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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)

- (1) PROPOSED PLACING OF CONVERTIBLE NOTES
UNDER SPECIAL MANDATE
AND
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL
AND
(3) TERMINATION OF SHARE PLACING AGREEMENT
AND
(4) INFORMATION ON POSSIBLE ACQUISITION**

Placing Agent



KINGSTON SECURITIES LIMITED

PLACING OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE

Reference is made to the announcements issued by the Company and dated 28 July 2009 and 31 July 2009 pursuant to which the Company provided an update as to its possible capital raising activities and the Company's intention to use the proceeds thereof to acquire a controlling interest in an insurance company located in the Greater China region.

The Board is now pleased to announce that on 20 August 2009, the Company and the Placing Agent entered into the Conditional Placing Agreement, pursuant to which the Company has conditionally agreed to place, and the Placing Agent has agreed to, as agent of the Company, procure subscribers for the Convertible Notes or, failing which, to subscribe as principal the Convertible Notes in an aggregate principal amount of HK\$7,800,000,000 at a conversion price of HK\$0.10 per Conversion Share.

No application will be made for the listing of the Convertible Notes. The Conversion Shares to be allotted and issued upon Conversion will be allotted and issued pursuant to a specific mandate to be sought from the Shareholders at EGM to be convened in accordance with the Listing Rules. The Placing is subject to terms and conditions detailed below in this announcement.

The purpose of the Placing is to allow the Company to raise funds in anticipation of the Possible Acquisition, if materialised. The gross proceeds from the Placing will be approximately HK\$7,800,000,000 and the net proceeds from the Placing will be approximately HK\$7,600,000,000.

The Placing is conditional upon, *inter alia*:

- (a) the grant of approval by Shareholders for the Conditional Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) at the EGM;
- (b) the grant of approval by Shareholders for the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Possible Acquisition of the Target Company) at the EGM; and
- (c) the Sale and Purchase Agreement having been entered into by the Company (or by a member of the Group) and the vendors of the Target Company, and not having been terminated prior to the satisfaction or waiver of all the conditions precedent contained therein, either by mutual agreement between the parties to the Sale and Purchase Agreement or automatically in the case the conditions precedent contained therein are not satisfied or waived on or before the long stop date stated therein.

Neither the Company nor the Placing Agent may waive any of the conditions precedent set out above.

On the assumption that all Convertible Notes are fully converted, the net Conversion Price per Conversion Share shall be approximately HK\$0.097 after deducting the commission and expenses arising from the Placing. The aggregate net proceeds raised upon the completion of the Placing will be approximately HK\$7,600,000,000 and is intended to be used to fund the Possible Acquisition.

Full Conversion will result in a massive dilution of the shareholding of the existing Shareholders. Upon full Conversion, the shareholding of the existing public Shareholders will be decreased from approximately 93.54% to approximately 2.71%.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

In anticipation of the issue of the Conversion Shares upon Conversion of the Convertible Notes, the Directors propose to increase the authorised share capital of the Company from HK\$800,000,000 divided into 8,000,000,000 Shares to HK\$20,000,000,000 divided into 200,000,000,000 Shares by creation of an additional HK\$19,200,000,000 divided into 192,000,000,000 Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

TERMINATION OF SHARE PLACING AGREEMENT

On 8 June 2009, the Company announced that it had entered into the Share Placing Agreement with the Placing Agent in relation to the placing of new Shares. Due to the timing and process of the Possible Acquisition, the Company and the Placing Agent have mutually agreed to terminate the Share Placing Agreement pursuant to its terms on 20 August 2009.

GENERAL

A circular containing, among other things, further details of the Placing, the Increase in Authorised Share Capital, the Possible Acquisition of the Target Company and a notice convening the EGM will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules.

Trading in the Shares was suspended at the request of the Company with effect from 2:30 p.m. on 20 August 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 21 August 2009 following the publication of this announcement.

Shareholders and potential investors should note that the Placing is subject to conditions to be fulfilled. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

THE CONDITIONAL PLACING AGREEMENT

Date

20 August 2009

Parties

- (1) The Company; and
- (2) The Placing Agent.

