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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)

INTERIM RESULTS ANNOUNCEMENT **FOR THE SIX MONTHS ENDED 30TH JUNE, 2009**

UNAUDITED INTERIM RESULTS

The board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **FOR THE SIX MONTHS ENDED 30TH JUNE, 2009**

| | <i>NOTES</i> | Six months ended 30th June, | |
|---|--------------|------------------------------------|--------------------|
| | | 2009 | 2008 |
| | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Revenue | 3 | 2,601 | 15,685 |
| Cost of sales | | (2,631) | (15,362) |
| Gross (loss) profit | | (30) | 323 |
| Other income | 4 | 8,117 | 16,090 |
| Distribution costs | | (352) | (1,047) |
| Administrative expenses | | (21,381) | (16,716) |
| Fair value changes on investments held for trading | | 156,302 | (59,801) |
| Loss on partial redemption of convertible notes | | (71,034) | — |
| Finance costs | 5 | (27,888) | (48,185) |
| Profit (loss) before taxation | | 43,734 | (109,336) |
| Income tax credit | 6 | 4,507 | — |
| Profit (loss) for the period, attributable to owners of the Company | 7 | 48,241 | (109,336) |

| | <i>NOTES</i> | Six months ended 30th June, | |
|---|--------------|------------------------------------|---------------------|
| | | 2009 | 2008 |
| | | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Other comprehensive income (expense) | | | |
| Exchange differences arising | | | |
| on translation of foreign operations | | 1,976 | 5,419 |
| Fair value changes of | | | |
| available-for-sale investments | | 5,308 | (6,480) |
| Reclassification adjustments | | | |
| upon disposal of | | | |
| available-for-sale investments | | (4,552) | (802) |
| Other comprehensive income (expense) | | <u>2,732</u> | <u>(1,863)</u> |
| for the period | | | |
| Total comprehensive income (expense) | | | |
| for the period, attributable to | | | |
| owners of the Company | | <u>50,973</u> | <u>(111,199)</u> |
| Earnings (loss) per share | 9 | | |
| Basic | | <u>HK2.4 cents</u> | <u>HK(5.5)cents</u> |
| Diluted | | <u>HK2.4 cents</u> | <u>HK(5.5)cents</u> |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30TH JUNE, 2009**

| | <i>NOTES</i> | 30.6.2009 <i>HK\$'000</i> (unaudited) | 31.12.2008 <i>HK\$'000</i> (audited) |
|--|--------------|--|--|
| Non-Current Assets | | | |
| Property, plant and equipment | 10 | 82,576 | 87,533 |
| Prepaid lease payments | | 12,638 | 12,793 |
| Club debentures | | 825 | 825 |
| Available-for-sale investments | | 4,077 | 8,138 |
| | | <u>100,116</u> | <u>109,289</u> |
| Current Assets | | | |
| Inventories | | 1,808 | 2,739 |
| Trade receivables | 11 | 38 | 1,063 |
| Prepaid lease payments | | 320 | 321 |
| Amount due from an associate | | 7,101 | 7,101 |
| Other receivables, deposits and prepayments | 12 | 29,032 | 64,728 |
| Investments held for trading | | 436,530 | 399,581 |
| Bank balances and cash | | 480,817 | 777,418 |
| | | <u>955,646</u> | <u>1,252,951</u> |
| Current Liabilities | | | |
| Trade payables, other payables and accrued charges | | 25,672 | 69,353 |
| Amount due to a subsidiary of an associate | | 7,134 | 7,239 |
| Loan payables | | 65,639 | 63,903 |
| Income tax payable | | 5,735 | 5,735 |
| Bank borrowings | | 15,315 | 15,306 |
| Obligations under finance leases | | 26 | 26 |
| | | <u>119,521</u> | <u>161,562</u> |
| Net Current Assets | | <u>836,125</u> | <u>1,091,389</u> |
| Total Assets less Current Liabilities | | <u>936,241</u> | <u>1,200,678</u> |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Con't)
AT 30TH JUNE, 2009**

