CHINA STRATEGIC HOLDINGS LIMITED

中策集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 235)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2009

The board of directors (the "Board") of China Strategic Holdings Limited (the "Company") announces the results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Revenue	3	8,246	18,699
Cost of sales		(7,763)	(36,926)
Gross profit (loss)		483	(18,227)
Other income	4	25,344	29,789
Selling and distribution costs		(1,708)	(3,363)
Administrative expenses		(46,849)	(28,494)
Other expenses	5	(65,031)	(38,494)
Finance costs	6	(42,541)	(102,247)
Gain (loss) on financial assets at fair value through profit or loss		144,601	(326,731)
(Loss) gain on partial redemption of convertible notes		(71,034)	19,664
Loss before tax		(56,735)	(468,103)
Taxation	7	5,042	15,738
Loss for the year	8	(51,693)	(452,365)

	NOTE	2009	2008
		HK$'000	HK$'000
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		151	7,789
Fair value changes of available-for-sale investments		5,120	(1,338)
Reclassification adjustments upon disposal of available-for-sale investments		(4,552)	(1,557)
Other comprehensive income for the year		719	4,894
Total comprehensive expense for the year		(50,974)	(447,471)
Loss for the year attributable to:			
Owners of the Company		(51,686)	(452,365)
Minority interests		(7)	—
		(51,693)	(452,365)
Total comprehensive expense attributable to:			
Owners of the Company		(50,967)	(447,471)
Minority interests		(7)	—
		(50,974)	(447,471)
Loss per share	9		
- Basic and diluted		HK(2.23) cents	HK(22.57) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-Current Assets			
Property, plant and equipment		13,845	87,533
Prepaid lease payments		12,493	12,793
Investment in an associate		—	—
Club debentures		825	825
Available-for-sale investments		3,889	8,138
		31,052	109,289
Current Assets			
Inventories		1,178	2,739
Trade and other receivables	11	50,792	65,791
Prepaid lease payments		321	321
Amount due from an associate		—	7,101
Financial assets at fair value through profit or loss		387,549	399,581
Bank balances and cash		482,769	777,418
		922,609	1,252,951
Current Liabilities			
Trade payables, other payables and accrued charges	12	11,656	69,353
Amount due to a subsidiary of an associate		—	7,239
Loan payables		67,403	63,903
Income tax payable		6,964	5,735
Bank borrowings		22,727	15,306
Obligations under finance leases		26	26
		108,776	161,562
Net Current Assets		813,833	1,091,389
Total Assets less Current Liabilities		844,885	1,200,678

	2009	2008
	HK$'000	HK$'000
Capital and Reserves		
Share capital	369,918	202,880
Reserves	474,708	145,957
Equity attributable to owners of the Company	844,626	348,837
Minority interests	254	261
Total equity	844,880	349,098
Non-current Liabilities		
Deferred tax liabilities	—	22,548
Convertible notes	—	829,001
Obligations under finance leases	5	31
	5	851,580
	844,885	1,200,678

NOTES

1. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective.

Hong Kong Accounting Standard ("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
HK(IFRIC) - Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRS has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments (see note 3).

The Group early adopted amendment to HKFRS 8 as part of the Improvements to HKFRSs issued in 2009. The amendment clarifies that an entity shall report a measure of total assets for each reportable segment if such amount is regulary provided to the chief operating decision maker.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and 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 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009 except for amendment to HKFRS 8[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[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 and 1st January, 2010, as appropriate.

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

[4] Effective for annual periods beginning on or after 1st February, 2010.

[5] Effective for annual periods beginning on or after 1st July, 2010.

[6] Effective for annual periods beginning on or after 1st January, 2011.