Placing Agent

The Company has agreed to issue, and the Placing Agent has agreed to, as agent of the Company, procure subscribers for the Convertible Notes or, failing which, to subscribe as principal the Convertible Notes in a principal amount of HK\$7,800,000,000.

The Placing Agent will receive a placing commission equal to 2% of the aggregate principal amount of the Convertible Notes subscribed or procured to be subscribed by the Placing Agent. The placing commission was agreed after arm's length negotiations between the Company and the Placing Agent.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Placing Agent and its respective ultimate beneficial owner(s) are independent of and not connected with the Company and its subsidiaries and their connected persons.

The Placees

The Placing Agent has confirmed to the Company that: (i) the Convertible Notes will be placed to not less than six Placees who are independent professional, institutional, corporate or individual investors independent of the Placing Agent and; (ii) it is expected that the Placees and their ultimate beneficial owners will not be connected persons of, and are third parties independent from, the Company, the Directors, the chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. As at the date of this announcement, the Directors are unable to determine whether any such investors will become a substantial shareholder of the Company as a result of completion of the Placing and full Conversion of the Convertible Notes.

Conditions

The placing of the Convertible Notes is conditional upon, among other things, the satisfaction of the following conditions on or before the Long Stop Date (or such other date as may be agreed between the Company and the Placing Agent):

- (a) the grant of approval by shareholders of the Company for the increase in the authorised share capital of the Company from HK\$800,000,000 to HK\$20,000,000,000 by the creation of 192,000,000,000 additional new Shares;
- (b) the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Conversion Shares in respect of the Placing (subject to conditions to which neither the Placing Agent nor the Company may reasonably object);
- (c) the grant of approval by shareholders of the Company for this Agreement and the transactions contemplated hereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) at the EGM;
- (d) the grant of approval by shareholders of the Company for the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Possible Acquisition of the Target Company) at the EGM; and
- (e) the Sale and Purchase Agreement having been entered into by the Company (or by a member of the Group) and the vendors of the Target Company, and not having been terminated prior to the satisfaction or waiver of all the conditions precedent contained therein, either by mutual agreement between the parties to the Sale and Purchase Agreement or automatically in the case the conditions precedent contained therein are not satisfied or waived on or before the long stop date stated therein.

Neither the Company nor the Placing Agent may waive any of the conditions precedent set out above. If any of these conditions are not fulfilled on or before the Long Stop Date, the Conditional Placing Agreement shall terminate and the parties hereto shall be released and discharged from their respective obligations and none of the Parties shall have any claim against the other for any costs or losses (save for any prior breaches of this Agreement). The Placing Agent shall provide to the Company all information concerning itself and the Placees as the Stock Exchange may reasonably require.

Completion

Obligations of the Company

Completion of the issue of the Convertible Notes will take place on or before the seventh Business Day following the conditions set out in Conditional Placing Agreement being fulfilled (or on such other date as the Company and the Placing Agent shall agree). Upon completion of the Conditional Placing Agreement, the Company is obliged to deliver (or procure the delivery of) to the Placing Agent (i) the Convertible Note certificates substantially in the form set out in the Conditional Placing Agreement issued in favour of each of the Placees in respect of the relevant principal amount of Convertible Notes subscribed for by each Placee; and (ii) instructions in writing addressed to the Placing Agent directing the Placing Agent to pay the proceeds from the Placing to a person as directed by the Company for the purpose of satisfying the payment obligations under the Sale and Purchase Agreement.

Obligations of the Placing Agent

Simultaneously, against compliance by the Company with its obligations described above, the Placing Agent (or its nominees or agents) shall, in respect of the subscribed Convertible Notes procured by it (or subscribed by it, as principal, if any) make or procure the making of payment to the person(s) as directed by the Company for the purpose of satisfying the payment obligations under the Sale and Purchase Agreement by way of bank transfer in cleared funds of the aggregate principal amount of the subscribed Convertible Notes less all fees and expenses payable to the Placing Agent.