| | 30.6.2009 <i>HK\$'000</i> (unaudited) | 31.12.2008 <i>HK\$'000</i> (audited) |
|---|--|--|
| Capital and Reserves | | |
| Share capital | 202,880 | 202,880 |
| Reserves | 203,718 | 145,957 |
| | <hr/> | <hr/> |
| Equity attributable to the owners of the Company | 406,598 | 348,837 |
| Minority interests | 261 | 261 |
| | <hr/> | <hr/> |
| Total Equity | 406,859 | 349,098 |
| | <hr/> | <hr/> |
| Non-Current Liabilities | | |
| Deferred tax liabilities | 11,253 | 22,548 |
| Convertible notes | 518,111 | 829,001 |
| Obligations under finance leases | 18 | 31 |
| | <hr/> | <hr/> |
| | 529,382 | 851,580 |
| | <hr/> | <hr/> |
| | 936,241 | 1,200,678 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2008. In addition, the following accounting policy was adopted in current period.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st January, 2009.

| | |
|---|--|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

2. PRINCIPAL ACCOUNTING POLICIES (Con't)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

| | |
|---------------------------|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹ |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 ² |
| HKAS 27 (Revised in 2008) | Consolidated and Separate Financial Statements ¹ |
| HKAS 39 (Amendment) | Eligible Hedged Items ¹ |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters ³ |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transaction ³ |
| HKFRS 3 (Revised in 2008) | Business Combinations ¹ |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners ¹ |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers ⁴ |

¹ Effective for annual periods beginning on or after 1st July, 2009.

² Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate.

³ Effective for annual periods beginning on or after 1st January, 2010.

⁴ Effective for transfers on or after 1st July, 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1st January, 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers, representing the executive directors of the Group, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Information reported to the chief operating decision makers, representing the executive directors of the Group, for the purposes of resource allocation and performance assessment focuses on the Group's business operations. The Group's reportable segments under HKFRS 8 are as follows:

1. Investments in securities and advance – Investments in and trading of securities and advance of receivables
2. Battery products – Manufacturing and trading of battery products and related accessories

The following is an analysis of the Group's revenue and results by operating segments for the periods under review:

| | Investments in securities and advance HK\$'000 | Battery products HK\$'000 | Consolidated HK\$'000 |
|--|---|--|----------------------------------|
| Six months ended 30th June, 2009 | | | |
| Gross proceeds | <u>432,533</u> | <u>2,601</u> | <u>435,134</u> |
| REVENUE | | | |
| External sales | <u>—</u> | <u>2,601</u> | <u>2,601</u> |
| RESULT | | | |
| Segment profit (loss) | <u>163,690</u> | <u>(3,936)</u> | <u>159,754</u> |
| Loss on partial redemption of convertible notes | | | (71,034) |
| Other income | | | 591 |
| Central administrative costs | | | (17,689) |
| Finance costs | | | (27,888) |
| Profit before taxation | | | <u>43,734</u> |
| Income tax credit | | | <u>4,507</u> |
| Profit for the period | | | <u><u>48,241</u></u> |

3. SEGMENT INFORMATION (Con't)

| | Investments in securities and advance <i>HK\$'000</i> | Battery products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-------------------------------------|---|--|---------------------------------|
| Six months ended 30th June, 2008 | | | |
| Gross proceeds | 38,501 | 15,685 | 54,186 |
| REVENUE | | | |
| External sales | — | 15,685 | 15,685 |
| RESULT | | | |
| Segment loss | (55,197) | (5,062) | (60,259) |
| Other income | | | 8,685 |
| Central administrative costs | | | (9,577) |
| Finance costs | | | (48,185) |
| Loss before taxation | | | (109,336) |
| Income tax | | | — |
| Loss for the period | | | (109,336) |

Segment profit (loss) represents profit (loss) earned/incurred by each segment and fair value change on investments held for trading without allocation of loss on partial redemption of convertible notes, other income, central administrative costs and finance costs. This is the measure reported to the chief operation decision makers for the purpose of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segments:

| | 30.6.2009 <i>HK\$'000</i> | 31.12.2008 <i>HK\$'000</i> |
|---------------------------------------|-------------------------------------|-------------------------------|
| Investments in securities and advance | 468,033 | 480,917 |
| Battery products | 99,811 | 96,804 |
| Total segment assets | 567,844 | 577,721 |

