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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 2018**

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 2018 published by the Company on 28 March 2019 and 29 March 2019 respectively and a clarification announcement dated 28 March 2019 (together, the “**2018 Annual Results**”). Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Results.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to provide certain additional information in relation to the 2018 Annual Results.

### **BASIS FOR DISCLAIMER OF OPINION**

The auditor of the Company (the “**Auditor**”) expressed a disclaimer of opinion (the “**Audit Modification**”) in relation to:

- (i) the Company’s interest in Chinese Capital Union Financial Limited (“**CCUF**”), as the Auditors were unable to obtain sufficient necessary information and explanations from the management of CCUF; and
- (ii) going concern basis adopted in preparation of the consolidated financial statements, as the Company recorded a net loss of HK\$221.6 million for 2018 and net current liabilities of HK\$97.8 million as at 31 December 2018, and the Auditors were unable to obtain adequate evidence concerning the Group’s ability to meet any financial obligation as and when they fall due.

## **Audit Modification**

### **(1) CCUF**

CCUF, being a joint venture of the Company, was set up in June 2017. For the year ended 31 December 2017, the Auditor had reviewed the CCUF's 2017 financial statements for the purpose of audited the consolidated financial statements of the Company. For the year ended 31 December 2018, the accounting department of CCUF regarded the fee quoted by the Auditor was much higher than other auditors, CCUF decided to appoint the auditor of lower fee. Although the accounting records of CCUF was prepared by its accounting department which operated independently of the Company and the auditor of CCUF was appointed by the accounting department of CCUF, CCUF agreed that its audited financial statements (the "CCUF Accounts") together with the relevant information would be sent to the Auditor to review and perform the necessary works. Finally, in the evening of 26 March 2019, the said draft of CCUF Accounts was sent to the Auditor. However, the CCUF Accounts was prepared under the Small and Medium-sized Entity Financial Reporting Standard, which was different from the Hong Kong Financial Reporting Standards ("HKFRSs") which is adopted to prepare the Group's audited financial statement. Upon the Company's enquiry to CCUF, the Company was told that the auditor of CCUF mainly serves the small and medium-sized enterprises in Hong Kong and there was miscommunication and misunderstanding that the Small and Medium-sized Entity Financial Reporting Standard was adopted by CCUF. After liaison with the auditor of CCUF, it was quite impossible to prepare the CCUF Accounts again with the HKFRSs in such short period of time. The Auditor also informed the Company that it is not feasible for them to perform their work under such extremely tight schedule. The Company was therefore unable to provide sufficient and appropriate information to the Auditor. In consideration of compliance with the timely disclosure of the annual results under the requirements of the GEM Listing Rules and the current account between the Group and CCUF being not material, the Board decided not to postpone the publication of the annual results announcement for the year ended 31 December 2018. The Auditor then expressed a disclaimer of opinion in relation to the Company's interest in CCUF.

### **Measures to be taken by the Company**

The Company's measures to be taken to address the incident of CCUF are as below, CCUF has also agreed and adopted to such measures.

#### ***a) Completion of the CCUF audit by adopting the same accounting standard of the Group***

The Company has already informed CCUF's accounting department and requested subsequent financial statements, including the interim results, shall be prepared under HKFRSs in the future.

**b) *Improvement of communication of the accounting departments of the Group and CCUF***

The Company has delegated 2 relevant personnel, one of which being the department head, at its accounting department to directly communicate with the head of CCUF's accounting department. And the head of the Company's accounting department, to be reminded by the other relevant person at its accounting department, shall update the executive directors of the Company the progress of CCUF's audit work every two weeks after the year end or half year end until the publication of the Company's annual results or interim results.

**c) *Recommendation to CCUF to engage the same auditor of the Group***

The Management has recommended CCUF to engage the same auditor of the Group to avoid inconsistency or use another auditor which is accustomed to preparing financial statements under HKFRSs.

**d) *Allowing more time for the Auditor to perform their work***

In light of the tight schedule for the Auditor to perform their work, the Company's accounting department will strengthen communication with its subsidiaries, associates and joint ventures to let them deliver their financial statements to the Company as early as possible. The 2 delegated personnel mentioned in (b) above will liaise with the Company's subsidiaries, associates and joint ventures on their delivery of financial statements every two weeks and will assist them in resolving any difficulties together with the Auditor. As such, the Auditor will have more time to review those financial statements, identify possible issues and solve them early.