Termination

The Placing Agent may terminate the Conditional Placing Agreement without liability to the Company if in the reasonable opinion of the Placing Agent, the success of the Placing or the business or financial prospects of the Group would or might be adversely affected by:

- (a) any material breach of any of the representations and warranties set out in the Conditional Placing Agreement; or
- (b) any suspension in the trading of the Shares on the Stock Exchange for more than ten (10) consecutive trading days save (i) for the purposes of clearing of this announcement or circulars relating to the Placing and in the ancillary agreements thereto, (ii) in relation to, in connection with or resulting from the Company's participation in the Possible Acquisition and the related ancillary agreements and documents; or

(c) any of the following events:

- (i) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date hereof) of a political, military, financial, economic, monetary, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which would, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the Placing or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Placing; or
- (iii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) which would materially and adversely affect the success of the placing of the Convertible Notes (such success being the placing of the Convertible Notes to potential investor(s)) or otherwise in the reasonable opinion of the Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the placing of the Convertible Notes.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

The principal terms of the Convertible Notes were determined after arm's length negotiations between the Company and the Placing Agent and are summarised below:

Issuer

The Company

Principal Amount

An aggregate principal amount of HK\$7,800,000,000 which are convertible into an aggregate of up to 78,000,000,000 Shares.

Interest

The Convertible Notes shall not bear any interest other than default interest.

Maturity

Six months from the date of issue of the Convertible Notes.

Conversion

Compulsory Conversion

The whole of the outstanding principal amount of a Convertible Note shall be automatically converted into ordinary shares in the issued share capital of the Company at the Conversion Price on the Conversion Date. The number of Conversion Shares to be converted into on Conversion of the Convertible Notes will be determined by dividing the outstanding principal amount of the relevant Convertible Note by the Conversion Price (rounded down to the nearest whole number).

If the Convertible Notes are converted in full at the initial Conversion Price, the Company will issue an aggregate of 78,000,000,000 new Shares, representing approximately 3,349.37% of the existing issued share capital of the Company and approximately 97.10% of the issued share capital of the Company enlarged by the issue of the Conversion Shares.

Conversion Prerequisites

No Conversion of any Convertible Note shall take place unless prior written confirmation has been given by the Noteholder to the Company that all the Shares (including the Conversion Shares issued or to be issued) held by the Noteholder, its associates and persons acting in concert (as defined under the Takeovers Codes) on the Conversion Date will not:

- (i) result in an obligation on the part of the Noteholder and parties acting in concert with it, to make a mandatory offer in accordance with Rule 26 of the Takeovers Code; or
- (ii) exceed 15% of the entire issued share capital of the Company as enlarged by the Conversion Shares upon Conversion.

In addition, no Conversion shall take place if the Company is of the opinion that the public float requirements under the Listing Rules cannot be complied with immediately upon Conversion.

Conversion Date

The Conversion Date shall be determined by the Company, which shall be a date before the Maturity Date. Upon the Company determining the Conversion Date, it will notify the Noteholder in writing advising the Noteholder of the Conversion Date.

Conversion Price

The initial Conversion Price is HK\$0.10 per Share, subject to adjustment on events such as share consolidation, share sub-division and capital distribution, which represents:

- (i) a discount of approximately 65.52% to the closing price of HK\$0.29 per Share quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 69.70% to the average closing price of HK\$0.33 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date; and
- (iii) a discount of approximately 69.70% to the average closing price of HK\$0.33 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date.

On the assumption that all Convertible Notes are fully converted, the net Conversion Price per Conversion Share shall be approximately HK\$0.097 after deducting the commission and expenses arising from the Placing. The aggregate net proceeds raised upon the completion of the Placing will be approximately HK\$7,600,000,000.

