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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 2017

The Board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred as the “Group”) for the year ended 31 December 2017 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	3	1,337,246	270,706
Purchases and related expenses		(1,040,580)	(85,076)
Other income	5	8,582	3,184
Other gain (loss)	6	643	(47)
Staff costs		(38,876)	(34,233)
Other expenses		(28,064)	(34,398)
Net gain (loss) on financial assets at fair value through profit or loss	7	65,345	(635,753)
Gain on disposal of available-for-sale investments		979	4,212
Gain on redemption of available-for-sale investments		7,800	–
Finance costs	8	(134,890)	(6,735)
Profit (loss) before tax		178,185	(518,140)
Income tax (expense) credit	9	(51,992)	81,270
Profit (loss) for the year attributable to owners of the Company	10	126,193	(436,870)

	<i>Note</i>	2017 HK\$'000	2016 HK\$'000
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		33,516	(8,691)
Released on disposal of available-for-sale investments		(979)	(4,212)
Released on redemption of available-for-sale investments		(7,800)	–
		<u>24,737</u>	<u>(12,903)</u>
Other comprehensive income (expense) for the year			
		<u>24,737</u>	<u>(12,903)</u>
Total comprehensive income (expense) for the year attributable to owners of the Company		<u>150,930</u>	<u>(449,773)</u>
Earnings (loss) per share attributable to owners of the Company			
– Basic	<i>12</i>	<u>HK0.74 cent</u>	<u>HK(2.57) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		26,236	29,324
Prepaid lease payments		2,570	2,669
Goodwill		4,000	4,000
Club debentures		1,928	1,928
Available-for-sale investments	<i>13</i>	1,261,130	922,917
Loan receivables	<i>14</i>	10,804	135,000
		<hr/>	<hr/>
Total non-current assets		1,306,668	1,095,838
Current assets			
Inventories		6,641	19,559
Prepaid lease payments		99	99
Available-for-sale investments	<i>13</i>	62,250	–
Loan receivables	<i>14</i>	2,047,196	619,212
Trade and other receivables	<i>15</i>	56,632	94,690
Income tax recoverable		2,587	–
Financial assets at fair value through profit or loss	<i>16</i>	1,270,302	744,407
Pledged bank deposits		30,821	30,531
Bank balances and cash		457,699	1,958,861
		<hr/>	<hr/>
Total current assets		3,934,227	3,467,359
Current liabilities			
Trade and other payables	<i>17</i>	191,711	54,137
Income tax payable		19,250	23,575
Deferred tax liabilities		34,853	5,262
Bank borrowings	<i>18</i>	430,756	88,077
Notes payable	<i>19</i>	1,492,168	–
		<hr/>	<hr/>
Total current liabilities		2,168,738	171,051
Net current assets		<hr/> 1,765,489	<hr/> 3,296,308
Total assets less current liabilities		<hr/> 3,072,157	<hr/> 4,392,146
Non-current liability			
Notes payable	<i>19</i>	–	1,470,919
		<hr/>	<hr/>
Net assets		<hr/> 3,072,157	<hr/> 2,921,227
Capital and reserves			
Share capital		3,012,877	3,012,877
Reserves		59,280	(91,650)
		<hr/>	<hr/>
Total equity		<hr/> 3,072,157	<hr/> 2,921,227

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 2017 and 2016 included in this preliminary final results announcement for the year ended 31 December 2017 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 2016 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 2017 in due course.

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

2. Application of new and revised HKFRSs

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

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

Except for the amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both cash and non-cash changes, 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 on the disclosures set out in the consolidated financial statements.

3. Revenue

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trading of metal minerals, metal and coke products	1,020,044	85,288
Sales of electronic components	30,362	985
Dividend income from securities and available-for-sale ("AFS") investments	14,349	15,146
Interest income from securities and AFS investments	73,761	74,698
Interest income from money lending business	181,052	86,548
Arrangement fee income from money lending business	8,503	2,985
Commission and handling income from securities brokerage business	6,308	3,245
Underwriting fee income from securities brokerage business	2,867	1,811
	<u>1,337,246</u>	<u>270,706</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 represented by the Board of the Company, 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.