**The View of the Management, the Audit Committee and the Auditor**

The management of the Group (the "**Management**") and the audit committee of the Group (the "**Audit Committee**") understands the view of the Auditor and will use the best endeavour to avoid the Audit Modification in the future.

The Management, the Audit Committee believe that if the measures as stated above are taken or the improvement of communication amongst the parties involved is enhanced, the Audit Modification in relation to CCUF can be addressed. The Auditor is of the view that if sufficient and appropriate audit evidence could be obtained for the audit on CCUF and its subsidiaries for the year ending 31 December 2019, the respective qualification on CCUF could be addressed.

## (2) Going Concern

The Auditor expressed in the annual report of the Company for the year ended 31 December 2018 (the “**AR 2018**”) that the Group reported loss attributable to the owners of the Company of approximately HK\$221.6 million and had net cash used in operating activities of approximately HK\$128.8 million for the year ended 31 December 2018. The Group’s current liabilities exceeded its current assets by approximately HK\$97.8 million, in which total borrowings amounted to approximately HK\$142.3 million, while its cash and cash equivalents amounted to approximately HK\$7.2 million only.

The Management has explained to the Auditor the factors as mentioned in Note 2 of the AR 2018. And the Group recorded net assets of approximately HK\$257.2 million.

The Group has a significant portfolio of investment properties in Hong Kong with the aggregate value of approximately HK\$165 million as at 31 December 2018 which exceeded the borrowings of the Group.

The Group also has another significant investment in property of a composite development located at a prime location near Changsha Railway Station through the joint venture of 長沙賽格發展有限公司 (Changsha Seg Development Co Limited) (“**Changsha Seg**”), which is principally engaged in rental of office premises and a shopping mall in Changsha, the PRC that is situated at a prime location near the Changsha Railway Station. As disclosed in the AR 2018, the carrying amount of the Group’s interest in Changsha Seg is approximately HK\$184.5 million. The Management has been in negotiation with potential investor regarding this project.

The Auditor still regarded that due to the uncertainty of the Group’s ability to maintain adequate future cash flows. It is unable to ascertain whether the assumptions made by the Directors in preparing the consolidated financial statements on a going concern basis are proper and appropriate.

The Audit Committee also understands the modification in relation to going concern 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 address going concern**

The Company has taken actions to address the Audit Modification in relation to going concern, including but not limited to:

- (a) extension of a loan of the Group with the principal amount of HK\$36 million for twelve months till 23 March 2020 which means the current liabilities of the Group was reduced;
- (b) placing of new shares under general mandate which was completed on 20 March 2019 and raised net proceeds of approximately HK\$9 million; and
- (c) disposed an investment property of the Group in the first quarter of 2019 and had received the net proceeds of approximately HK\$8 million upon completion on 20 May 2019 in which HK\$4.2 million had been used to fully repay the corresponding mortgage loan.

## **Measures to be taken**

The Company proposes to take appropriate measures to address the Audit Modification 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;
- (c) to enforce the concrete cost-saving plan to reduce the administrative and operating expenses;
- (d) to conduct equity and debt fund raising activities, if and when appropriate; and
- (e) to realise the Group's financial assets.

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

According to Hong Kong Annual Digest of Statistics 2018 and Hong Kong Monthly Digest of Statistics March 2019 published by the Census and Statistics Department of Hong Kong, the properties market in Hong Kong has been on an upward trend for more than 10 years with the price index of private domestic premises increasing by more than 200% from 2007 to 2018. In addition to the expectation of continuously low interest environment in the coming future, the property market of Hong Kong is boosted again from early 2019.

The Management believes that it is the high time for realisation of the gain on the disposal of the investment properties which will also significantly improve the cashflow of the Group. In addition to the measures as stated above are taken, the Management and the Audit Committee believe that the Audit Modification in relation to going concern can be addressed. The Management has communicated with the Auditor on the measures taken/to be taken, the proposed audit evidence to be provided by the Company to the Auditor, and whether the Audit Modification in relation to going concern could be removed in the next financial year. The Auditor is of the view that if the measures are to be taken properly and as long as the Company could provide solid audit evidence to support the Company will have sufficient working capital in the next twelve months after 31 December 2020 and there is no adverse change of the financial position, operations, investments of the Group, the Audit Modification in relation to going concern may be removed in the next financial year.

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

Hong Kong, 24 July 2019

*As at the date hereof, the executive Directors are Ms. Chan Shui Sheung Ivy and Mr. Mok Tsan San; 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 of the Company 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.*

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