[7] Effective for annual periods beginning on or after 1st January, 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st July, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "*Financial Instruments*" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "*Financial Instruments: Recognition and Measurement*" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that 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, for the purpose of allocating resources to segments and assessing 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. 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, for the purposes of resource allocation and performance assessment focuses on the Group's business operations. The Group's operating segments under HKFRS 8 are as follows:

1. Investments in securities - Investments in and trading of securities

2. Battery products - Manufacturing and trading of battery products and related accessories

Information regarding the above segments is reported below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Investments in securities HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31st December, 2009			
Gross proceeds	341,197	8,246	349,443
REVENUE			
External sales	—	8,246	8,246
RESULT			
Segment profit (loss)	150,846	(82,140)	68,706
Loss on partial redemption of convertible notes			(71,034)
Other income			21,500
Central administrative expenses			(33,366)
Finance costs			(42,541)
Loss before tax			(56,735)

	Investments in securities HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31st December, 2008			
Gross proceeds	338,870	18,699	357,569
REVENUE			
External sales	—	18,699	18,699
RESULT			
Segment loss	(355,769)	(28,639)	(384,408)
Gain on partial redemption of convertible notes			19,664
Other income			29,269
Impairment loss on prepaid lease payments			(6,835)
Central administrative expenses			(23,546)
Finance costs			(102,247)
Loss before tax			(468,103)

Other Information

	Investments in securities HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31st December, 2009			
Amounts included in the measure of segment profit or loss:			
Depreciation of property, plant and equipment	82	8,978	9,060
Impairment loss on property, plant and equipment	—	65,031	65,031
Gain on financial assets at fair value through profit or loss	(144,601)	—	(144,601)
Release of prepaid lease payments	118	203	321
Reversal of impairment loss on inventories	—	(144)	(144)
Amount regularly provided to the chief operating decision makers but not included in the measure of segment profit or loss:			
Additions of non-current assets (note)	401	122	523

	Investments in securities HK$'000	Battery products HK$'000	Segment total HK$'000	Unallocated HK$'000	Consoldiated HK$'000
For the year ended 31st December, 2008					
Amounts included in the measure of segment profit or loss:					
Depreciation of property, plant and equipment	6,048	1,268	7,316	—	7,316
Impairment loss on property, plant and equipment	—	9,063	9,063	—	9,063
Impairment loss on available-for-sale investments	22,596	—	22,596	—	22,596
Impairment loss on inventories	—	5,172	5,172	—	5,172
Impairment loss on prepaid lease payments	—	—	—	6,835	6,835
Loss on financial assets at fair value through profit or loss	326,731	—	326,731	—	326,731
Release of prepaid lease payments	118	203	321	330	651
Amount regularly provided to the chief operating decision makers but not included in the measure of segment profit or loss:					
Additions of non-current assets (note)	1,073	5,984	7,057	—	7,057

Note: Non-current assets represent property, plant and equipment

Segment assets and liabilities

As the Group's segment assets and liabilities are not regularly provided to the Group's executive directors for review, the measure of total assets and liabilities for each reportable segment is not presented.

Revenue from major product

The Group's revenue is arising from manufacturing and trading of portable alkaline batteries.

Geographical information

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

The Group's revenue from external customers by geographical location of the customers and information about its non-current assets by geographical location of the assets are detailed as below:

	Revenue from external customers Year ended 31st December,		Non-current assets (note) As at 31st December,	
	2009	2008	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000
The PRC	1,093	8,001	22,381	96,085
Hong Kong	7,153	10,698	4,782	5,066
	8,246	18,699	27,163	101,151

Note: Non-current assets excluded available-for-sale investments.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	For the year ended 31st December,	
	2009	2008
	HK$'000	HK$'000
Customer A	1,503	2,137
Customer B	—[1]	4,286
Customer C	—[1]	3,762

All of the revenue is generated from manufacturing and trading of battery products and related accessories.

[1] The corresponding revenue did not contribute over 10% of the total sales of the Group.

