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華人策略控股有限公司

Chinese Strategic Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 8089)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2019

References are made to the annual results announcement and annual report of Chinese Strategic Holdings Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) for the year ended 31 December 2019 published by the Company on 13 May 2020 and 14 May 2020 respectively (collectively, the “**2019 Annual Report**”). Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2019 Annual Report.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to provide certain additional information in relation to the 2019 Annual Report.

BASIS FOR DISCLAIMER OF OPINION

The auditor of the Company (the “**Auditor**”) issued a disclaimer of opinion (the “**Audit Modification(s)**”) on the 2019 Annual Report in relation to:

- (a) limitation of scope on prior year’s scope limitation affecting opening balances, comparative figures and related disclosures;
- (b) limitation of scope on share of results of joint venture; and
- (c) multiple fundamental uncertainties relating to going concern as the Auditor was unable to obtain adequate evidence concerning the Group’s ability to meet any financial obligations as and when they fall due.

Audit Modifications

(1) Limitations of scope on (a) prior year’s scope limitation affecting opening balances, comparative figures and related disclosures; and (b) share of results of joint venture in relation to Chinese Capital Union Financial Limited (“CCUF”)

Audit Modification (a) and Audit Modification (b) are both caused by inappropriate adoption of accounting standard on audited financial statements of CCUF for the year ended 31 December 2018 (the “**Incident of CCUF**”). Details of which were disclosed in the announcement of the Company dated 24 July 2019 (the “**Audit Modification Announcement**”).

As expressed by the Auditor in the 2019 Annual Report, Audit Modification (a) was due to lack of sufficient evidence as to whether the Group’s share of CCUF’s result for the year ended 31 December 2018 and thus the carrying amount of the interest in CCUF and the receivable due from and payable to CCUF included in the Group’s consolidated statement of financial position as at 31 December 2018 were fairly stated, and whether the summarised financial information of CCUF as shown in Note 22 to the consolidated financial statements of the Company for the year ended 31 December 2018 were properly disclosed.

The Auditor also expressed in the 2019 Annual Report that the Group has equity accounted for its interest in CCUF in the consolidated financial statements. There were no other satisfactory audit procedures that they could perform to determine whether any adjustments were necessary in respect of the interest in CCUF as at 1 January 2019 and the Group’s share of result of CCUF and the related disclosures for the year ended 31 December 2019.

The view of the Management, the Audit Committee and the Auditor and the actions to address the Audit Modifications

The management of the Company (the “**Management**”) regards that due to the Incident of CCUF, the opening balances, comparative figures and related disclosures of CCUF for the financial year 2019 are affected by the closing balances of the financial year 2018. In light of this, the Management understands that the Auditor could not determine whether any adjustments were necessary in respect of the interest in CCUF as at 1 January 2019 and the Group’s share of result of CCUF and the related disclosures for the year ended 31 December 2019.

The audit committee of the Company (the “**Audit Committee**”) concurs with the view of the Management and has discussed it with the Auditor. Since (i) the Company has implemented the measures as stated in the Audit Modification Announcement to ratify the Incident of CCUF in the financial year 2019; and (ii) appropriate accounting standard has been adopted for the financial statements of CCUF for the year ended 31 December 2019, after discussion with the Auditor, as long as appropriate accounting standard is adopted by CCUF and sufficient information is provided to and satisfied by the Auditor for audit purpose, the Management (including the Audit Committee) believes that the Audit Modification (a) and the Audit Modification (b) would be addressed in the coming financial year. However, the comparative figures and information disclosed for the corresponding period for the year ended 31 December 2019 in relation to share of results of joint ventures regarding CCUF will be qualified as it is not comparable to that of the coming year due to the limitation of scope. Based on the aforementioned, the Audit Modification (a) and Audit Modification (b) will be removed in the financial year 2021.

(2) Going concern

Reference is made to the Audit Modification Announcement in relation to, among other things, the proposed measures to be taken in the financial year 2019 (the “**2019 Planned Measures**”) to address the going concern issue of the Group. During the financial year ended 31 December 2019, the Company has actively implemented each of the 2019 Planned Measures as follows:

(a) To realise the Group’s investment properties to strengthen its cash position.

The Group has directly or indirectly disposed of four local properties with an aggregate amount of approximately HK\$15,938,002 for settlement of outstanding liabilities and general working capital of the Group.

References are also made to the announcements of the Company dated 30 August 2019 and 11 October 2019. On 30 August 2019, the Company and its creditor entered into a deed of settlement, pursuant to which the Company assigned all its right, title, benefit, interest and ownership over a property located in Island of Tinian to the creditor, and the creditor agreed to discontinue the legal action against the Company at a consideration of approximately HK\$3,557,000 plus the payment in cash of the sum of approximately HK\$268,000 for interest accrued on the principal of approximately HK\$3,557,000 from 1 March 2019 to 30 August 2019 and the sum of approximately HK\$129,000 for the reimbursement of legal costs incurred by the creditor. This deed of settlement helps the Group to relief its liabilities. As at the date of this announcement, the transfer and the change of ownership of this property is still being processed by the relevant government agent/department.

(b) To actively seek for the opportunity to realise the investment of Changsha Seg.

During the financial year 2019, the Company is actively seeking for investors to invest in Changsha Seg. The Company has approached certain potential investors during the year.

(c) To enforce the concrete cost-saving plan to reduce the administrative and operating expenses.

The Company has been implementing cost-saving plan throughout the whole financial year. The administrative expenses of the Company were HK\$80,552,000 and HK\$56,683,000 for the year ended 31 December 2018 and 2019 respectively, representing a decrease of approximately 30%.

