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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

**If you have sold or transferred** all your shares in **China Strategic Holdings Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser and transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)

**CIRCULAR**

- (A) PROPOSED PLACING OF NEW SHARES UNDER SPECIAL MANDATE**
  - (B) PROPOSED PLACING OF THE CONVERTIBLE NOTES**
  - (C) NOTICE OF EXTRAORDINARY GENERAL MEETING**
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A letter from the Board is set out on page 4 to 21 of this circular.

A notice convening an extraordinary general meeting of China Strategic Holdings Limited (the "Company") to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 2 October 2007 at 10:00 a.m. or any adjournment thereof is set out on pages 27 to 29 of this circular. A proxy form for use in the extraordinary general meeting is enclosed. Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office in Hong Kong, Tricor Standard Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

Hong Kong, 14 September 2007

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context otherwise requires:*

“AGM”	the annual general meeting of the Company held on 6 June 2007
“associates”	has the meaning given to that term in the Listing Rules
“Board”	the board of Directors
“CN Placee(s)”	Placee(s) under the CN Placing
“CN Placing”	the placing of the Convertible Notes through the Placing Agent on a best effort basis pursuant to the terms of the CN Placing Agreement
“CN Placing Agreement”	the conditional placing agreement dated 23 August 2007 entered into between the Company and the Placing Agent in relation to the CN Placing (as supplemented and amended by a side letter made between the Company and the Placing Agent on 29 August 2007)
“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
“connected person(s)”	has the meaning given to that term in the Listing Rules
“Conversion Shares”	those shares to be issued upon the exercise of the conversion rights under the Convertible Notes, namely, a maximum of 4,000,000,000 new Shares falling to be issued upon full exercise of the conversion rights attached to the Convertible Notes at the initial conversion price of HK\$0.33 per Share (subject to adjustment)
“Convertible Notes”	the convertible redeemable notes to be issued by the Company in the maximum aggregate principal amount of HK\$1,320,000,000 due on the Maturity Date
“Director(s)”	director(s) of the Company
“EGM”	extraordinary general meeting of the Company to be convened to approve the matter(s) referred to herein
“Existing General Mandate”	the general mandate granted to the Directors at the AGM to allot, issue or otherwise deal in up to 88,159,508 additional Shares

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## DEFINITIONS

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“First Placing Shares”	a total of 88,000,000 new Shares to be placed through the Placing Agent pursuant to the First Share Placing Agreement
“First Share Placing”	the placing of the First Placing Shares by the Placing Agent on a fully underwritten basis
“First Share Placing Agreement”	a conditional placing agreement dated 23 August 2007 entered into between the Company and the Placing Agent in relation to the First Share Placing
“Group”	the Company and its subsidiaries
“Independent Third Party (Parties)”	independent third party (parties) not connected with the directors, substantial shareholders of the Company or any of its subsidiaries or their respective associate
“Last Trading Day”	23 August 2007, being the trading day on which the Shares were suspended from trading on the Stock Exchange pending the release of the announcement dated 30 August 2007 made by the Company
“Latest Practicable Date”	11 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2007
“Maturity Date”	31 December 2010
“Placee(s)”	any institutional, corporate or independent individual investor(s) procured by the Placing Agent to subscribe for any principal amount of the Convertible Notes and/or First Placing Shares and/or the Second Placing Shares pursuant to the Placing Agent’s obligations under the CN Placing Agreement and the First Share Placing Agreement and the Second Share Placing Agreement respectively, as the case may be
“Placing Agent”	Kingston Securities Limited, a licensed corporation to carry on types 1 (dealing in securities) regulated activities for the purposes of the SFO
“Placing Price”	HK\$0.33 per Share

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## DEFINITIONS

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“Second Placing Shares”	up to a maximum of 1,500,000,000 new Shares to be placed through the Placing Agent pursuant to the Second Share Placing Agreement
“Second Share Placing”	the placing of the Second Placing Shares by the Placing Agent on a best effort basis
“Second Share Placing Agreement”	a conditional placing agreement dated 23 August 2007 entered into between the Company and the Placing Agent in relation to the Second Share Placing (as supplemented and amended by a side letter made between the Company and the Placing Agent on 29 August 2007)
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company at an extraordinary general meeting dated 4 June 2002
“Share Placee(s)”	Placee(s) under the Share Placing
“Share Placing”	the First Share Placing and the Second Share Placing
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning given to that term in the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Gao Yang  
Mr. Kwok Ka Lap, Alva  
Ms. Chan Ling, Eva  
Mr. Chow Kam Wah  
Mr. Lee Sun Man