4. OTHER INCOME

	2009	2008
	HK$'000	HK$'000
Interest income from banks	12,464	20,103
Interest income from loans receivables	—	1,952
	12,464	22,055
Gain on disposal of available-for-sale investments	4,552	1,557
Dividend income from available-for-sale investments	—	1,287
Dividend income from investments held for trading	3,844	520
Others	4,484	4,370
	25,344	29,789

5. OTHER EXPENSES

	2009	2008
	HK$'000	HK$'000
Impairment loss on property, plant and equipment	65,031	9,063
Impairment loss on available-for-sale investments	—	22,596
Impairment loss on prepaid lease payments	—	6,835
	65,031	38,494

6. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on borrowings wholly repayable within five years:		
Effective interest expense on convertible notes	38,004	95,383
Loan payables	3,624	5,537
Bank borrowings	906	1,320
Obligations under finance leases	7	7
	42,541	102,247

7. TAXATION

	2009 HK$'000	2008 HK$'000
Hong Kong Profits Tax	1,229	—
Deferred tax	(6,271)	(15,738)
	(5,042)	(15,738)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's subsidiaries in the PRC is 25% from 1st January, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, two PRC subsidiaries of the Group are exempted from PRC enterprise income tax for two years commencing from the year ended 31st December, 2008, followed by a 50% relief from PRC enterprise income tax for the next three years.

The taxation for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2009	2008
	HK$'000	HK$'000
Loss before tax	(56,735)	(468,103)
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	(9,361)	(77,237)
Tax effect of expenses not deductible for tax purpose	28,721	22,643
Tax effect of income not taxable for tax purpose	(393)	(8,130)
Tax effect of deductible temporary differences not recognised	—	(3)
Tax effect of tax losses not recognised	—	49,719
Utilisation of tax losses previously not recognised	(23,155)	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	(854)	(2,730)
Taxation for the year	(5,042)	(15,738)

8. LOSS FOR THE YEAR

	2009	2008
	HK$'000	HK$'000
Loss for the year has been arrived at after charging:		
Staff costs		
– directors' emoluments	8,041	9,413
– other staff costs	4,661	9,277
– retirement benefits schemes contributions, excluding directors	124	334
Total staff costs	12,826	19,024
Auditor's remuneration	1,053	1,170
Depreciation of property, plant and equipment	9,060	7,316
Release of prepaid lease payments	321	651
Cost of inventories recognised as expense (Note)	7,763	36,926
Loss on disposal of property, plant and equipment	504	—
and after crediting:		
Exchange gain	21	4,791

Note: Included in cost of inventories recognised as expenses for the year ended 31st December, 2009 and 2008 are reversal of impairment loss on inventories of HK$144,000 and impairment loss on inventories of HK$5,172,000, respectively. During the year ended 31st December, 2009, a significant quantity of the inventories was sold. As a result, a reversal of impairment loss on inventories of HK$144,000 has been recognised and included in cost of sale in the current year.

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to the owners of the Company of HK$51,686,000 (2008: HK$452,365,000) and the weighted average number of 2,321,310,933 (2008: 2,004,207,379) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31st December, 2009 and 2008 does not include adjustments for the Company's convertible notes and share options as they have anti-dilutive effect.

10. FINAL DIVIDEND

The directors of the Company do not recommend the payment of any final dividend for the year ended 31st December, 2009 (2008: nil).

11. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	HK$'000
Trade receivables	1,508	1,803
Less: allowance for doubtful debts	(740)	(740)
	768	1,063

The Group normally allows its trade customers credit period ranging from 90 days to 180 days. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of reporting period:

	2009	2008
	HK$'000	HK$'000
0-90 days	768	914
Over 90 days	—	149
	768	1,063

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK$1,803,000 (2008: HK$3,282,000) with the following aged analysis at the end of the reporting period:

	2009 HK$'000	2008 HK$'000
0-90 days	405	859
91-180 days	175	1,641
Over 180 days	1,223	782
	1,803	3,282

The average credit period on purchases of goods is 90 days.