The Conversion Price has been negotiated and arrived at on an arms' length basis between the Company and the Placing Agent. In determining the Conversion Price, the Company and the Placing Agent took into account the relatively large size of the Placing and the significant dilution effect on the shareholding of Shareholders following full Conversion and came to the view that such a deep discount would be necessary to attract the interest of Placees. The Directors, including the non-executive Directors, are of the opinion that the Conversion Price is fair and reasonable and is in the best interests of the Company and the Shareholders as a whole.

Conversion Shares

The Conversion Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Redemption

The Convertible Notes may be redeemed in amounts of HK\$5,000,000 or integral multiples thereof at the option of the Company on any Business Day prior to the Maturity Date by giving prior written notice to a Noteholder in the prescribed form.

Status of the Convertible Notes

The Convertible Notes constitute a direct, general, unsubordinated, unconditional and unsecured obligation of the Company and rank *pari passu* and rateably without preference (with the exception of obligations in respect of taxes and certain other mandatory provisions of applicable law exceptions) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

No application will be made for the listing of the Convertible Notes on any stock or securities exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued upon Conversion.

Transferability

The Convertible Notes may be assigned or transferred in the amount of, or integral multiples of, HK\$5,000,000 subject to compliance with all the conditions of the Convertible Notes.

No assignment or transfer may be made by the Noteholder unless: (a) the Noteholder provides a written notification to the Company at least 14 Business Days prior to each proposed assignment or transfer; (b) the Noteholder undertakes to give a written notification to the Company in the prescribed form at least 14 Business Days prior to each proposed assignment or transfer informing the Company whether the proposed assignee or transferee is a connected person of the Company; and (c) the proposed assignee or transferee, in the case that it/he/she is not a connected person, provides to the Company a written confirmation that it/he/she is not a connected person of the Company.

Voting

The Noteholder will not be entitled to attend or vote at any meetings of the Company by reason only of it being the Noteholder.

Events of default

All Convertible Notes will contain events of default provisions which provide that on the occurrence of certain events of default specified in the Convertible Notes, each of the Noteholders shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Note.

EFFECT ON THE SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon Conversion of the Convertible Notes in full at the initial Conversion Price is set out as below:

	Existing shareholdings	Immediately after full Conversion of the Convertible Notes (assuming no conversion of the Old Convertible Notes)		Immediately after full Conversion of the Convertible Notes (assuming full conversion of the Old Convertible Notes (before adjustment))			
		No. of Shares (approx)	%	No. of Shares (approx)	%	No. of Shares (approx)	%
1	Fan Guo Ping	145,930,000	6.27	145,930,000	0.18	330,095,000	0.40
2	Chen Guang Lin	4,470,000	0.19	4,470,000	0.01	560,024,720	0.69
Public Shareholding:							
3	Public Shareholders	2,178,397,543	93.54	2,178,397,543	2.71	2,178,397,543	2.67
4	Places	—	—	78,000,000,000	97.10	78,000,000,000	95.47
5	Convertible Notes holders	—	—	—	—	630,666,669	0.77
Total		<u>2,328,797,543</u>	<u>100.00%</u>	<u>80,328,797,543</u>	<u>100.00%</u>	<u>81,699,183,932</u>	<u>100.00%</u>

Note:

1. Based on the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Kingston Finance Limited (“Kingston Finance”) currently holds security interests in respect of approximately 5.87% of the existing issued share capital of the Company. Kingston Finance Limited is beneficially owned by Mrs. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively. A borrower of Kingston Finance Limited has maintained a security margin account with the Placing Agent. The 136,690,000 Shares (representing approximately 5.87% of the existing issued share capital of the Company) are registered under the name of the Placing Agent in CCASS and are being held by the Placing Agent under the margin account of the borrower. The 136,690,000 Shares are not pledged to Kingston Finance but Kingston Finance has security interest over those Shares by way of a personal guarantee given to Kingston Finance by the borrower. The Placing Agent confirms and Kingston Finance has confirmed to the Company that neither of them has any voting rights over those Shares.

2. The table above assumes conversion of the Old Convertible Notes and the Convertible Notes at their respective conversion price (before adjustment) and there being no changes to the issued share capital of the Company other than as a result of such conversion.