For the year ended 31 December 2017

	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/sources	<u>88,110</u>	<u>1,050,406</u>	<u>189,555</u>	<u>9,175</u>	<u>1,337,246</u>
Results					
Segment results	<u>165,454</u>	<u>9,965</u>	<u>186,184</u>	<u>6,885</u>	368,488
Other income					1,866
Other loss					(79)
Central administrative expenses					(57,200)
Finance costs					<u>(134,890)</u>
Profit before tax					178,185
Income tax expense					<u>(51,992)</u>
Profit for the year					<u>126,193</u>
Other segment information					
Amortisation of prepaid lease payments	99	-	-	-	99
Depreciation of property, plant and equipment	1,471	89	1,656	61	3,277
Net gain on financial assets at fair value through profit or loss ("FVTPL")	65,345	-	-	-	65,345
Gain on disposal of AFS investments	979	-	-	-	979
Gain on redemption of AFS investments	<u>7,800</u>	-	-	-	<u>7,800</u>

For the year ended 31 December 2016

	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/sources	<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><u>(436,870)</u></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 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>

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

Geographical information

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

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	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong	917,186	184,433	27,174	30,194
The PRC	229,383	61,879	3,560	3,727
South America	69,714	24,394	–	–
Europe	120,963	–	–	–
	<u>1,337,246</u>	<u>270,706</u>	<u>30,734</u>	<u>33,921</u>

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

Information about major customers

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

	For the year ended 31 December	
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	139,290	27,417
Customer B	543,524	– ¹

¹ No revenue generated from the customer in the prior year.

5. Other income

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank interest income	4,026	1,320
Commission income from trading	–	917
Commission income from investment in securities	4,368	–
Others	188	947
	<u>8,582</u>	<u>3,184</u>

6. Other gain (loss)

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Exchange gain (loss), net	643	(47)
	<u>643</u>	<u>(47)</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Net unrealised gain (loss) on financial assets at FVTPL	170,317	(152,083)
Net realised loss on sales of financial assets at FVTPL	(104,972)	(483,670)
	<u>65,345</u>	<u>(635,753)</u>

8. Finance costs

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on advances drawn on bill receivables discounted with full recourse	1,137	652
Interest on bank borrowings	6,847	561
Interest on notes payable (<i>Note 19</i>)	126,906	5,522
	<u>134,890</u>	<u>6,735</u>

9. Income tax expense (credit)

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Tax charge (credit) comprises:		
Current tax		
– Hong Kong Profits Tax	22,055	12,600
Under(over)provision in prior years		
– Hong Kong Profits Tax	<u>346</u>	<u>(132)</u>
	22,401	12,468
Deferred tax (<i>Note</i>)	<u>29,591</u>	<u>(93,738)</u>
Income tax expense (credit) recognised in profit or loss	<u><u>51,992</u></u>	<u><u>(81,270)</u></u>

Note: Deferred tax arising from the temporary difference related to net unrealised gain on financial assets at FVTPL and AFS investments.

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

10. Profit (loss) for the year

Profit (loss) for the year has been arrived at after charging the following items:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Staff costs		
– directors' emoluments	22,328	20,885
– other staff salaries, wages and other benefits	15,853	12,704
– retirement benefit scheme contributions, excluding directors	<u>695</u>	<u>644</u>
Total staff costs	<u>38,876</u>	<u>34,233</u>
Auditor's remuneration	1,659	1,481
Amortisation of prepaid lease payments	99	99
Depreciation of property, plant and equipment	3,277	1,752
Cost of inventories recognised as expenses	<u>1,014,786</u>	<u>81,054</u>

11. Dividends

No dividend was paid or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

12. Earnings (loss) per share

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings (loss):		
Profit (loss) for the year attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	<u>126,193</u>	<u>(436,870)</u>
	2017 '000	2016 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	<u>16,987,714</u>	<u>16,987,714</u>

Diluted earnings (loss) per share for the years ended 31 December 2017 and 2016 are not presented as there were no dilutive potential ordinary shares in issue during both years.