13. CONTINGENT LIABILITIES

During the year ended 31st December, 2008, the Company issued guarantee of HK$13,500,000 (2009: nil) and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary and the amount utilised by that non-wholly owned subsidiary as at 31st December, 2008 was HK$3,573,000 (2009: nil).

14. COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2009 HK$'000	2008 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Acquisition of property, plant and equipment	—	8,218
– Acquisition of a subsidiary	13,903,000	—

15. PLEDGE OF ASSETS

(a) At 31st December, 2009, available-for-sale investments and investments held for trading with a carrying value of approximately HK$1,854,000 (2008: HK$6,103,000) and HK$3,526,000 (2008: HK$1,094,000), respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2009 and 2008, no margin loan facility was utilised by the Group. There is no restriction on trading of these available-for-sale investment as investments held for trading.

(b) At 31st December, 2009, land use right (included in prepaid lease payments) with a carrying value of approximately HK$9,304,000 (2008: HK$9,487,000) and building (included in property, plant and equipment) with a carrying value of HK$11,491,000 (2008: nil) was pledged to secure a short-term bank loan granted to a subsidiary.

MANAGEMENT DISCUSSION & ANALYSIS

The revenue of the Group for the year ended 31 December 2009 decreased by approximately HK$10.45 million to approximately HK$8.25 million. The revenue for the year was generated from the manufacturing and trading of batteries products. 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 batteries products has further weakened and leading to decrease in the revenue. Interest income from bank decreased by approximately HK$7.64 million mainly because of the interest rate maintained at low level during the year 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 financial assets at fair value through profit or loss which was approximately HK$140.60 million for the year 2009 as opposed to a loss of HK$326.73 million for the year 2008. Finance costs decreased by approximately HK$59.71 million to approximately HK$42.54 million, in which HK$38.00 million arising from effective interest on convertible note has been recorded under the requirements of the Hong Kong Accounting Standard ("HKAS") 39 and HKAS 32. However, such financial costs of HK$38.00 million do not affect the Company's cash flow for the year 2009. Overall, total comprehensive expenses for the year ended 31 December 2009 was approximately HK$50.98 million and total comprehensive expenses of HK$447.47 million for the year 2008.

During the financial year of 2009, 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 31 December 2009, the Group had working capital calculated by current assets less current liabilities of approximately HK$813.83 million and the current ratio increased to 8.48, compared with the working capital of approximately HK$1,091.39 million and current ratio of 7.76 as at 31 December 2008.

In the fiscal year of 2009, the net cash from operating activities was approximately HK$85.24 million compared with approximately HK$764.03 million used in operating activities for the year 2008. The net cash generated from investing activities and used in financing activities in the fiscal year of 2009 was approximately HK$21.31 million and HK$401.20 million respectively compared with approximately HK$62.50 million net cash generated from investing activities and HK$1,287.24 million net cash generated from financing activities in 2008.

The Group's short-term bank and other borrowings was increased from approximately HK$79.24 million as at 31 December 2008 to approximately HK$90.16 million as at 31 December 2009, representing an increase of 13.78%. Except for obligations under finance leases, the Group had no long term borrowings as at 31 December 2009. Bank and other borrowings were variable rate loans and were denominated in RMB and Hong Kong dollars. As at 31 December 2009, there are no convertible notes outstanding. The gearing ratio was approximately 0.13 calculated by the total liabilities of HK$108.78 million divided by total shareholders' equity of HK$844.63 million attributable to equity holders of the Company.

Capital expenditure aggregated to approximately HK$0.5 million for the year ended 31 December 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 31 December 2009, the Group had cash and bank balances amount to approximately of HK$482.77 million and is mainly denominated in Hong Kong dollars. Fair value of financial assets at fair value through profit or loss was in an amount of HK$387.55 million. As at 31 December 2009, there was no bank deposit pledged. During the year ended 31 December 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 contracts, currency swaps or other financial derivatives.