The Directors are unable to determine whether any Placee will become a substantial Shareholder (as defined in the Listing Rules) of the Company as a result of completion of the Placing and the Conversion of the Convertible Notes. However, no Conversion of any Convertible Note shall take place unless prior written confirmation has been given by the Noteholder to the Company that all the Shares (including the Conversion Shares issued or to be issued) held by the Noteholder, its associates and persons acting in concert (as defined under the Takeovers Codes) on the Conversion Date will not:

- (i) result in an obligation on the part of the Noteholder and parties acting in concert with it, to make a mandatory offer in accordance with Rule 26 of the Takeovers Code; or
- (ii) exceed 15% of the entire issued share capital of the Company as enlarged by the Conversion Shares upon Conversion.

In addition, no Conversion shall take place if the Company is of the opinion that the public float requirements under the Listing Rules cannot be complied with immediately upon Conversion.

The Placing Agent has undertaken to the Company under the Conditional Placing Agreement that:

- (a) it shall use all reasonable endeavours to ensure that Placees shall be third parties independent from the Company and its associates (including the directors, chief executive or substantial shareholders of the Company or its Subsidiaries or any of their respective associates) by requesting that Placees to whom it has placed Convertible Notes execute a letter confirming the same; and
- (b) upon Completion, the Placing Agent shall ensure that at least twenty-five per cent. (25%) of the enlarged issued share capital of the Company (assuming full Conversion of the Convertible Notes at the time of Completion) will be held by Placees who are not connected persons of the Company and who will not become connected persons of the Company if such Convertible Notes are converted in full at the time of Completion.

REASONS FOR AND BENEFIT OF THE PLACING AND USE OF PROCEEDS

The Possible Acquisition

The purpose of the Placing and issue of the Convertible Notes is to allow the Company to raise funds in anticipation of the Possible Acquisition. The Company has always actively sought investment opportunities which it considers to be beneficial to the Company with a view to enhance its shareholders' value.

Memorandum of Understanding

On 15 July 2009, a wholly owned subsidiary of the Company (the "Subsidiary") entered into a non-legally binding (other than the confidentiality provision which is legally binding) memorandum of understanding with the Hong Kong Fund to form an acquiring vehicle with a view to submit a proposal for the Possible Acquisition. Further details of the Target Company will be disclosed in the circular to be despatched to the Shareholders allowing them to make proper and informed voting decision at the EGM.

Based on its existing financial position, in order to succeed in and complete the Possible Acquisition, the Company must improve its financial and funding position. The Board believes that the Placing can strengthen the Company's capital base as well as to equip the Company for the financing needs of the Possible Acquisition.

Benefits of the Placing

The Board has considered raising funds by a placing of Shares but the Board is now of the view that by conducting the Placing under the terms and conditions of the Conditional Placing Agreement, the proceeds raised from the Placing would not be deposited with the Company until the satisfaction or waiver of all the conditions precedent contained in the Sale and Purchase Agreement or at all as, if upon the satisfaction or waiver of all the conditions precedent contained in the Sale and Purchase Agreement, the Company is obliged under the Conditional Placing Agreement to instruct the Placing Agent (by delivering to the Placing Agent written instructions) directing the Placing Agent to pay the proceeds from the Placing to a person as directed by the Company for the purpose of satisfying the payment obligations under the Sale and Purchase Agreement. Accordingly, at no time will the Company become a cash company within the requirement of Rule 14.82 of the Listing Rules and all the proceeds raised from the Placing will be directed to fulfil the payment obligations under the Sale and Purchase Agreement.

In view of the above factor, the Board concluded that the Placing represents a more desirable method and is more preferable than a placing of Shares notwithstanding that the full Conversion of the Convertible Notes will result in a massive dilution of the shareholding of the existing Shareholders. Although the full Conversion of the Convertible Notes will result in a massive dilution of shareholding of the existing Shareholders, the Board considers that the Placing is fair and reasonable to the Shareholders and the Company as a whole on the basis that the Placing represents an opportunity to raise capital for the Company to enable the Company to participate in the Possible Acquisition without resulting in the Company becoming cash company. The Directors of the Company believe that the Possible Acquisition represents a unique opportunity for the Company, and is also potentially beneficial to the Hong Kong market as it offers the chance of ownership of a valuable insurance asset by a Hong Kong listed company.