13. Available-for-sale investments

AFS investments comprise:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Unlisted investments, at fair value:		
– Debt securities	–	827,250
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	44,259	56,485
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.9% to 9.5% (2016: 3.9%) per annum and maturity dates ranging from 12 June 2018 to 23 January 2027 (2016: 25 May 2026)	<u>1,279,121</u>	<u>39,182</u>
	<u>1,323,380</u>	<u>922,917</u>
Analysed as:		
Current portion	62,250	–
Non-current portion	<u>1,261,130</u>	<u>922,917</u>
	<u>1,323,380</u>	<u>922,917</u>

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

As at 31 December 2017, debt securities of approximately HK\$744,281,000 (2016: HK\$86,432,000) were pledged as security for credit facility granted to the Group.

14. Loan receivables

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Fixed-rate loan receivables	<u>2,058,000</u>	<u>754,212</u>
Analysed as:		
Current portion	<u>2,047,196</u>	619,212
Non-current portion	<u>10,804</u>	<u>135,000</u>
	<u>2,058,000</u>	<u>754,212</u>
Analysed as:		
Secured	<u>1,930,743</u>	702,125
Unsecured	<u>127,257</u>	<u>52,087</u>
	<u>2,058,000</u>	<u>754,212</u>

As at 31 December 2017, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 24% (2016: 8% to 24%) per annum and from 19 January 2018 to 27 October 2020 (2016: 24 February 2017 to 25 January 2018) respectively. Loan receivables were neither past due nor impaired at the end of the reporting period.

15. Trade and other receivables

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables of securities brokerage business:		
– Cash clients	16,942	168
– Hong Kong Securities Clearing Company Limited (“HKSCC”)	–	21,810
Trade receivables of trading business	2,016	608
Bill receivables discounted with full recourse (<i>Note 18</i>)	–	21,893
Interest receivables	24,295	35,308
Other receivables	<u>13,379</u>	<u>14,903</u>
	<u>56,632</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 approximately HK\$16,942,000 (2016: HK\$168,000) were 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 to 180 days (2016: 30 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:

	2017	2016
	HK\$'000	HK\$'000
0 – 180 days	2,016	21,893
Over 180 days	–	608
	<u>2,016</u>	<u>22,501</u>

16. Financial assets at fair value through profit or loss

	2017	2016
	HK\$'000	HK\$'000
Unlisted investments, at fair value:		
– Debt securities (<i>Note (i)</i>)	–	9,733
– Convertible securities with fixed interests ranging from 8% to 10% (2016: 8%) per annum and maturity dates ranging from 26 October 2018 to 15 June 2019 (2016: 15 December 2017) (<i>Note (ii)</i>)	224,751	69,334
Listed investments, at fair value:		
– Equity securities listed in Hong Kong (<i>Note (iii)</i>)	<u>1,045,551</u>	<u>665,340</u>
	<u>1,270,302</u>	<u>744,407</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 values of unlisted convertible securities were determined based on the binomial option pricing model with some key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to 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 2017, equity securities of approximately HK\$19,349,000 (2016: nil) were pledged as security for credit facility granted to the Group.

17. Trade and other payables

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables of securities brokerage business:		
– Cash clients	155,801	24,033
– HKSCC	5,799	–
Trade payables of trading business	9,277	3,898
Accrued charges and other payables	15,315	21,603
Interest payables	5,519	4,603
	<u>191,711</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 – 180 days	4,640	3,898
Over 180 days	4,637	–
	<u>9,277</u>	<u>3,898</u>

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

18. Bank borrowings

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Advances drawn on bill receivables discounted with full recourse (<i>Note (i)</i>)	–	21,893
Short-term secured bank borrowings (<i>Note (ii)</i>)	430,756	66,184
	<u>430,756</u>	<u>88,077</u>

Notes:

- (i) The amount represented the Group's borrowings secured by the bill receivables discounted to bank with full recourse (*Note 15*), and the amount was repayable within one year.
- (ii) The amount carried interest at London Interbank Offered Rate ("LIBOR") + 0.8% per annum and was repayable within one year. The loan agreement of secured bank borrowings contains a repayment on demand clause.