As at 31 December 2009, the Group employed approximately 80 staff, the staff cost (excluding directors' emoluments) was around HK$4.79 million for the year. 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 wholly owned foreign enterprise 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 exercised under the share option scheme of the Company during the year ended 31 December 2009 under review. As at 31 December 2009, 24,800,000 share options were still outstanding.

On 8 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$0.1 per share of nominal value of HK$0.1 each to independent third parties (The "Shares Placing Agreement"). The Shares Placing Agreement was terminated on 20 August 2009. Further details are set out in the announcement of the Company dated 8 June 2009 and 20 August 2009.

On 15 July 2009, the Group has entered into a non-legally binding memorandum of understanding, with Primus Financial Holdings Ltd., a private equity fund and an independent third party of the Group, to form a consortium with a view to submitting a proposal for the acquisition of 97.57% of the outstanding shares of capital stock in Nan Shan Life Insurance Company Limited from AIG International Group, Inc.. A formal sale and purchase agreement has been entered into between Primus Nan-Shan Company Ltd, a 80% indirectly owned subsidiary of the Company, and American International Group. Inc. on 13 October 2009. Further details are set out in the announcement of the Company dated 29 July 2009, 31 July 2009, 13 October 2009 and 10 November 2009 and the circular of the Company dated 27 February 2010.

On 20 August 2009, the Company has entered into the conditional placing agreement with Kingston (the "Conditional Placing Agreement"), pursuant to which, Kingston 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 million at a conversion price of HK$0.1 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$0.1 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 20 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 20 August 2009 and the circular of the Company dated 27 February 2010.

On 2 September 2009, the Group entered into a consortium letter with PFH Holdings, Ltd and the PFH Partnership Holdings, L.P., 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. (or any other person as direct by American International Group, Inc.) 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 announcements dated 2 September 2009 and the circular of the Company dated 27 February 2010.

On 12 October 2009, the Company has entered into the Management Agreement with, the Primus Investor, PFH Holdings, the Purchaser, Mr. Morse and Mr. Ng. Pursuant to the Management Agreement, the parties agreed (i) the making of the Equity Contribution Amounts to the Purchaser on or prior to Acquisition Completion by each of the Company and the Primus Investor Group in the proportion of 80% and 20%, respectively for the purpose of enabling the Purchaser to meet its payment obligations under the Share Purchase Agreement; (ii) the composition of the Purchaser Board and the appointment of directors onto the Purchaser Board; (iii) the appointment of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser, the terms of such appointment to be set out in the Employment Agreements; and (iv) the sharing of expenses (on a pro rata basis in accordance with the Company and Primus Investor's shareholding in the Purchaser) incurred in respect of the Transactions by the Company and Primus Investor. Pursuant to the Management Agreement, the Company, Primus Investor, PFH Holdings, the Purchaser, Mr. Morse and Mr. Ng also agreed that the Employment Agreements will be entered into in respect of the terms of appointment of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser and the Service Fees payable by the Company to Mr. Morse and Mr. Ng for services performed by each of them in connection with the Transactions and the preparation of the Bid by the Purchaser. Pursuant to the Management Agreement, the Company will enter into the Option Agreements pursuant to which the Company will grant to Mr. Morse, and Mr. Ng, the Share Options. Terms used herein shall, unless otherwise defined, have the same meanings as defined in the announcement of the Company dated 10 November 2009. Further details of the Management Agreement are set out in the announcement of the Company dated 13 October 2009 and 10 November 2009 and the circular of the Company dated 27 February 2010.