*Registered Office:*

8th Floor  
Paul Y. Centre  
51 Hung To Road  
Kowloon  
Hong Kong

*Independent Non-Executive Directors:*

Mr. Wong King Lam, Joseph  
Mr. Sin Chi Fai  
Mr. Chan Sek Nin, Jackey

14 September 2007

*To the Shareholders*

*Dear Sir or Madam,*

- (A) PROPOSED PLACING OF NEW SHARES UNDER SPECIAL MANDATE**
- (B) PROPOSED PLACING OF THE CONVERTIBLE NOTES**
- (C) NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### INTRODUCTION

On 30 August 2007, the Company announced that the First Share Placing Agreement, the Second Share Placing Agreement and the CN Placing Agreement were entered into between the Company and the Placing Agent. The First Share Placing is on a fully underwritten basis and completion of the First Share Placing is conditional upon the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in all of the First Placing Shares and will take place within four business day after the fulfilment of the condition as set out in the First Share Placing Agreement but in any event no later than 28 September 2007 or such other date to be agreed between the Company and the Placing Agent. As at the Latest Practicable Date, the Company is in the process of making application to the Stock Exchange to grant the listing of, and permission to deal in, the First Placing Shares.

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## LETTER FROM THE BOARD

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The First Share Placing, the Second Share Placing and the CN Placing are not inter-conditional upon each other.

The purpose of this circular is to provide you with information on the Second Share Placing and the CN Placing and to set out the notice of EGM.

### **SECOND SHARE PLACING**

#### *Second Share Placing Agreement*

#### **Date**

23 August 2007

#### **Parties**

The Company and the Placing Agent

#### **Placing Agent**

The Placing Agent has conditionally agreed with the Company to place up to a maximum of 1,500,000,000 new Shares on a best effort basis.

The Placing Agent will receive a placing commission of 2.5% of the aggregate amount equal to the Placing Price multiplied by the number of the Second Placing Shares successfully placed by the Placing Agent. The Second Share Placing Agreement was arrived at after arm's length negotiations between the Company and the Placing Agent.

Each of the Placing Agent and its ultimate beneficial owners is an Independent Third Party.

#### **Share Placees**

Not less than six independent Share Placees (which will be independent individual, corporate and/or institutional investors) for the Second Placing Shares, who and whose ultimate beneficial owners (i) will not be connected persons of the Company; and (ii) will be Independent Third Parties. As at the Latest Practicable Date, the Directors were unable to determine whether any Share Placee will become a substantial shareholder of the Company as a result of completion of the Second Share Placing Agreement.

#### **Placing Price**

The Placing Price of HK\$0.33 represents (i) a discount of about 13.16% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of about 11.53% to the average of the closing price per Share of about HK\$0.373 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of

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## LETTER FROM THE BOARD

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about 20.77% to the average of the closing price per Share of about HK\$0.4165 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and a discount of approximately 49.23% to the closing price of HK\$0.65 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

After deduction of the commission and expenses arising from the Second Share Placing, the net Placing Price per Second Placing Share shall be approximately HK\$0.321. The aggregate net proceeds raised upon the completion of the Second Share Placing will be about HK\$482 million.

### **Second Placing Shares**

Pursuant to the Second Share Placing Agreement, 1,500,000,000 new Shares will be placed by the Placing Agent on a best effort basis, representing approximately 340.29% of the Company's existing issued share capital of the Company as at the Latest Practicable Date and about 283.66% of its issued share capital as enlarged by the completion of the First Share Placing and about 73.93% of its issued share capital as enlarged by the completion of First Share Placing and the Second Share Placing.

The Second Placing Shares will be allotted and issued under the special mandate proposed to be passed at the EGM. The Second Placing Shares will, when fully paid, be allotted and issued in accordance with the memorandum and articles of association of the Company and with the relevant rules and regulations applicable to the Company in Hong Kong and will, upon allotment and issue, be free from all liens, charges, encumbrances or third party rights of whatsoever nature and together with all rights attaching thereto at completion of the relevant tranche of the Second Share Placing and thereafter.

### **Conditions Precedent**

The Second Share Placing will be subject to the following conditions:

- the Listing Committee granting the listing of, and permission to deal, in the Second Placing Shares under the relevant tranche of the Second Share Placing (subject to conditions to which neither the Placing Agent nor the Company may reasonably object); and
- the passing of the resolution by Shareholders approving the Second Share Placing Agreement and the transactions contemplated thereunder, including the allotment and issue of the Second Placing Shares at the EGM.

If the foregoing conditions are not fulfilled on or prior to the Long Stop Date (or such later date as may be agreed between the Company and the Placing Agent), the Second Share Placing Agreement shall terminate and none of the parties thereto shall have any claim against the other for any costs or losses (save for any prior breaches of the Second Share Placing Agreement).

The First Share Placing, the Second Share Placing and the CN Placing are not inter-conditional upon each other.



