from external customers by geographical location of the customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets (<i>Note</i>)	
	Year ended 31 December		As at 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The PRC	61,879	202,241	3,727	3,894
Hong Kong	184,433	37,225	165,194	9,782
South America	24,394	—	—	—
	<u>270,706</u>	<u>239,466</u>	<u>168,921</u>	<u>13,676</u>

Note: Non-current assets excluded AFS investments and goodwill.

Information about major customers

Revenue from trading business customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	For the year ended 31 December	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	— ¹	84,567
Customer B	— ¹	63,112
Customer C	— ¹	34,807
Customer D	<u>27,417</u>	<u>—¹</u>

¹ No revenue generated from the customers during the year.

5. Other income

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank interest income	1,320	3,431
Commission income from trading	917	1,996
Gain on disposal of club debenture	–	891
Others	947	158
	<u>3,184</u>	<u>6,476</u>

6. Other (loss) gain

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Exchange (loss) gain, net	(47)	4,506
	<u>(47)</u>	<u>4,506</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net unrealised (loss) gain on financial assets at FVTPL	(152,083)	623,319
Net realised (loss) gain on sales of financial asset at FVTPL	(483,670)	42,282
	<u>(635,753)</u>	<u>665,601</u>

8. Finance costs

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on advances drawn on bill receivables discounted with full recourse	652	409
Interest on bank borrowings	561	–
Interest on notes payable (<i>Note 19</i>)	5,522	–
	<u>6,735</u>	<u>409</u>

9. Gain on disposal of subsidiaries

For the year ended 31 December 2015

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

10. Income tax (credit) expense

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Tax (credit) charge comprises:		
Current tax		
– Hong Kong Profits Tax	12,600	10,159
Overprovision in prior years		
– Hong Kong Profits Tax	<u>(132)</u>	<u>(620)</u>
	12,468	9,539
Deferred tax (<i>Note</i>)	<u>(93,738)</u>	<u>99,000</u>
Income tax (credit) expense recognised in profit or loss	<u><u>(81,270)</u></u>	<u><u>108,539</u></u>

Note: Deferred tax arising from the temporary difference related to net unrealised gain on financial assets at FVTPL. The reversal of deferred taxation arising from the disposal of or reduction of fair value of the financial assets at FVTPL with net unrealised gain recorded in prior years.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both years.

11. (Loss) profit for the year

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Staff costs		
– directors' emoluments	20,885	20,612
– other staff salaries, wages and other benefits	12,704	9,565
– retirement benefit schemes contributions, excluding directors	<u>644</u>	<u>588</u>
Total staff costs	<u>34,233</u>	<u>30,765</u>
Auditor's remuneration	1,481	1,418
Amortisation of prepaid lease payments	99	99
Depreciation of property, plant and equipment	1,752	594
Cost of inventories recognised as expense	<u>81,054</u>	<u>205,874</u>

12. Dividends

No dividend was paid or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting periods.

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:

	2016 <i>HK\$'000</i>	2015 <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>(436,870)</u>	<u>584,148</u>
	2016 <i>'000</i>	2015 <i>'000</i>

Number of shares:

Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share (<i>Note</i>)	<u>16,987,714</u>	<u>11,628,019</u>
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Note: The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2015 had been adjusted for the effect of the right issue completed in August 2015.

Diluted (loss) earnings per share for the years ended 31 December 2016 and 2015 are not presented as there were no dilutive potential ordinary shares in issue during both years.

14. Available-for-sale investments

AFS investments comprise:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at fair value:		
– Debt securities	827,250	775,320
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	56,485	71,500
– Debt securities listed overseas	39,182	–
	922,917	846,820

At the end of the reporting period, AFS investments are stated at fair values. The fair values of unlisted debt securities were determined based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities/quoted market price in the over-the-counter market, whereas the fair values of listed equity securities and listed debt securities were determined based on the quoted market closing prices.

As at 31 December 2016, debt securities of HK\$86,432,000 (2015: nil) have been pledged as security.

15. Loan receivables

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed-rate loan receivables	754,212	480,099
Analysed as:		
Current portion	619,212	480,099
Non-current portion	135,000	–
	754,212	480,099

16. Trade and other receivables

	2016 HK\$'000	2015 HK\$'000
Trade receivables	22,586	3,028
Bill receivables	–	387
Bill receivables discounted with full recourse	21,893	101,121
Interest receivables	35,308	150
Other receivables	14,903	10,247
	<u>94,690</u>	<u>114,933</u>

The Group normally allows credit period for trade customers ranging from 30 days to 180 days (2015: 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:

	2016 HK\$'000	2015 HK\$'000
0 – 90 days	43,871	48,020
91 – 180 days	–	54,575
Over 180 days	608	1,941
	<u>44,479</u>	<u>104,536</u>

17. Financial assets at fair value through profit or loss

	2016 HK\$'000	2015 HK\$'000
Unlisted investments, at fair value:		
– Debt securities (<i>Note (i)</i>)	9,733	20,000
– Convertible securities (<i>Note (ii)</i>)	69,334	–
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (iii)</i>)	665,340	1,693,832
	<u>744,407</u>	<u>1,713,832</u>

Notes:

- (i) The fair value of the 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 the listed bonds with similar rating.
- (iii) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

As at 31 December 2016 and 2015, no financial assets at FVTPL have been pledged as security.