(d) To conduct equity and debt fund raising activities, if and when appropriate.

The Company conducted two placings of new shares under general mandate during the year on 4 March 2019 and 2 August 2019 respectively. Completion of those fund raising activities took place on 20 March 2019 and 21 August 2019 respectively. The aggregate net proceeds of approximately HK\$17,800,000 were used as settlement of liabilities, loans and outstanding loan interest of the Group, as well as general working capital of the Group and expansion of business.

(e) To realise the Group's financial assets.

The Group has realised its financial assets from time to time during the financial year 2019 for settlement its liabilities and general working capital of the Group.

As explained above, throughout the year, the Company has implemented the 2019 Planned Measures to improve financial position and cashflow of the Group. The management of the Group (the “**Management**”) are of the view that the 2019 Planned Measures are effective.

The Management have informed and/or provided the above evidences to the Auditor. The Auditor expressed in the 2019 Annual Report that the Group reported loss attributable to the owners of the Company of approximately HK\$178,040,000 and had net cash used in operating activities of approximately HK\$8,594,000 for the year ended 31 December 2019. As at 31 December 2019, the Group's current liabilities exceeded its current assets by approximately HK\$192,229,000, in which total borrowings amounted to approximately HK\$114,959,000, while its cash and cash equivalents amounted to approximately HK\$1,320,000 only.

The Management has explained to the Auditor that the Group is able to operate as a going concern and will be able to have sufficient working capital in the next twelve months from 31 December 2019 after taking into consideration of the factors mentioned in Note 2 to the consolidated financial statements in the 2019 Annual Report.

Despite the evidences and explanations provided to the Auditor in relation to the Group's ability of going concern, the Auditor still regarded that due to the uncertainty of the Group's ability to maintain adequate future cash flows, it was unable to ascertain whether the assumptions made by the Management in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

The Management has used their best endeavour to provide information and has explained the situation of the Group to the Auditors. In view of the financial performance of the Group in 2019 and it is expected that the unfavourable macroeconomic environment in 2020 due to the United States-China trade war, the political uncertainties and social events of Hong Kong, the outbreak of COVID-19 in Hong Kong and around the world, the Management understands the view of the Auditor.

The Audit Committee understands the Audit Modification (c) raised by the Auditor and has discussed it with the Management and the Auditor. The Audit Committee shared the same view with the Management.

Actions to be taken to address the going concern

As disclosed in the 2019 Annual Report, in the opinion of the Directors, the Group is able to operate as a going concern in the next twelve months from 31 December 2019 after taking into consideration of the following measures:

- (a) The Group has a concrete plan to enforce cost-saving measures to reduce the administrative and operating expenses.
- (b) The maturity dates of three bond payables with the principal amount of HK\$30,000,000 has been extended for 2 years to 4 December 2021, 6 February 2022 and 15 March 2022 respectively.
- (c) The Group is also negotiating with an independent third party for a possible loan restructuring plan.

In regards to the abovementioned possible loan restructuring plan, a loan with the principal amount of approximately HK\$126 million and with the interest rate of 15% per annum has been granted by a local financial institution to the Company in June 2020 for a period of 6 months. Approximately HK\$101 million has been used to repay the loan due to bank and financial institutions to relief the immediate repayment needs. Reference is made to the announcement of the Company dated 26 May 2020 in relation to the proposed rights issue of the Company (the “**Rights Issue**”). As disclosed in such announcement, it is expected that the net proceeds of the Rights Issue will be used to reduce part of the outstanding liabilities, loan interest and instalment of the Group and further improve cashflow of the Group. The Directors are of the view that this loan restructuring plan and the Rights Issue can justify the adoption of the going concern assumption of the 2019 Annual Report.

Except the abovementioned plans, since the 2019 Planned Measures are effective, the Company proposed to take appropriate actions to address the Audit Modification (c) in relation to going concern, including but not limited to:

- (a) to realise the Group’s investment properties to strengthen its cash position;
- (b) to actively seek for the opportunity to realise the investment of Changsha Seg;
- (c) to enforce the concrete cost-saving plan to further reduce administrative expenses;
- (d) to conduct equity fund raising activities, if and when appropriate;
- (e) to realise the Group’s financial assets; and
- (f) to seek further business opportunities in relation to its operation.

The view of the Management, the Audit Committee and the Auditor

The Management believes that, with reference to the results of the 2019 Planned Measures, the measures as stated above are adequate and effective to address the Audit Modification (c).

The Management and the Audit Committee have communicated with the Auditor on the above measures, and whether the Audit Modification (c) could be addressed and removed in the next financial year. After discussion with the Auditor, the Management and the Audit Committee believe that if the above measures are implemented properly and effectively in the next financial year and if the Company could provide sufficient audit evidence to the Auditor to support the Company will have sufficient working capital in the next twelve months from 31 December 2020, the Audit Modification (c) may be removed in the next financial year, given that there is no adverse change of the financial position, operations, investments of the Group.

By Order of the Board
Chinese Strategic Holdings Limited
Lam Kwok Hing Wilfred
Chairman

Hong Kong, 9 July 2020

As at the date hereof, the Company's executive Directors are Ms. Chan Shui Sheung Ivy and Mr. Mok Tsan San; the non-executive Director is Mr. Lam Kwok Hing Wilfred, J.P. (Chairman); and the independent non-executive Directors are Ms. Yuen Wai Man, Mr. Chow Fu Kit Edward and Mr. Lam Raymond Shiu Cheung.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days and the Company website at www.chinesestrategic.com from the date of its publication.