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## LETTER FROM THE BOARD

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### **Representation and Warranties**

Under the Second Share Placing Agreement, the Company has given certain representations and warranties on, inter alia, the authority to enter into the Second Share Placing Agreement and the ranking of the Second Placing Shares upon allotment. In particular, the Company has warranted in the Second Share Placing Agreement, inter alia, that it shall provide the Placing Agent with all such information relating to the Company, any companies controlled by the Company and the Group as the Placing Agent would reasonably require for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Group or otherwise and all material facts and information which might reasonably be expected to be relevant in enabling the Placing Agent to fulfil its responsibilities in carrying out the terms of the Second Placing Agreement. The Company will provide published financial information to the Placing Agent. In addition, the Company shall accept full responsibility for the accuracy of all information and facts given by it to the Placing Agent in relation to the Second Share Placing and warrant that no other material information or material facts have been or will be withheld, the omission of which will make the information or facts given to the Placing Agent incorrect or misleading in any material respect, and to notify the Placing Agent should such omission or inaccuracy first come to the attention of the Company.

### **Termination and force majeure of the Second Share Placing**

- (I) The Placing Agent reserves its right to terminate the Second Share Placing by notice in writing prior to 10:00 a.m. on the relevant date of completion of the Second Share Placing, if in the reasonable opinion of the Placing Agent, the success of the Second Share Placing would be materially and adversely affected by any force majeure events which include:
- (a) 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
  - (b) 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 of the Second Share Placing Agreement) of a political, military, financial, economic, 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 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 adversely prejudices the success of the Second Share Placing by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Second Share Placing; or

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## LETTER FROM THE BOARD

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- (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction or trading in securities) occurs which affect the success of the Second Share Placing (such success being the placing of the Second Placing Shares 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 Second Share Placing.

(II) If, at or prior to 10:00 a.m. on the completion date of the Second Share Placing:

- (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Second Share Placing Agreement; or
- (b) any suspension in the trading of the Shares on the Stock Exchange for more than ten consecutive trading days save for the purposes of clearance of the announcement relating to the Second Share Placing Agreement or circulars relating to the Second Share Placing; or
- (c) the Placing Agent shall become aware of the fact that any of the representations or warranties contained in the Second Share Placing Agreement was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated the Placing Agent shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Group taken as a whole or will otherwise likely to have a material prejudicial effect on the Second Share Placing.

The Placing Agent shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Placing Agent from its obligations under the Second Share Placing Agreement.

Upon giving of notice by the Placing Agent, all obligations of the Placing Agent under the Second Share Placing Agreement shall cease and determine and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Second Share Placing Agreement, save for any antecedent breaches and provided that such termination shall not affect any partial completion of the Second Share Placing that have taken place prior to such date of termination.

### **Completion of the Second Share Placing**

Completion of the Second Share Placing will take place within four business day after the fulfilment of the condition as set out in the Second Share Placing Agreement or such other date to be agreed between the Company and the Placing Agent. The Company and the Placing Agent have agreed in a side letter to the Second Placing Agreement that each completion of the Second Share Placing is subject to compliance of public float requirement under the Listing Rules. The Company will not issue Second Placing Shares if such issue shall result in insufficient public float.

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## LETTER FROM THE BOARD

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The Second Share Placing can be completed partially by a maximum of 10 tranches provided that the aggregate number of the Second Placing Shares for each partial completion shall not be less than 150,000,000 Shares (save for the last tranche of the Second Share Placing where the number of the Second Placing Shares to be issued may be less than 150,000,000, as the case may be). Accordingly, the issue of the Second Placing Shares by tranches will provide flexibility to receive the maximum placing of the Second Placing Shares by the Placing Agent. The Company will issue an announcement upon each partial completion of the Second Share Placing. The Company will make a maximum of 10 listing applications to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Second Placing Shares once the Placing Agent confirms to the Company that the number of Second Placing Shares to be subscribed by the Share Placees procured by the Placing Agent has reached 150,000,000 Shares and that partial completion of the Second Share Placing can take place. Placing of the Second Placing Shares in tranches shall give flexibility to the Company in raising funds and the Company may receive funds in a quicker manner as partial completion can take place once the number of Second Placing Shares placed by the Placing Agent has reached 150,000,000 Shares. Accordingly, the Board considers that placing of Second Placing Shares in tranches is fair and reasonable to the Company and its Shareholders as a whole.

### **Listing**

Application will be made to the Stock Exchange to grant the listing of, and permission to deal in, the relevant Second Placing Shares.