18. Trade and other payables

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	27,883	–
Accrued charges and other payables	21,651	9,383
Interest payables	4,603	–
	<u>54,137</u>	<u>9,383</u>

Include in trade and other payables are trade payables of HK\$27,883,000 (2015: nil). The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 90 days	<u>27,883</u>	<u>–</u>

The average credit period is within 30 days for both years.

19. Notes payable

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Issue of notes payable	1,470,000	–
Effective interest charged (<i>Note 8</i>)	5,522	–
Interest payable	(4,603)	–
At the end of the year	<u>1,470,919</u>	<u>–</u>
Repayable as follows:		
In the second year	<u>1,470,919</u>	<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% per annum and 8% per annum for the first year and the second year respectively. The effective interest rate of the notes is 8.57% per annum.

20. Share capital

	Number of shares '000	Share capital HK\$'000
Issued and fully paid:		
At 1 January 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)
	<hr/>	<hr/>
At 31 December 2015 and 31 December 2016	16,987,714	3,012,877
	<hr/> <hr/>	<hr/> <hr/>

Notes:

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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

BUSINESS REVIEW

For the year ended 31 December 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 year under review, the Group's revenue increased by 13% to HK\$270,706,000 (2015: HK\$239,466,000) and the Group's gross profit increased by 4.6 times to HK\$189,652,000 (2015: HK\$33,592,000). The increases in the Group's revenue and gross profit were mainly due to the increase in interest income generated by the Group's money lending business and debt securities investments.

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 31 December 2016, the Group's investment in securities operation held a securities investments portfolio valued at HK\$744,407,000 (2015: HK\$1,713,832,000), comprising listed equity securities in Hong Kong and unlisted convertible and debt securities, and a long-term available-for-sale investments portfolio valued at HK\$922,917,000 (2015: HK\$846,820,000), comprising unlisted and listed debt securities and listed equity securities in Hong Kong. As a whole, the operation recorded a revenue of HK\$89,844,000 (2015: HK\$14,768,000) and a loss of HK\$549,495,000 (2015: profit of HK\$720,121,000).

Financial assets at fair value through profit or loss (“FVTPL”)

At 31 December 2016, the Group held a securities investments portfolio comprising financial assets at FVTPL amounting to HK\$744,407,000 (2015: HK\$1,713,832,000) which was measured at market/fair value. During the year under review, the Group’s financial assets at FVTPL portfolio generated a revenue of HK\$15,762,000 (2015: HK\$8,395,000) representing dividends from equity securities of HK\$13,015,000 (2015: HK\$8,395,000) and interest income from unlisted convertible and debt securities of HK\$2,747,000 (2015: nil). The Group recognised a net loss on financial assets at FVTPL of HK\$635,753,000, which comprised net unrealised loss and net realised loss of HK\$152,083,000 and HK\$483,670,000 respectively (2015: net gain on financial assets at FVTPL of HK\$665,601,000, which comprised net unrealised gain and net realised gain of HK\$623,319,000 and HK\$42,282,000 respectively). Such substantial loss from investments in financial assets at FVTPL was due primarily to the reversal of unrealised gains recognised for certain securities during the year ended 31 December 2015 and the volatile Hong Kong stock market conditions during the year.

At 31 December 2016, the Group invested in different category of companies and their weightings to the market/fair value of the Group’s financial assets at FVTPL portfolio of HK\$744,407,000 were as below:

<u>Category of companies</u>	Approximate weighting to the market/fair value of the Group’s financial assets at FVTPL portfolio
	%
Banking company	1.47
Conglomerate company	20.37
Entertainment and media company	28.24
Healthcare services company	5.45
Industrial materials company	2.38
Infrastructure company	19.00
Mining and resources company	4.68
Property company	5.40
Others	13.01
	<hr/>
	100.00
	<hr/> <hr/>

At 31 December 2016, the weightings of the Group's top five investments to the market/fair value of the Group's financial assets of FVTPL portfolio of HK\$744,407,000 (together with other information) were as below:

Company name	Approximate weighting to the market/fair value of the Group's financial assets at FVTPL portfolio	% of shareholding interest	Acquisition cost	*Acquisition cost during the year/carrying amount as at 1 January 2016	Market/fair value as at 31 December 2016	Accumulated unrealised gain (loss) recognised up to 31 December 2016	Unrealised gain (loss) recognised during the year ended 31 December 2016
	%	%	HK\$'000 A	HK\$'000 B	HK\$'000 C	HK\$'000 D = C - A	HK\$'000 E = C - B
Evergrande Health Industry Group Limited (stock code: 708)	24.80	1.45	99,533	291,392	184,632	85,099	(106,760)
The Cross-Harbour (Holdings) Limited (stock code: 32)	19.00	3.39	77,377	130,816	141,422	64,045	10,606
Master Glory Group Limited (stock code: 275)	13.37	4.89	100,800	83,720	99,540	(1,260)	15,820
China Ruifeng Renewable Energy Holdings Limited (stock code: 527)	9.31	-	49,400	49,400	69,334	19,934	19,934
Dragonite International Limited (stock code: 329)	5.45	2.26	5,280	24,000	40,560	35,280	16,560
Others	28.07	-	377,621	317,162	208,919	(168,702)	(108,243)
	<u>100.00</u>		<u>710,011</u>	<u>896,490</u>	<u>744,407</u>	<u>34,396</u>	<u>(152,083)</u>

* The amount represented the acquisition cost for the securities during the year ended 31 December 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 financial year.

Available-for-sale (“AFS”) investments

At 31 December 2016, the Group's long-term AFS investments portfolio of HK\$922,917,000 (2015: HK\$846,820,000) was measured at market/fair value. During the year under review, the Group's long-term AFS investments portfolio generated total revenue amounting to HK\$74,082,000 (2015: HK\$6,373,000) representing dividends from equity securities of HK\$2,131,000 (2015: HK\$6,373,000) and interest income from listed and unlisted debt securities of HK\$71,951,000 (2015: nil).

During the year under review, the Group invested approximately HK\$156,000,000 to subscribe at par bonds in the aggregate principal amount of US\$20,000,000 issued by a blue-chip international bank listed on the Stock Exchange and subsequently divested part of such debt securities in the aggregate principal amount of approximately HK\$117,000,000 (equivalent to US\$15,000,000) with cumulative gain of approximately HK\$4,212,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. During the year under review, the investment generated an interest income of approximately HK\$1,365,000 (2015: nil).

During the year under review, the Group also invested HK\$50,000,000 to subscribe at par bonds issued by an insurance company listed on the Stock Exchange. At the year end, a fair value loss on the investment amounting to HK\$2,750,000 (2015: nil) was recognised as other comprehensive expense. During the year, the investment generated an interest income of approximately HK\$386,000 (2015: nil).

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 (now known as China Evergrande Group), 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 year end, a fair value gain on the investment amounting to HK\$4,680,000 (2015: HK\$3,120,000) was recognised as other comprehensive income mainly due to the change in risk factors when conducting valuation on the perpetual securities. During the year, the investment generated an interest income of approximately HK\$70,200,000 (2015: nil).

In December 2014, the Group invested in H shares of Shengjing Bank Co., Ltd., a commercial bank established in the PRC whose shares are listed on the Stock Exchange. During the year ended 31 December 2015, the Group disposed part of such investment with cumulative gain of HK\$36,955,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. At the year end, a fair value loss on the investment amounting to HK\$15,015,000 (2015: gain of HK\$53,169,000) was recognised as other comprehensive expenses to reflect the decline in market value of the shares. During the year, a dividend of approximately HK\$2,131,000 (2015: HK\$6,373,000) was earned from the investment.

Accordingly, at 31 December 2016, the Group invested in bonds of a banking company and an insurance company, equity shares of a banking company and perpetual securities of a property company as long-term AFS investments and their respective weighting to the market/fair value of the Group's AFS investments portfolio of HK\$922,917,000 (2015: HK\$846,820,000) (together with other information) were as below:

Category of companies	Approximate	% of	Acquisition	* Acquisition	Market/fair	Accumulated	Fair value
	weighting to			cost during		value as at 31	gain (loss)
	the market/ fair value of the Group's AFS	shareholding	cost	the year/ carrying	value as at 31	recognised up	recognised
	investments	interest	cost	amount as at	December	to 31	during the
	portfolio			1 January	2016	December	year ended 31
				2016	2016	2016	December
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	2016
			A	B	C	D = C - A	E = C - B
Banking company							
– debt securities	4.25	–	39,000	39,000	39,182	182	182
– equity securities	6.12	0.46	54,599	71,500	56,485	1,886	(15,015)
Insurance company							
– debt securities	5.12	–	50,000	50,000	47,250	(2,750)	(2,750)
Property company							
– debt securities	84.51	–	772,200	775,320	780,000	7,800	4,680
	<u>100.00</u>		<u>915,799</u>	<u>935,820</u>	<u>922,917</u>	<u>7,118</u>	<u>(12,903)</u>

* The amount represented the acquisition cost for the securities during the year ended 31 December 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 financial year.