4. OTHER INCOME

| | Six months ended 30th June, | |
|---|-----------------------------|-----------------|
| | 2009 | 2008 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income | 583 | 12,163 |
| Dividend income from available -for-sale investments | 2,836 | 1,567 |
| Gain on disposal of available -for-sale investments | 4,552 | 802 |
| Exchange gain, net | 8 | 1,026 |
| Others | 138 | 532 |
| | <u>8,117</u> | <u>16,090</u> |

5. FINANCE COSTS

| | Six months ended 30th June, | |
|---|-----------------------------|-----------------|
| | 2009 | 2008 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on borrowings wholly repayable within five years: | | |
| – bank borrowings | 513 | 767 |
| – loan payables | 1,736 | 2,245 |
| – obligation under finance lease | 3 | 4 |
| Effective interest on convertible notes | 25,636 | 45,169 |
| | <u>27,888</u> | <u>48,185</u> |

6. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profit in both periods.

The income tax credit for the period represents reversal of deferred tax liabilities upon redemption of convertible notes.

7. PROFIT (LOSS) FOR THE PERIOD

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

| | Six months ended 30th June, | |
|---|------------------------------------|-----------------|
| | 2009 | 2008 |
| | HK\$'000 | HK\$'000 |
| Amortisation of prepaid lease payments | 160 | 325 |
| Depreciation of property, plant and equipment | 4,662 | 2,157 |
| Written off of property, plant and equipment | 535 | — |
| Share based payment expenses | — | 2,224 |
| | ————— | ————— |

8. DIVIDEND

No dividend were paid or proposed during 2009 nor has any dividend been proposed since balance sheet date (2008: Nil).

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the profit for the period attributable to the owners of the Company of approximately HK\$48,241,000 (six months ended 30th June, 2008: loss of approximately HK\$109,336,000) and the weighted average number of 2,028,797,543 (six months ended 30th June, 2008: 1,979,346,994) ordinary shares in issue during the period.

The computation of diluted earnings (loss) per share for the six months ended 30th June, 2009 and 2008 does not include adjustments for the Company's outstanding convertible notes and share options as they have anti-dilutive effect.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred an expenditure of approximately HK\$52,000 (six months ended 30th June, 2008: HK\$3,362,000) on property, plant and equipment.

11. TRADE RECEIVABLES

The Group allows its trade customers a credit period normally ranging from 90 days to 180 days. The aged analysis based on the invoice date of the trade receivables at the reporting date is as follows:

| | 30.6.2009 | 31.12.2008 |
|-------------|------------------|-------------------|
| | HK\$'000 | HK\$'000 |
| 0-90 days | 32 | 914 |
| 91-180 days | 6 | 149 |
| | ————— | ————— |
| | 38 | 1,063 |
| | ————— | ————— |

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the other receivables, deposits and prepayments is an amount of approximately HK\$12,558,000 (31.12.2008: HK\$53,999,000) placed with security brokers for securities trading purposes, which are repayable on demand and interest bearing at 0.01% to 0.51% (six months ended 30th June, 2008: 0.7% to 1%).

MANAGEMENT DISCUSSION & ANALYSIS

The revenue of the Group for the six months ended 30th June, 2009 decreased by approximately HK\$13.08 million to approximately HK\$2.60 million. The revenue for the period was generated from the manufacturing and trading of battery products and related accessories. As affected by the global economic turmoil, high production costs in mainland China and more stringent overseas safety requirements, the demand for the Group's battery products has further weakened and leading to decrease in the revenue and also the gross profit margin. Interest income decreased by approximately HK\$11.58 million mainly because of the interest rate maintained at low level during the first half of 2009. Due to the gradual recovery in the global and Hong Kong economies and the recent upturn in the financial market, the Group recorded a gain from fair value changes on investments held for trading which was approximately HK\$156.30 million as opposed to a loss of HK\$59.80 million for the corresponding period last year. During the period, the Company early redeemed convertible notes with the total principal amount of HK\$407.56 million, a loss on partial redemption of convertible notes of HK\$71.03 million has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30th June, 2009. Finance costs decreased by approximately HK\$20.30 million to approximately HK\$27.89 million, in which HK\$25.64 million arising from effective interest on convertible notes and loss on partial redemption of convertible notes of HK\$71.03 million have been recorded under the requirements of the Hong Kong Accounting standard ("HKAS") 39 and HKAS 32. However, such financial costs of HK\$25.64 million and loss on partial redemption of convertible notes of HK\$71.03 million do not affect the Company's cash flow for the period. Overall, total comprehensive income for the period ended 30th June, 2009 was approximately HK\$50.98 million as opposed to a comprehensive expense of approximately HK\$111.20 million for the corresponding period in 2008.