### **CN PLACING**

#### **Date of CN Placing Agreement**

23 August 2007

#### **Parties**

The Company and the Placing Agent

#### **Placing Agent**

The Placing Agent has conditionally agreed with the Company to place, on a best effort basis, the Convertible Notes which are proposed to be issued in a maximum aggregate principal amount of HK\$1,320,000,000. The Placing Agent will receive a placing commission of 2.5% of the amount equal to the aggregate principal amount of the Convertible Notes subscribed or procured to be subscribed by the Placing Agent, which was arrived at after arm's length negotiations between the Company and the Placing Agent.

The Board is of the view that the terms of the CN Placing and the CN Placing Agreement (including but not limited to the placing commission) are fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Placees**

The Placing Agent will place the Convertible Notes to not less than six independent CN Placees (which will be independent individual, corporate and/or institutional investors), each of whom or its ultimate beneficial owner (i) will not be a connected person of the Company; and (ii) will be Independent Third Party. As at the Latest Practicable Date, the Directors were unable to determine whether any CN Placee will become a substantial shareholder of the Company as a result of completion of the CN Placing Agreement.

### **Conditions of the CN Placing**

The CN Placing is conditional upon:

- (a) the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the relevant Conversion Shares under the relevant tranche of the CN Placing; and
- (b) the granting of approval by the Shareholders on the CN 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.

If the conditions are not fulfilled on or before the Long Stop Date (or such later date as may be agreed between the Company and the Placing Agent), the CN Placing Agreement shall terminate and neither the Company nor the Placing Agent shall have any claim against the other for any costs or losses (save for any prior breaches of the CN Placing Agreement).

### **Representation and Warranties**

Under the CN Placing Agreement, the Company has given certain representations and warranties on, inter alia, the authority to enter into the CN Placing Agreement, the business, the legal and financial position of the Group and the ranking of the Conversion Shares upon allotment. In particular, the Company has warranted in the CN Placing Agreement, inter alia, that save as previously disclosed by the Company to the public in writing, (i) during the preceding 12 months, there is no litigation, arbitration or other legal proceedings in progress or pending against any member of the Group which if decided adversely to the relevant member of the Group would have or have had during the 12 months preceding the date of the CN Placing Agreement a material adverse effect on the financial position of the Group (taken as a whole) or the Company and which is material in the context of the Placing; and (ii) there has been no material adverse change in the condition, financial or otherwise, or the earnings, business affairs or business prospects (whether or not arising in the ordinary course of business) of any member of the Group since 31 December 2006, the latest audited accounts date and no event has occurred which in the reasonable opinion of the Company may give rise to a material adverse change in such position in the foreseeable future.

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## LETTER FROM THE BOARD

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### Termination and force majeure for the CN Placing

The CN Placing Agreement may be terminated by the Placing Agent, if, at any time prior to 10:00 a.m. on the relevant date of completion of the CN Placing Agreement, in the reasonable opinion of the Placing Agent, the success of the CN 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 CN Placing Agreement; or
- (b) any suspension in the trading of the Shares on the Stock Exchange for more than ten consecutive trading days save for the purposes of clearing of the announcement relating to the CN Placing Agreement or circulars relating to the placing of the Convertible Notes and in the ancillary agreements thereto; 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 of the CN Placing Agreement) of a political, military, financial, economic, 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 of the Convertible Notes by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the placing of Convertible Notes; 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,

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## LETTER FROM THE BOARD

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then and in any such case, the Placing Agent may terminate the CN Placing Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to 10:00 a.m. on the relevant completion date of the Convertible Notes and provided further that such termination shall not affect any partial completion of the Convertible Notes that have taken place prior to such date of termination.

### **Completion of the CN Placing**

Completion of the CN Placing Agreement shall take place within four business days following the date on which the conditions of the CN Placing Agreement are fulfilled or in such other date as the Company and the Placing Agent shall agree.

The CN Placing can be completed partially. Given that the CN Placing will be conducted on a best effort basis by the Placing Agent, it is uncertain as to whether the full aggregate principal amount of the Convertible Notes in the sum of HK\$1,320,000,000 will be placed to the CN Placees. Accordingly, the issue of the Convertible Notes by tranches will provide flexibility to receive the maximum placing of the Convertible Notes by the Placing Agent. Save for the last tranche of the Convertible Notes, the aggregate principal amount of the Convertible Notes to be issued by the Company for each partial completion shall not be less than HK\$100,000,000. In light of the proposed issue of the Convertible Notes in a maximum aggregate principal amount of HK\$1,320,000,000, the CN Placing can be completed partially by a maximum of 14 tranches. The Company will issue an announcement upon each partial completion of the CN Placing. The Company will make a maximum of 14 listing applications to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Conversion Shares once the Placing Agent confirms to the Company that the aggregate principal amount of the Convertible Notes to be subscribed by the CN Placees procured by the Placing Agent has reached HK\$100,000,000 and that partial completion of the CN Placing can take place. Placing of the Convertible Notes in tranches shall give flexibility to the Company in raising funds and the Company may receive funds in a quicker manner as partial completion can take place once the amount of Convertible Notes placed by the Placing Agent has reached HK\$100,000,000. Accordingly, the Board considers that placing of Convertible Notes in tranches is fair and reasonable to the Company and its Shareholders as a whole.