Full Conversion of the Convertible Notes will result in a massive dilution of the shareholding of the existing shareholders. Upon Conversion of the Convertible Notes in full, the shareholding of the existing public shareholders will be decreased from approximately 93.54% to approximately 2.71%.

Use of proceeds

The gross proceeds from the Placing will be about HK\$7,800,000,000 and the net proceeds from the Placing will be about HK\$7,600,000,000. The net proceeds arising from the Placing will be used to finance the acquisition of the Target Shares.

It is currently expected that the Possible Acquisition, if materialised, will constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules. The Company will comply with relevant requirements under the Listing Rules, including, making further announcement, providing further information and despatch of circular in relation to the Possible Acquisition, and obtain Shareholders' approval by way of poll at a general meeting of the Company should the Possible Acquisition materialise.

NO CASH COMPANY EFFECT OF THE CONDITIONAL PLACING AGREEMENT

The Company will not as a result become a cash company pursuant to Rule 14.82 of the Listing Rules as completion of the Conditional Placing Agreement is subject to the Sale and Purchase Agreement not having been terminated prior to the satisfaction or waiver of all the conditions precedent contained therein, either by mutual agreement between the parties to the Sale and Purchase Agreement or automatically

in the case the conditions precedent contained therein are not satisfied or waived on or before the long stop date stated therein. Accordingly, no proceeds from the Convertible Notes will be deposited with the Company (or at all if the proceeds from the Placing is directed to the vendors of the Target Shares upon completion of the Possible Acquisition) until the satisfaction or waiver of all the conditions precedent contained in the Sale and Purchase Agreement. The proceeds from the Convertible Notes will be used directly for satisfaction of the payment obligations under the Sale and Purchase Agreement. If the Sale and Purchase Agreement is not signed or if it is terminated prior to satisfaction or waiver of all the conditions precedent contained therein, the Convertible Notes will not be issued. Accordingly, at no time will the Company have assets which consist wholly or substantially of cash.

DESPATCH OF CIRCULAR AND THE EGM

The Company will despatch a circular containing required information on (i) the Conditional Placing Agreement and the issue of the Convertible Notes and (ii) the Possible Acquisition, the Sale and Purchase Agreement and the Target Company as soon as possible after the signing of the Sale and Purchase Agreement.

It is currently envisaged by the Company that the Conditional Placing Agreement and the Possible Acquisition will be considered and approved at the same Shareholders' meeting based on detailed information disclosed to all Shareholders in such circular. In order to achieve this, and depending on the timing of the signing of the Conditional Placing Agreement and the signing of the Sale and Purchase Agreement, the Company may, in due course, need to seek a waiver from strict compliance with Rule 14.38A of the Listing Rule and delay the despatch of such circular.

As the circular will be despatched following the signing of the Sale and Purchase Agreement, it will contain detailed information on the Possible Acquisition and the Target Company. Accordingly, detailed information on the use of the proceeds from the Placing, the Possible Acquisition and the Target Company will be available to Shareholders, allowing them to make proper and informed voting decisions at the Shareholders' meeting.

CONTINUATION OF THE LISTING OF THE COMPANY

Sufficiency of Public Float

The Company intends to maintain its listing status of the Shares on the Stock Exchange and the 25% minimum public float requirement upon Conversion of the Convertible Notes and issue of Conversion Shares, and the conversion of the Old Convertible Notes.

Accordingly, the Placing Agent has undertaken in the Conditional Placing Agreement that upon Completion, it shall ensure that at least twenty-five per cent. (25%) of the enlarged issued share capital of the Company (assuming full Conversion of the Convertible Notes at the time of Completion) will be held by Placees who are not connected persons of the Company and who will not become connected persons of the Company if such Convertible Notes are converted in full at the time of Completion. In addition, pursuant to the terms and conditions of the Convertible Notes, no Conversion shall take place if the Company is of the opinion that the public float requirements under the Listing Rules cannot be complied with immediately upon Conversion.

FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS ANNOUNCEMENT

The Company has not undertaken any fund raising exercises in the 12 months immediately preceding the date of this announcement.

POSSIBLE ADJUSTMENT TO THE OLD CONVERTIBLE NOTES

The Placing may lead to adjustments to the exercise price of the Old Convertibles Notes. The Company will notify the holders thereof and the shareholders by way of announcement regarding adjustments to be made (if any) pursuant to the terms of the Old Convertible Notes (as and when appropriate).

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the date of this announcement, the authorised share capital of the Company is HK\$800,000,000 divided into 8,000,000,000 Shares. In anticipation of the issue of new Shares upon Conversion of the Convertible Notes, the Directors propose to increase the authorised share capital of the Company from HK\$800,000,000 divided into 8,000,000,000 Shares to HK\$20,000,000,000 divided into 200,000,000,000 Shares by creation of an additional HK\$19,200,000,000 divided into 192,000,000,000 Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolutions by the Shareholders at the EGM.

EGM

An EGM will be convened and held for the purpose of considering and, if thought fit, approve:

- (a) the Increase in Authorised Share Capital;

- (b) the Conditional Placing Agreement and the transaction contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the Conversion rights under the Convertible Notes); and
- (c) the Possible Acquisition and the documents and transactions contemplated under the Possible Acquisition.

Subject to approval by Shareholders, the validity of the approval by Shareholders at the EGM for completion of the Placing shall lapse by the Long Stop Date. The Board is of the view that an approximately nine-month period for completion of the Placing is fair and reasonable due to the fact that the Conditional Placing Agreement is subject to a number of factors, including the signing of the Sale and Purchase Agreement and it not becoming terminated prior to the satisfactory or waiver of the conditions precedent contained therein, either by mutual agreement between the parties to the Sale and Purchase Agreement or automatically in the case the conditions precedent contained therein are not satisfied or waived on or before the long stop date stated therein, the timing of which is not within the Company's control. Accordingly, it is envisaged that sufficient time will be needed for the completion of the Placing as it will be burdensome and costly for the Company to convene another extraordinary general meeting to obtain approval from Shareholders to extend the period of validity of the specific mandate, if required. In addition, obtaining further approval from Shareholders at another extraordinary general meeting will be time consuming and which may affect the success of Placing.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, no Shareholder is required to abstain from voting at the EGM.

TERMINATION OF SHARE PLACING AGREEMENT

On 8 June 2009, the Company announced that it had entered into the Share Placing Agreement with the Placing Agent in relation to the placing of new Shares. Due to the timing and process of the Possible Acquisition, the Company and the Placing Agent have mutually agreed to terminate the Share Placing Agreement pursuant to its terms on 20 August 2009.

GENERAL

The Company is an investment holding company. The Group is principally engaged in investment holding and manufacturing and trading of batteries products.

A circular containing required information on (i) the Conditional Placing Agreement and the issue of the Convertible Notes; and (ii) the Possible Acquisition, the Sale and Purchase Agreement and the Target Company will be despatch to Shareholders as soon as practicable in accordance with the Listing Rules.

Shareholders and potential investors should note that the Placing is subject to conditions to be fulfilled. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Trading in the Shares was suspended at the request of the Company with effect from 2:30 p.m. on 20 August 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:30 a.m. on 21 August 2009 following the publication of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday or Sunday or a public holiday) on which banks generally are open for business in Hong Kong and on which the Stock Exchange is open for the business of dealing in securities
“CCASS”	Central Clearing and Settlement System
“Company”	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Completion Date”	a date falling on or before the seventh business day following the conditions in the Conditional Placing Agreement being fulfilled or on such other date as the Company and the Placing Agent shall agree