19. Notes payable

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At the beginning of the year	1,470,919	–
Issue of notes payable	–	1,470,000
Effective interest charged (<i>Note 8</i>)	126,906	5,522
Interest paid/payable	<u>(105,657)</u>	<u>(4,603)</u>
At the end of the year	<u>1,492,168</u>	<u>1,470,919</u>
Analysed as:		
Current portion	1,492,168	–
Non-current portion	<u>–</u>	<u>1,470,919</u>
	<u>1,492,168</u>	<u>1,470,919</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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil) and intends to retain the profit earned for future business development of the Group.

BUSINESS REVIEW

For the year ended 31 December 2017, the Group continued to principally engage in the business of investment in securities, trading of metal minerals, metal, coke products and electronic components, money lending as well as securities brokerage.

For the year under review, the Group's revenue increased significantly by over 3.9 times to HK\$1,337,246,000 (2016: HK\$270,706,000) that was largely 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, and sometimes directly from target companies. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business 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 2017, the Group's investment in securities operation held a financial asset at fair value through profit or loss ("FVTPL") portfolio valued at HK\$1,270,302,000 (2016: HK\$744,407,000), comprising equity securities listed in Hong Kong and unlisted convertible securities, and an available-for-sale ("AFS") investment portfolio (constituted by non-current and current portions) valued at HK\$1,323,380,000 (2016: HK\$922,917,000), comprising listed debt securities in Hong Kong or overseas and equity securities listed in Hong Kong. As a whole, the operation recorded a revenue of HK\$88,110,000 (2016: HK\$89,844,000) and a gain of HK\$165,454,000 (2016: loss of HK\$549,495,000).

Financial assets at FVTPL

At 31 December 2017, the Group held a financial asset at FVTPL portfolio amounting to HK\$1,270,302,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK\$20,355,000 (2016: HK\$15,762,000) representing dividends from equity securities of HK\$12,531,000 (2016: HK\$13,015,000) and interest income from convertible and debt securities of HK\$7,824,000 (2016: HK\$2,747,000). The Group recognised a net gain on financial assets at FVTPL of HK\$65,345,000, which comprised net unrealised gain and net realised loss of HK\$170,317,000 and HK\$104,972,000 respectively (2016: 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). The unrealised gain earned by the financial asset at FVTPL portfolio was largely due to the general upturn and strong momentum in financial market in Hong Kong during the second half of 2017.

At 31 December 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\$1,270,302,000 are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %
Banking	1.16
Conglomerate	63.42
Entertainment and media	1.71
Infrastructure	12.82
Jewelry, pharmaceutical and health food products retailing	6.17
Property	9.74
Others	4.98
	<hr/>
	100.00

At 31 December 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\$1,270,302,000 (together with other information) are as below:

Company name	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	% of shareholding interest %	Acquisition costs HK\$'000	*Acquisition costs during the year/ carrying amount as at 1 January 2017 HK\$'000	Market/ fair value as at 31 December 2017 HK\$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2017 HK\$'000	Unrealised gain (loss) recognised during the year ended 31 December 2017 HK\$'000
				A	B	C	D = C - A
<i>Equity securities</i>							
Evergrande Health Industry Group Limited (stock code: 708)	30.55	1.45	99,533	184,632	388,104	288,571	203,472
The Cross-Harbour (Holdings) Limited (stock code: 32)	12.82	3.39	77,377	141,422	162,888	85,511	21,466
Get Nice Holdings Limited (stock code: 64)	7.09	3.10	78,000	78,000	90,000	12,000	12,000
Emperor International Holdings Limited (stock code: 163)	6.79	0.89	77,630	77,940	86,203	8,573	8,263
<i>Convertible securities</i>							
Huajun Holdings Limited (stock code: 377)	13.73	-	175,000	175,000	174,418	(582)	(582)
<i>Others</i>	29.02	-	593,731	442,991	368,689	(225,042)	(74,302)
	<u>100.00</u>		<u>1,101,271</u>	<u>1,099,985</u>	<u>1,270,302</u>	<u>169,031</u>	<u>170,317</u>

* The amount represented the costs of the securities acquired during the year ended 31 December 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 financial year.