### **The Convertible Notes**

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

#### ***Principal amount***

A maximum aggregate of HK\$1,320,000,000.

#### ***Interest***

The Convertible Notes will be non-interest bearing.

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## LETTER FROM THE BOARD

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### *Maturity*

31 December 2010

### *Denomination*

HK\$5,000,000 each

### *Conversion price*

The conversion price, subject to the adjustment, shall be HK\$0.33 per Conversion Share from the date of issue of the Convertible Notes up to 31 December 2008, HK\$0.36 per Conversion Share from 1 January 2009 to 31 December 2009, and HK\$0.39 per Conversion Share from 1 January 2010 to the Maturity Date. The initial conversion price of the Convertible Notes was arrived at after arm's length negotiations between the Company and the Placing Agent and with reference to the market price of the Shares and the audited net asset value of the Company as at 31 December 2006 and the Company and the Placing Agent have taken into account the improving business and investment environment in determining the conversion price for each year to which the Board considers that is fair and reasonable. The conversion prices of the Convertible Notes may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or subsequent issue of securities in the Company, and will in any event not adjusted below the par value of the Share. In addition, every adjustment to the conversion price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by an approved merchant bank.

The initial conversion price of HK\$0.33 per Share represents (i) a discount of approximately 13.16% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 11.53% to the average of the closing price per Share of approximately HK\$0.373 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of approximately 20.77% to the average of the closing price per Share of HK\$0.4165 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and a discount of approximately 49.23% to the closing price of HK\$0.65 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### *Conversion*

Each holder may convert the whole or part of the principal amount of the relevant Convertible Notes (in multiple of HK\$5,000,000 at any one time of conversion) into new Shares unless the principal amount of the outstanding Convertible Notes are less than HK\$5,000,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Notes shall be converted. Conversion of the Convertible Notes is subject to the compliance with the public float requirements under the Listing Rules. The Company will not issue any Shares upon conversion of the Convertible Notes if such issue shall result in insufficient public float.

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## LETTER FROM THE BOARD

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Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes in the aggregate of HK\$1,320,000,000 at the conversion price of HK\$0.33 per Share by all holders of the Convertible Notes, the Company will issue an aggregate of 4,000,000,000 new Shares, representing approximately 907.45% of the existing issued share capital of the Company and approximately 90.07% of the enlarged issued share capital of the Company as enlarged by the issue of the Conversion Shares.

### ***Ranking***

The Conversion Shares will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

### ***Redemption by the Company***

The Company shall, at any time before the Maturity Date, have the option to redeem the Convertible Notes in whole or in part. The amount payable for any redemption shall be the relevant amount of the principal amount of the Convertible Notes so redeemed.

### ***Status of the Convertible Notes***

The Convertible Notes constitute a direct, general, 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. The holders of the Convertible Notes shall not be entitled to receive dividend of the Company.

### ***Transferability***

The Convertible Notes may not be assigned or transferred to a connected person of the Company. The Company will notify the Stock Exchange should it become aware of the Convertible Notes have been assigned or transferred to a connected person of the Company.

### ***Voting Rights***

The Convertible Notes do not confer any voting rights at any meetings of the Company.

### ***Listing***

No application will be made for the listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares in the manner as set out above.



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## LETTER FROM THE BOARD

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### **Approval of the Shareholders at the EGM**

The Company will seek approval by the Shareholders on the CN 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.

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

### **REASONS FOR AND BENEFIT OF THE SECOND SHARE PLACING AND THE CN PLACING AND USE OF PROCEEDS**

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

The Board considers that the Second Share Placing and the CN Placing are conducted in the best interest of the Company in view of the prevailing market conditions and that the recent market sentiment represents a good timing for the Second Share Placing and the CN Placing. The Board has also considered to raise fund by rights issue or open offer or debt financing or financing by other means, however, the time required for rights issue or open offer will be longer than that required for the Second Share Placing and the CN Placing and there will be interest payable for the debt financing or financing by other means, after considering the abovementioned factors, the Board concluded that the Second Share Placing and the CN Placing are better methods and are preferred than other means to raise additional capital notwithstanding that the completion of the Second Share Placing and the full conversion of the Convertible Notes will result in a massive dilution of the shareholding of the existing shareholders. In addition, the Second Share Placing and the CN Placing give the opportunity to the Company to broaden its shareholder and capital base and provide funding to the Company to capture suitable investment opportunities when they are identified. Although completion of the Second Share Placing and the CN Placing will result in a massive dilution of shareholding of the existing Shareholders, the Board considers that the Second Share Placing and the CN Placing are fair and reasonable to the Shareholders and the Company as a whole on the basis that the Second Share Placing and the CN Placing represent an opportunity to raise capital for the Company to enhance the general working capital base and to explore potential business and take up investment opportunities in the future with readily available funds as and when appropriate although no specific projects have been identified.