“Conditional Placing Agreement”	a conditional placing agreement dated 20 August 2009 entered into between the Company and the Placing Agent in relation to the Placing
“connected persons”	has the same meaning ascribed to it under the Listing Rules
“Conversion”	conversion of the Convertible Notes in accordance with its terms and conditions
“Conversion Date”	a day to be determined by the Company upon which the Convertible Notes are converted into Conversion Shares, which shall be a date before the Maturity Date
“Conversion Price”	HK\$0.10 per Share (subject to adjustment)
“Conversion Share(s)”	means those new Shares to be issued by the Company upon the compulsory Conversion of the Convertible Notes, namely, up to 78,000,000,000 Shares falling to be issued at the initial Conversion Price in full (subject to adjustment) and pursuant to the terms and conditions of the Convertible Notes
“Convertible Notes”	the non-interest bearing convertible redeemable notes, to be issued by the Company to the Placees procured by the Placing Agent of a principal amount of HK\$7,800,000,000 due on the Maturity Date which are convertible into an aggregate of up to 78,000,000,000 Shares (subject to adjustment) at the Conversion Price
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and approving, by Shareholders: <ul style="list-style-type: none"> (a) the Increase in Authorised Share Capital; (b) the Conditional Placing Agreement and the transaction contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the conversion rights under the Convertible Notes); and

	(c) the Possible Acquisition and the documents and transactions contemplated under the Possible Acquisition
“Final Binding Offer”	submission of the final binding offer in the purchase of the Target Shares
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Fund”	Primus Financial Holdings Ltd., a privately owned Hong Kong-based holding company focused on acquiring, integrating, and building financial services companies with significant operations within the Asia-Pacific region
“Increase in Authorised Share Capital”	the increase in the authorised share capital of the Company from HK\$800,000,000 to HK\$20,000,000,000 by the creation of 192,000,000,000 additional new Shares
“Last Trading Day”	19 August 2009, being the last full day of trading on the Stock Exchange before the release of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2010
“Maturity Date”	a day being six months from the date of issue of the Convertible Note
“Noteholder(s)”	holder(s) of the Convertible Note(s)
“Old Convertible Notes”	the convertible redeemable notes issued by the Company in the maximum aggregate principal amount of HK\$1,320,000,000 due on 31 December 2010

“Placee(s)”	any independent professional, institutional, corporate or individual investor(s) procured by the Placing Agent to subscribe for any principal amount of the Convertible Notes pursuant to the Placing Agent’s obligations under the Conditional Placing Agreement
“Placing”	the placing of the Convertible Notes of a principal amount of HK\$7,800,000,000 procured by the Placing Agent to selected Placees on the terms and subject to the conditions set out in the Conditional Placing Agreement
“Placing Agent”	Kingston Securities Limited, a licensed corporation which is license to carry on type 1 (dealing in securities) regulated activities for the purposes of the Securities and Futures Ordinance (Chapter 572 of the Laws of Hong Kong)
“Possible Acquisition”	the proposed acquisition of more than 90% of the share capital of the Target Company by the Company or any member of the Group
“Sale and Purchase Agreement”	the definitive sale and purchase agreement to be entered into by the Company or any member of the Group in respect of the Possible Acquisition
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Placing Agreement”	a share placing agreement entered into between the Placing Agent and the Company and dated 8 June 2009
“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers
“Target Company”	an insurance company located in the Greater China Region

“Target Shares”	the shares in the Target Company proposed to be sold by the vendors of the Target Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	U.S. dollars, the lawful currency of the U.S.
“%”	per cent.

On behalf of the board of directors of
China Strategic Holdings Limited
Yeung Kwok Yu
Director

Hong Kong, 20 August 2009

As at the date of this announcement, the Board comprises Ms. Chiu Ching Ching, Mr. Yeung Kwok Yu, Mr. Hui Richard Rui, Ms. Chan Ling, Eva, Mr. Lee Sun Man and Mr. Chow Kam Wah as executive Directors of the Company, and Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying as independent non-executive Directors of the Company.