On 13 October 2009, Primus Nan-Shan Holding Company Ltd, a subsidiary of the Company of which the Company indirectly owns 80% and PFH Holdings own 20% (the "Purchaser") and American International Group, Inc.(the "Seller") has entered into the share and purchase agreement pursuant to which the Seller and the Purchaser agreed that subject to the satisfaction of various conditions, the Seller will sell (or cause one or more of its subsidiaries to sell) and the Purchaser will purchase 767,893,139 shares of common stock of Nan Shan, which represent approximately 97.57% of the issue and outstanding share capital of Nan Shan (the "Sale and Purchase Agreement"). The purchase price for the sales shares is agreed at US$2,146,588,190. Further details of the Sale and Purchase Agreement are set out in the announcement of the Company dated 13 October 2009 and 10 November 2009 and the circular of the Company dated 27 February 2010.

On 9 November 2009, the Company and Kingston Securities Limited (the "Share Placing Agent") has entered into the conditional share placing agreement pursuant to which the Company agrees to conditionally place and the Share Placing Agent agrees to, as agent of the Company, procure purchasers during the placing period on a best effort basis, for the shares up to a maximum of 40,000,000,000 new shares at HK$0.1 per share (the "Conditional Share Placing Agreement"). Further details of the Conditional Share Placing Agreement are set out in the announcement of the Company dated 10 November 2009 and the circular of the Company dated 27 February 2010.

On 17 November 2009, the Company entered into a memorandum of understanding (the "MOU') with Chinatrust Financial Holdings Co., Ltd (the "Chinatrust") pursuant to which the Company and Chinatrust agreed that, conditionally upon the completion of the share purchase agreement entered into by Primus Nan-Shan Holding Company Ltd. (the "PNS"), a subsidiary of the Company, and American International Group, Inc. (the "AIG") dated 13 October 2009 (the "PNS-AIG SPA") in respect of the acquisition of approximately 97.57% of the issued and outstanding share capital of Nan Shan Life Insurance Company, Ltd. (the "Nan Shan"), the Company and Chinatrust will enter into the relevant transaction documentation (the "Transaction Documents") and it is the intention of the Company and Chinatrust that the Transaction Documents will set out the terms and conditions for: (i) the subscription by the Company of 1,172,100,000 shares of common stock in Chinatrust (representing approximately 9.950% of the entire issued share capital of Chintrust as at the date of MOU) for an issue price of NT$17.74 per share, which represents a discount of approximately 12.83% to the market price of Chinatrust shares as at 17 November 2009 (such subscription shares to be issued by way of a private placement) (the "Proposed Subscription"); and (ii) the sale by the Company and the purchase by Chinatrust of the number of shares of common stock in Nan Shan representing 30% of the entire issued and outstanding share capital of Nan Shan at a purchase price of approximately US$660.01 million (the "Proposed Disposal"); and (iii) the future intention within three years from the signing of the MOU to enter into negotiations between the parties to increase the Company's shareholding in Chinatrust and to increase Chinatrust's shareholding in Nan Shan (the "Future Plans"), in each case, to the extent agreeable by the parties and permissible under the laws. Further details of the MOU are set out in the announcement of the Company dated 17 November 2009 and the circular of the Company dated 27 February 2010.

On 26 February 2010, Primus Nan-Shan Holding Company Limited, an 80% indirectly owned subsidiary of the Company has entered into the Employment Agreements with each of Mr. Morse and Mr. Ng. Pursuant to the Employment Agreement, subject to Acquisition Completion, it will pay the Services Fees to Mr. Morse and Mr. Ng in equal shares. Terms used herein shall have the same meanings as defined in the announcement of the Company dated 26 February 2010 and further details of the Employment Agreement are set out in the announcement of the Company dated 26 February 2010 and the circular of the Company dated 27 February 2010.

On 26 February 2010, the Company has entered into Option Deeds with each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma. Pursuant to Option Deeds, the Company agreed to grant Share Options to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma to subscribe 3,200 million, 3,200 million, 600 million and 100 million Shares in the Company exercisable at the Exercise Price respectively. Terms used herein shall have the same meanings as defined in the announcement of the Company dated 26 February 2010 and further details of the Option Deeds are set out in the announcement of the Company dated 26 February 2010 and the circular of the Company dated 27 February 2010.