Completion of the Second Share Placing and full conversion of the Convertible Notes will result in a massive dilution of the shareholding of the existing shareholders. Upon completion of the Share Placing and full conversion of the Convertible Notes at HK\$0.33 per Share, the shareholding of the existing public shareholders will be decreased from 71.46% to 5.23%.

The gross proceeds from the Second Share Placing and the CN Placing will be about HK\$1,815 million. The net proceeds from the Second Share Placing and the CN Placing will be about HK\$1,768.8 million. The Company has been exploring potential investment and business opportunities and the net proceeds arising from the Second Share Placing and the CN Placing will be used for such potential investment or business opportunities once they are identified.

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## LETTER FROM THE BOARD

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### EFFECT ON SHAREHOLDING STRUCTURE

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon completion of the Second Share Placing and the full conversion of the Convertible Notes are set out as below:

**Scenario 1 (Assuming (i) completion of the Second Share Placing, (ii) completion of the Share Placing, (iii) the completion of the Share Placing and full conversion of the Convertible Notes in the aggregate principal amount of HK\$1,320,000,000 from the date of issue of the Convertible Notes to 31 December 2008 at the conversion price of HK\$0.33 per share)**

	Existing shareholdings as at the Latest Practicable Date		Assuming completion of the Second Share Placing		Assuming completion of the Share Placing		Assuming completion of the Share Placing and full conversion of the Convertible Notes at the conversion price of HK\$0.33 per Share	
	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>
1 Nation Field Limited (Note 1)	125,782,321	28.54	125,782,321	6.48	125,782,321	6.20	125,782,321	2.09
Public Shareholding:								
2 Public Shareholders	315,015,222	71.46	315,015,222	16.23	315,015,222	15.53	315,015,222	5.23
3 First Share Placees	—	—	—	—	88,000,000	4.34	88,000,000	1.46
4 Second Share Placees	—	—	1,500,000,000	77.29	1,500,000,000	73.93	1,500,000,000	24.88
5 CN Placees	—	—	—	—	—	—	4,000,000,000	66.34
Total	<u>440,797,543</u>	<u>100.00</u>	<u>1,940,797,543</u>	<u>100.00</u>	<u>2,028,797,543</u>	<u>100.00</u>	<u>6,028,797,543</u>	<u>100.00</u>

## LETTER FROM THE BOARD

**Scenario 2 (Assuming (i) completion of the Second Share Placing, (ii) completion of the Share Placing, (iii) the completion of the Share Placing and full conversion of the Convertible Notes in the aggregate principal amount of HK\$1,320,000,000 from 1 January 2009 to 31 December 2009 at the conversion price of HK\$0.36 per share)**

	Existing shareholdings as at the Latest Practicable Date		Assuming completion of the Second Share Placing		Assuming completion of the Share Placing		Assuming completion of the Share Placing and full conversion of the Convertible Notes at the conversion price of HK\$0.36 per Share	
	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>
1 Nation Field Limited (Note 1)	125,782,321	28.54	125,782,321	6.48	125,782,321	6.20	125,782,321	2.21
Public Shareholding:								
2 Public Shareholders	315,015,222	71.46	315,015,222	16.23	315,015,222	15.53	315,015,222	5.53
3 First Share Placees	—	—	—	—	88,000,000	4.34	88,000,000	1.55
4 Second Share Placees	—	—	1,500,000,000	77.29	1,500,000,000	73.93	1,500,000,000	26.33
5 CN Placees	—	—	—	—	—	—	3,666,666,666	64.38
Total	<u>440,797,543</u>	<u>100.00</u>	<u>1,940,797,543</u>	<u>100.00</u>	<u>2,028,797,543</u>	<u>100.00</u>	<u>5,695,464,209</u>	<u>100.00</u>

**Scenario 3 (Assuming (i) completion of the Second Share Placing, (ii) completion of the Share Placing, (iii) the completion of the Share Placing and full conversion of the Convertible Notes in the aggregate principal amount of HK\$1,320,000,000 from 1 January 2010 to the Maturity Date at the conversion price of HK\$0.39 per share)**