During the period under review, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers, external borrowings, placing shares and placing of convertible notes. As at 30th June, 2009, the Group had working capital calculated by current assets less current liabilities of approximately HK\$836.13 million and the current ratio was 8.00, compared with the working capital of approximately HK\$1,091.39 million and current ratio of 7.76 as at 31st December, 2008.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

In the period under review, the net cash from operating activities was approximately HK\$98.48 million compared with approximately HK\$354.10 million used in operating activities in the same period of 2008. The net cash generated from investing activities and used in financing activities in the first half of 2009 was approximately HK\$12.74 million and HK\$408.20 million respectively compared with approximately HK\$13.47 million net cash generated from investing activities and HK\$1,626.77 million net cash generated by financing activities in the same period of 2008.

The Group's short-term bank overdraft and bank and other borrowings slightly increased from approximately HK\$79.24 million as at 31st December, 2008 to approximately HK\$80.98 million as at 30th June, 2009, representing an increase of 2.2%. Non-current portion of obligation under finance leases decreased by approximately HK\$ 13,000 to approximately HK\$18,000 as at 30th June, 2009. Bank and other borrowings and long term borrowings were fixed rate loans and were denominated in Hong Kong dollars. As at 30th June, 2009, the Group has convertible notes issued on 5th November, 2007 and 7th January, 2008 with aggregated outstanding principal amount of HK\$601.34 million (the "First Convertible Notes). The First Convertible Notes are non-interest bearing and with maturity on 31st December, 2010. The outstanding First Convertible Notes are convertible at HK\$0.33 per share from the date of issue up to 31st December, 2008, HK\$0.36 per shares from 1st January, 2009 to 31st December, 2010 and HK\$0.39 per shares from 1st January, 2010 to 31st December, 2010. As at 30th June, 2009, the liability component of the First Convertible Notes was approximately HK\$518.11 million. The gearing ratio was approximately 1.59 calculated by the total liabilities of HK\$648.90 million divided by total shareholders' equity of HK\$406.86 million

Capital expenditure aggregated to approximately HK\$0.05 million for the six months ended 30th June, 2009 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 30th June, 2009, the Group had cash and bank balances amount to approximately of HK\$480.82 million (31st December, 2008: HK\$777.42 million) and is mainly denominated in Hong Kong dollars. Fair value of investments held for trading was in an amount of HK\$436.53 million (31st December, 2008: HK\$399.58 million). As at 30th June, 2009, there was no bank deposit pledged. During the period ended 30th June, 2009, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign currencies contracts, currency swaps or other financial derivatives. As at 30th June, 2009, the Company issued all monies guarantee and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

At 30th June, 2009, available-for-sale investments and investments held for trading with a carrying value of approximately HK\$1,226,000 (31st December, 2008: HK\$6,103,000) and HK\$1,000 (31st December, 2008: HK\$1,094,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 30th June, 2009 and 31st December, 2008, no margin loan facility was utilised by the Group. At 30th June, 2009, prepaid lease payment with a carrying value of approximately HK\$9,390,000 (31st December, 2008: HK\$9,487,000) was pledged to secure short-term bank loan granted to the Group.

As at 30th June, 2009, the Group employed approximately 111 staff, the staff cost (excluding directors' emoluments) was around HK\$3.47 million for the period under review. The staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits.

There was no share option granted and exercise under the share option scheme of the Company during the period under review. As at 30th June, 2009, the aggregate number of share options outstanding was 28,800,000 share options.

On 8th June, 2009, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a best effort basis, 78,000,000,000 new shares at HK\$0.10 per share of nominal value of HK\$0.10 each to independent third parties (the "Shares Placing Agreement"). Details of the Share Placing Agreement were disclosed in the Company's announcement dated 8th June, 2009. The Shares Placing Agreement was terminated on 20th August, 2009.