On 26 February 2010, the Company has also entered into a term loan facility agreement (the "CSH Facility Agreement") with the Purchaser, pursuant to which the Company will grant to Purchaser, subject to approval of the Independent Shareholders, a term loan facility of the principal amount up to HK$5.3 billion with zero interest for the term of three years and shall automatically be renewable for a further term of three years upon its maturity subject to compliance with the relevant provisions of the Listing to the Purchaser. Terms used herein shall have the same meanings as defined in the announcement of the Company dated 26 February 2010 and further details of the CSH Facility Agreement are set out in the announcement of the Company dated 26 February 2010 and the circular of the Company dated 27 February 2010.

On 16 March 2010, the Company held an extraordinary general meeting (the "EGM"), in which, among other things, the Sale and Purchase Agreement has been approved by the shareholders. Details of the EGM results are set out in the announcement of the Company dated 16 March 2010.

Looking forward, following to the signing of the Sale and Purchase Agreement, however, the completion of the acquisition is still under various conditions, the acquisition of 97.57% of issued share capital of Nan Shan Life Insurance Company Limited represents a unique opportunity for the Company, and would potentially beneficial to enhance the shareholders' value of the Company. Having entered into a memorandum of understanding with Chinatrust on 17 November 2009 which allows the Company has the possibility of penetrating into the banking sector in Taiwan. On the other hands, despite the recent signs of stabilizing in global economy, the market in 2010 will remain full of challenging and the interest rate is expected on hold in the 1st half of 2010. The Group tends to remain cautious on the performance of securities investment operation and also the batteries manufacturing and trading business. We will continue to seek to invest in other financial services institutions in the greater China region, with initial focus in Taiwan. The Company's vision is to establish a strong and competitive Asia-based financial services platform upon which to further develop the Group's presence in the financial services market in Asia. 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.

REDEMPTION OF CONVERTIBLE NOTES ISSUED BY THE COMPANY

In the year of 2008, the Company has issued convertible notes with a principal amount of HK$1,173.15 million to independent third parties, which are non-interest bearing with maturity date on 31st December, 2010 with the conversion price ranging from HK$0.33 to HK$0.39 per share, subject to anti-dilutive adjustments.

In January and March of 2009, the Company early redeemed convertible notes with a principal amount of 307.56 million and 100.00 million respectively. As at 31 December 2009, no convertible notes was outstanding.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2009, except for the following deviations:

1. Code Provision A2.1 requires the roles of the Chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has deviated from the requirement since 3rd October, 2008 due to the resignation of the chief executive officer. The Company has appointed a chief executive officer on 20th April, 2009.

2. Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company is fair and reasonable.

3. Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. The Chairman was unable to attend the 2009 annual general meeting as she had another engagement that was important to the business of the Company.

EMOLUMENT POLICY

A Remuneration Committee is set up for reviewing the Group's emolument policy structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistic.

The Company has adopted a share option scheme as an incentive to directors and eligible participants.

DIRECTORS' SECURITIES TRANSACTIONS

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 own code of conduct regarding directors' securities transactions. Based on specific enquiry of all the directors of the Company (the "Director(s)"), the directors complied throughout the year in review with the required standards as set out in the Model Code.

REVIEW BY AUDIT COMMITTEE

The 2009 annual results have been reviewed by the audit committee.

By Order of the Board
CHINA STRATEGIC HOLDINGS LIMITED
Ma Si Hang, Frederick
Chairman

Hong Kong, 23 April 2010

As at the date hereof, the Board comprises Mr. Or Ching Fai, Ms. Chiu Ching Ching, Mr. Yau Wing Yiu, Mr. Hui Richard Rui, Ms. Chan Ling, Eva, Mr. Lee Sun Man and Mr. Chow Kam Wah as executive Directors. Mr. Ma Si-Hang, Frederick as a non-executive Director and Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying as independent non-executive Directors.