	Existing shareholdings as at the Latest Practicable Date		Assuming completion of the Second Share Placing		Assuming completion of the Share Placing		Assuming completion of the Share Placing and full conversion of the Convertible Notes at the conversion price of HK\$0.39 per Share	
	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>	<i>No. of Shares (approximately)</i>	<i>%</i>
1 Nation Field Limited (Note 1)	125,782,321	28.54	125,782,321	6.48	125,782,321	6.20	125,782,321	2.32
Public Shareholding:								
2 Public Shareholders	315,015,222	71.46	315,015,222	16.23	315,015,222	15.53	315,015,222	5.82
3 First Share Placees	—	—	—	—	88,000,000	4.34	88,000,000	1.63
4 Second Share Placees	—	—	1,500,000,000	77.29	1,500,000,000	73.93	1,500,000,000	27.71
5 CN Placees	—	—	—	—	—	—	3,384,615,384	62.52
Total	<u>440,797,543</u>	<u>100.00</u>	<u>1,940,797,543</u>	<u>100.00</u>	<u>2,028,797,543</u>	<u>100.00</u>	<u>5,413,412,927</u>	<u>100.00</u>

*Note:*

- The entire issued share capital of Nation Field Limited is owned by Mr. Gao Yang, an executive Director.

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## LETTER FROM THE BOARD

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Upon issue of the Second Placing Shares and full conversion of the Convertible Notes, the shareholding of the existing substantial shareholder, Nation Field Limited, will be materially diluted and Nation Field Limited will no longer be a substantial shareholder of the Company. However, as the Directors are unable to determine whether any Share Placee or CN Placee will become a substantial shareholder of the Company as a result of completion of the Second Share Placing and the CN Placing, the Directors are currently unable to determine whether there will be a change in the largest shareholder as a result of completion of the Second Share Placing and the CN Placing. However, announcement will be made by the Company if any substantial shareholders evolved as a result of completion of the Second Share Placing and CN Placing or there is any change in control of the Company.

If any of the Second Share Placees or the CN Placees are acting or presumed to be acting in concert with (i) each other; or (ii) other existing shareholders of the Company, and their aggregate holdings become 30% or more or if holding between 30% to 50%, increase by more than 2%, then a general offer will be triggered under Rule 26.1 of the Codes on Takeovers and Mergers.

### DILUTION EFFECT ON SHAREHOLDERS

In view of the potential dilution effect on existing Shareholders on the exercise of conversion rights attaching to the Convertible Notes, for so long as any of the Convertible Notes are outstanding, the Company will keep Shareholders informed of the level of dilution and details of conversion after issue of the Convertible Notes as follows:

- (i) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
  - (a) whether there is any conversion of the Convertible Notes during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (b) the outstanding principal amount of the Convertible Notes after the conversion, if any;
  - (c) the total number of Shares issued pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;
  - (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (ii) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may

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## LETTER FROM THE BOARD

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be) (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event no later than the fifth business day thereafter make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be), up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be).

### 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 issue of the Second Placing Shares and the conversion of the Convertible Notes.

As the issue of the Second Placing Shares and the conversion of the Convertible Notes may result in the Company failing to meet the minimum public float requirement as prescribed under Rule 8.08 of the Listing Rules, the Company and the Placing Agent agreed that completion of the Second Share Placing and conversion of the Convertible Notes shall be subject to public float requirement under the Listing Rules. In addition, no listing approval will be granted by the Stock Exchange if the percentage of the Shares held by the public cannot meet the minimum public float requirement under Rule 8.08 of the Listing Rules after issue of any Second Placing Share or Shares upon conversion of the Convertible Notes.

#### Possible substantially high level of cash balance

At the present stage, the Company is unable to determine whether it may be considered to be a cash company under Rule 14.82 of the Listing Rules upon completion of the Second Share Placing and CN Placing. If, but only if, the Company is unable to meet the requirement of Rule 14.82 of the Listing Rules, the Company will not be regarded as suitable for listing. The Company is in the process of actively identifying investment opportunities and will apply the proceeds from the Second Share Placing and the CN Placing into such investment opportunities where they are suitable. The Company indicates that it will take appropriate actions, such as speeding-up the identifying and fixing of suitable investment opportunities, to ensure full compliance with the relevant requirements under the Listing Rules, including but not limited to Rule 14.82 of the Listing Rules. In the event the Company notices that the Group's assets comprise wholly or substantially of cash, the Company will issue an announcement and request for suspension of dealings in the Shares as soon as practicable. **In view of the possible implication under Rule 14.82 of the Listing Rules on the Company, Shareholders and investors should exercise caution when dealing in the Shares.**

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## LETTER FROM THE BOARD

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### FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE LATEST PRACTICABLE DATE

The Company has not undertaken any fund raising exercises in the 12 months immediately preceding the Latest Practicable Date.