AFS investments

At 31 December 2017, the Group's AFS investment portfolio (constituted by non-current and current portions) of HK\$1,323,380,000 was measured at market/fair value. During the year under review, the Group's AFS investment portfolio generated total revenue amounting to HK\$67,755,000 (2016: HK\$74,082,000) representing dividends from equity securities of HK\$1,818,000 (2016: HK\$2,131,000) and interest income from debt securities of HK\$65,937,000 (2016: HK\$71,951,000). According to the maturity of the AFS investments, part of the AFS investment portfolio of HK\$62,250,000 was classified as current assets.

During the year under review, the Group invested approximately HK\$1,256,299,000 for acquiring debt securities issued by various aircraft leasing company, banking company and property company listed on the Stock Exchange. The Group had increased its investments in debt securities during the year which offer more stable returns. In appropriate circumstances, the Group may also gear up its debt securities investments with bank borrowings in order to enhance their yields.

At the year end, a net fair value gain on the AFS investment portfolio amounting to HK\$33,516,000 was recognised as other comprehensive income (2016: loss of HK\$8,691,000).

During the year under review, the Group disposed of debt securities amounting to HK\$109,352,000 and debt securities of HK\$780,000,000 were redeemed by an issuer. A gain on disposal and on redemption totalling HK\$8,779,000 was released from the Group's investment revaluation reserve and reclassified as profit in the current year (2016: HK\$4,212,000).

At 31 December 2017, the Group invested in debt and equity securities of various aircraft leasing company, banking company and property company and their respective weightings to the market/fair value of the Group's AFS investment portfolio of HK\$1,323,380,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's AFS investments portfolio %	% of shareholding interest %	Yield to maturity on acquisition date %	Acquisition costs HK\$'000	* Acquisition costs during the year/ carrying amount as at 1 January 2017 HK\$'000	Market/fair value as at 31 December 2017 HK\$'000	Accumulated fair value gain (loss) recognised up to 31 December 2017 HK\$'000	Fair value gain (loss) recognised during the year ended 31 December 2017 HK\$'000
				A	B	C	D = C - A	E = C - B
Aircraft leasing								
– debt securities	10.93	–	5.09	148,348	148,348	144,692	(3,656)	(3,656)
Banking								
– debt securities	12.19	–	3.73 - 3.91	156,999	156,999	161,312	4,313	4,313
– equity securities	3.35	0.46	N/A	54,599	56,485	44,259	(10,340)	(12,226)
Property								
– debt securities	73.53	–	4.68 - 9.50	931,579	931,579	973,117	41,538	41,538
	<u>100.00</u>			<u>1,291,525</u>	<u>1,293,411</u>	<u>1,323,380</u>	<u>31,855</u>	<u>29,969</u>

* The amount represented the costs of the securities acquired during the year ended 31 December 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 financial year.

The yield to maturity on acquisition of debt securities which were held by the Group at the year end ranged from 3.73% to 9.50% per annum.

Trading

The Group's trading business is mainly conducted through China Strategic Metal and Minerals Limited, a wholly owned subsidiary of the Company. During the year under review, 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 remarkable growth in revenue by over 11.1 times to HK\$1,050,406,000 (2016: HK\$86,273,000), and a significant increase in profit of over 5.4 times to HK\$9,965,000 (2016: HK\$1,534,000) compared to the previous year. The significant increases in revenue and profit of the operation were principally due to the increase in volume of metal minerals and coke products transacted during the year, which was in turn resulting from the improvement of sentiments and positive 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 business is conducted through CS Credit Limited and U Credit (HK) Limited, both are wholly owned subsidiaries of the Company. The operation continued to record encouraging results by posting a significant growth in revenue of 112% to HK\$189,555,000 (2016: HK\$89,533,000), and an increase in profit of 112% to HK\$186,184,000 (2016: HK\$87,971,000) over last year. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the current year and the management's effort in enlarging the operation's clientele base. During the year under review, 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\$2,058,000,000 at the year end (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	48.25	9.50 – 24.00	Within one year
Corporate	51.23	10.00 – 18.00	Within one year
Corporate	0.52	3.00	Over one year but within three years
	<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 the 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 CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the year under review, the securities brokerage business achieved a strong increase in revenue of 81% to HK\$9,175,000 (2016: HK\$5,056,000) and increase in profit of 101% to HK\$6,885,000 (2016: HK\$3,417,000). The encouraging results registered by the operation are largely due to the management's effort in promoting its business and expanding its business scope to participation of corporate share placing and underwriting exercises.