Trading

During the year 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 prior year, the operation recorded a 59% drop in revenue to HK\$86,273,000 (2015: HK\$209,256,000) and a 45% decrease in profit to HK\$1,534,000 (2015: HK\$2,777,000). 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 year, which was in turn due to the increased competition among suppliers and the sluggish demand from customers based in Mainland China resulting from the slowdown of the economy.

Money Lending

The money lending operation showed a significant growth in revenue by about 4.8 times to HK\$89,533,000 (2015: HK\$15,442,000), such increase was mainly due to the higher average amount of loans advanced to customers during the year when compared to the previous year. The loans portfolio held by the Group amounted to HK\$754,212,000 at the year end (2015: HK\$480,099,000). During the year under review, there was no impairment loss recognised against the loan receivables.

At 31 December 2016, the Group had made loans to individual and corporate clients with details as follows:

Category of borrowers	Approximate weighting to the value of the Group's loan portfolio	Interest rate per annum	Maturity
	%	%	
Individual	15.45	15-24	Within one year
Individual	17.92	9.5-13.5	Over one year but within two years
Corporate	66.63	8-18	Within one year
	100.00		

Securities Brokerage

In February 2016, the Group successfully acquired the entire issued share capital of a securities brokerage company for a cash consideration of approximately HK\$18,312,000. The securities brokerage company is licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activity. The acquisition of the securities brokerage company 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 year under review, the securities brokerage business contributed revenue and profit of HK\$5,056,000 and HK\$3,417,000 respectively.

Overall Results

For the year ended 31 December 2016, the Group recorded loss attributable to owners of the Company of HK\$436,870,000 (2015: profit attributable to owners of the Company of HK\$584,148,000) and basic loss per share of HK2.57 cents (2015: basic earnings per share of HK5.02 cents). The Group also recorded total comprehensive expense attributable to owners of the Company of HK\$449,773,000 (2015: total comprehensive income attributable to owners of the Company of HK\$603,482,000). The loss results recorded by the Group were mainly attributed to the substantial loss recognised by the Group's securities investment operation of HK\$549,495,000 (2015: profit of HK\$720,121,000) despite there was a significant increase in profit generated by the Group's money lending business amounting to HK\$87,971,000 (2015: HK\$14,436,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2016, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK\$3,467,359,000 (2015: HK\$2,733,255,000) and liquid assets comprising bank balances and cash as well as financial assets (comprising mainly listed equity securities, unlisted convertible and debt securities) totalling HK\$2,703,268,000 (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\$171,051,000 (2015: HK\$222,751,000), was at a very strong ratio of about 20.3 (31 December 2015: 12.3). At 31 December 2016, the Group's trade and other receivables amounted to HK\$94,690,000 (2015: HK\$114,933,000), which mainly comprised trade and bill receivables arising from the Group's trading activities, interest receivables from the Group's securities investments and unrestricted deposits placed with securities brokers for securities trading activities. The Group also had deferred tax liabilities amounted to HK\$5,262,000 (2015: HK\$99,000,000) which was related to the net unrealised gain on financial assets valued at market/fair value at the year end.

At 31 December 2016, the equity attributable to owners of the Company amounted to HK\$2,921,227,000 (2015: HK\$3,371,000,000) and was equivalent to an attributable amount of approximately HK17.20 cents (31 December 2015: HK19.84 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 year.

At 31 December 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. 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 year and the second year respectively. The Group's gearing ratio, calculated on the basis of total liabilities of HK\$1,641,970,000 (2015: HK\$222,751,000) divided by the equity attributable to owners of the Company of HK\$2,921,227,000 (2015: HK\$3,371,000,000), was of about 56.2% (2015: 6.6%). The increase in the Group's gearing ratio was mainly due to the issuance of the 2-year interest bearing notes. The finance costs for the year amounted to HK\$6,735,000 (2015: HK\$409,000), representing interests on notes payable, 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 was challenging throughout 2016 and 2017 is likely to be full of uncertainties. The market concerns of the slowdown of the China economy, the instabilities in the European economy followed by the United Kingdom's referendum on Brexit and the pace of interest rate increase in the United States have not helped the outlook of the global financial and investment markets. The stock market was volatile in 2016 and management has taken a more cautious approach in managing the Group's securities investments portfolio. As for the money lending business, the Group will continue to develop this business under prudent credit management and believe that this business will continue to contribute a stable and favorable income stream 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 its financial performance. Following completion of the acquisition of a securities brokerage company in February 2016, the Group has taken a 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 financial services with the view that 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 of the Listing Rules for the year ended 31 December 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 year ended 31 December 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 audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company and have been duly approved by the Board under the recommendation of the Audit Committee.

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

During the year ended 31 December 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, 23 March 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.