On 15th July, 2009, the Group has entered into a non-legally binding memorandum of understanding, with Primus Financial Holdings Ltd. ("Primus"), a private equity fund, to form an acquiring vehicle with a view to submitting a proposal to acquire a controlling interest in an insurance company located in the Greater China region. Further details are set out in the announcements of the Company dated 29th July, 2009, 31st July, 2009. The transaction is still in processes up to the date of this announcement.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

On 20th August, 2009, the Company entered into the conditional placing agreement with Kingston (the "Conditional Placing Agreement"), pursuant to which, Kingston has agreed to act 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 million at a conversion price of HK\$0.10 per conversion share (the "Second Convertible Notes"). The Second Convertible Notes shall not bear any interest other than default interest and maturity on six months from the date of issue of the Second Convertible Notes. The whole of the outstanding principal amount of the Second Convertible Notes shall be automatically converted into ordinary shares in the issued share capital of the Company at the conversion price of HK\$0.10 per share on a day to be determined by the Company upon which the Second Convertible Notes are converted into conversion shares. The net proceeds of approximately HK\$7,600 million is intended to be used to fund the proposed acquisition of more than 90% of the share capital of an insurance company located in the Greater China Region. On 20th August, 2009, the Company and Kingston have mutually agreed to terminate the Share Placing Agreement which entered on 8 June 2009 pursuant to its terms. Details of the placing of Second Convertible Notes and termination of the Share Placing Agreement were disclosed in the Company's announcements dated 8 June 2009 and 20th August, 2009.

On 2nd September, 2009, in relation to the Company's entry into a non-legally binding memorandum of understanding with Primus on 15th July, 2009, the Group entered into a consortium letter with PFH Holdings, Ltd and the PFH Partnership Holdings, L.P., both affiliates to Primus, pursuant to which the parties agreed to (i) that on or prior to the date of completion of the sale and purchase agreement and subject to the fulfillment of all the conditions precedent set forth in the sale and purchase agreement and the Conditional Placing Agreement, the Company will direct Kingston to pay an amount up to the net proceeds from the placing of Second Convertible Notes (being a maximum aggregate amount of approximately HK\$7.6 billion (or its equivalent in any other currency) to the American International Group, Inc. ("Seller") (or any other person as direct by Seller) for the purpose of satisfying the obligation to make payment of the purchase price under the sale and purchase agreement; (ii) that the Company will appoint Mr. Robert R. Morse as director and vice chairman to the board of the Company with effect from completion of the proposed acquisition of 97.57% of issued share capital of Nan Shan Life Insurance Company Limited by the Company or a member of the Group. Details of the consortium letter were disclosed in the Company's announcement dated 2nd September, 2009.

Looking forward, the proposed acquisition of 97.57% of issued share capital of Nan Shan Life Insurance Company Limited represents a unique opportunity for the Company, and is also potentially beneficial to enhance its shareholders' value. On the other hands, despite the recent signs of stabilizing in global economy, the market in the second half of 2009 will remain full of challenging and the interest rate is expected on hold for the 2nd half of 2009. The Group tends to remain cautious on the performance of securities investment operation and also the batteries manufacturing and trading business. The Group will continue to seek for investment opportunities which it considers to be beneficial to the Company with a view to enhance its shareholders' value.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30th June, 2009 met the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the following deviations:

(a) Code provision A.4.1

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Currently all independent non-executive directors of the Company are not appointed for a specific term. However, the Company’s articles of association provide that these directors are subject to retirement by rotation and re-election at the annual general meeting, the board considers that the Company meets the objective of the Code Provision of A.4.1.

(b) Code provision E.1.2

The Code requires the chairman of the board to attend the annual general meeting of the Company. Ms. Chiu Ching Ching did not attend the 2009 annual general meeting as she was not in Hong Kong on that day.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director’s securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30th June, 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the period.

REVIEW BY AUDIT COMMITTEE

Having been reviewed by the Company’s Auditor, Deloitte Touche Tohmatsu, the 2009 interim report has been reviewed by audit committee which comprises three independent non-executive directors of the Company.

By order of the Board
CHINA STRATEGIC HOLDINGS LIMITED
Yeung Kwok Yu
Director

Hong Kong, 24th September, 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.