Overall Results

For the year ended 31 December 2017, the Group recorded profit attributable to owners of the Company of HK\$126,193,000 (2016: loss attributable to owners of the Company of HK\$436,870,000) and basic earnings per share of HK0.74 cent (2016: loss per share of HK2.57 cents). The Group also recorded total comprehensive income attributable to owners of the Company of HK\$150,930,000 (2016: total comprehensive expense attributable to owners of the Company of HK\$449,773,000). The profitable results recorded by the Group were mainly due to the profit recognised by the Group's securities investment operation of HK\$165,454,000 (2016: loss of HK\$549,495,000) coupled with the significant increases in profit generated by the Group's money lending, trading and securities brokerage business amounting to HK\$186,184,000 (2016: HK\$87,971,000), HK\$9,965,000 (2016: HK\$1,534,000) and HK\$6,885,000 (2016: HK\$3,417,000) respectively.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2017, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, funds raised through issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK\$3,934,227,000 (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\$1,618,055,000 (2016: HK\$2,698,983,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$2,168,738,000 (2016: HK\$171,051,000), was at a ratio of about 1.8 (2016: 20.3). At 31 December 2017, the Group's trade and other receivables amounted to HK\$56,632,000 (2016: HK\$94,690,000) which mainly comprised trade receivables from cash clients of the securities brokerage business and interest receivables from the Group's securities investments. The Group also had deferred tax liabilities amounting to HK\$34,853,000 (2016: HK\$5,262,000) that was related to the net unrealised gain on financial assets at FVTPL and AFS investments valued at market/fair value at the year end.

At 31 December 2017, the equity attributable to owners of the Company amounted to HK\$3,072,157,000 (2016: HK\$2,921,227,000) and was equivalent to an attributable amount of approximately HK18.08 cents (31 December 2016: HK17.20 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK\$150,930,000 was mainly a result of the profit and gains recognised by the Group during the year.

At 31 December 2017, the Group's bank borrowings represented bank borrowings raised mainly for acquiring debt securities. The borrowings bore interests at floating rates, secured by certain debt and equity 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\$2,168,738,000 (2016: HK\$1,641,970,000) divided by the equity attributable to owners of the Company of HK\$3,072,157,000 (2016: HK\$2,921,227,000), was of about 71% (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 to HK\$134,890,000 (2016: HK\$6,735,000) were primarily a result of the interests incurred on the 2-year notes issued in December 2016 and the new bank borrowings raised during the year.

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 signs of stabilisation in 2017. There have been indications showing recovery in business confidence and investor sentiments in major economies, including China and the United States, and increase in international trade flows including commodities, particularly in the second half of 2017. The market uncertainties linked with 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 were lessened in recent months, nevertheless, the possible rise of trade protection sentiment in the United States and the potential changes in international capital flows caused by its tax reform have added new variables to outlook of global financial markets. The investment and stock markets in Hong Kong have been rather volatile recently, against this backdrop, the management will continue to adopt a cautious and disciplined approach in managing the Group's securities investment portfolio. The Group's money lending business has delivered very encouraging results for the current year. It is the management's intention 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 solid progress during the year and the management will continue its effort to explore new trade 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 to continue developing this business. Looking ahead, the Group will continue its business strategy of building an asset portfolio with good balance of recurring income streams and growth opportunities, to adopt measures to enhance operational efficiencies and financial performance of the Group, and to seize business opportunities with attractive returns aiming to create value to our shareholders.

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 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 year ended 31 December 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.

Nevertheless, the roles of the chairman and chief executive are separated following the step down of Dr. Or Ching Fai from his position as Chief Executive Officer and the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the Chief Executive Officer on 18 January 2018. The aforesaid deviation was rectified and Code Provision A.2.1 has been complied with commencing from 18 January 2018.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company and 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 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, 20 March 2018

As at the date of this announcement, the Board comprises four Executive Directors, namely Dr. Or Ching Fai (Chairman), Mr. Sue Ka Lok (Chief Executive Officer), 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.