### EGM

An EGM will be convened and held for the purpose of considering and, if thought fit, approve, among other matters, (i) the Second Share Placing and (ii) the CN Placing Agreement and the transactions contemplated thereunder; and (iii) the creation and issue of the Convertible Notes and the allotment and issue of any Shares upon conversion of the Convertible Notes. Subject to approval by Shareholder, the validity of the approval by Shareholders at the EGM for completion of the Second Share Placing and the CN Placing shall lapse by the end of 7 January 2008. The approval by Shareholders shall have validity period of approximately three months so as to provide flexibility to the Company and the Placing Agent to identify places due to the fact that it will be burdensome and costly for the Company to convene another extraordinary general meeting to obtain approval from Shareholders to extend the validity period, 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 the Second Share Placing and the CN Placing. In view of the above, the Board considers that the approximately three months validity period of the approval by Shareholders is fair and reasonable.

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.

The notice of the EGM is set out on pages 27 to 29 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you propose to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

### PROCEDURE BY WHICH A POLL MAY BE DEMANDED

Pursuant to Article 80 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded (i) by the Chairman of the meeting; or (ii) by at least three members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (iii) by any member or members present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person (or, in the

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## LETTER FROM THE BOARD

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case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

### RECOMMENDATION

The Directors (including all the independent non-executive Directors) are of the view that the terms of the proposed Second Share Placing and the proposed CN Placing are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

By order of the Board  
**China Strategic Holdings Limited**  
**Chow Kam Wah**  
*Director*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

**SHARE CAPITAL**

As at the Latest Practicable Date, the authorized and issued share capital of the Company were as follows:

		<i>HK\$</i>
<i>Authorised:</i>		
8,000,000,000	ordinary share(s) of HK\$0.10 each	800,000,000.00
 Issued and fully paid or credited as fully paid:		
440,797,543	ordinary share(s) of HK\$0.10 each	44,079,754.30

**DISCLOSURE OF INTERESTS****(a) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer were as follows:

Name	Nature of interests	Number of Shares (Long position)	Number of underlying Shares in respect of the options granted under the Share Option Scheme	Percentage of shareholding (approximate)
Mr. Gao Yang (Note 1)	Interests of controlled corporation	125,782,321	Nil	28.54
Mr. Kwok Ka Lap, Alva (Note 2)	Beneficial owner	Nil	4,000,000	0.91
Ms. Chan Ling, Eva (Note 3)	Beneficial owner	Nil	4,400,000	0.99
Mr. Wong King Lam, Joseph (Note 4)	Beneficial owner	Nil	4,000,000	0.91
Mr. Sin Chi Fai (Note 5)	Beneficial owner	Nil	4,000,000	0.91



*Notes:*

1. These Shares are held by Nation Field Limited, the entire issued share capital of which is held by Mr. Gao Yang, an executive Director of the Company.
2. The options were granted to Mr. Kwok Ka Lap, Alva to subscribe for Shares. The options were exercisable at HK\$0.724 per Share and will expire on 9 July 2012.
3. The options were granted to Ms. Chan Ling, Eva to subscribe for Shares. The options were exercisable at HK\$0.724 per Share and will expire on 9 July 2012.
4. The options were granted to Mr. Wong King Lam, Joseph to subscribe for Shares. The options were exercisable at HK\$0.724 per Share and will expire on 9 July 2012.
5. The options were granted to Mr. Sin Chi Fai to subscribe for Shares. The options were exercisable at HK\$0.724 per Share and will expire on 9 July 2012.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer.

**(b) Interests of Shareholders**

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and to the best knowledge of the Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company), had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

Name	Nature of interests	Number of Shares (Long position)	Approximate percentage of shareholding
Nation Field Limited ( <i>Note 1</i> )	Beneficial interests	125,782,321	28.54
Kingston Securities Limited ( <i>Note 2</i> )	Beneficial interests	88,000,000	19.96

*Notes:*

1. These Shares are held by Nation Field Limited, the entire issued share capital of which is held by Mr. Gao Yang, an executive Director of the Company.
2. Kingston Securities Limited, 51% of the issued share capital of which is held by Chu Yuet Wah and the remaining 49% interest is held by Ma Siu Fong, has agreed to place the First Placing Shares on a fully underwritten basis, it is therefore interested in 88,000,000 First Placing Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors or the chief executive of the Company were not aware of any persons or corporations (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or in any options in respect of such capital.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

**INTERESTS IN CONTRACT OR ARRANGEMENT**

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**INTERESTS IN ASSETS**

None of the Directors has or has had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2006 being the date to which the latest published audited accounts of the Group were made up.

**DIRECTORS' INTEREST IN COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**LITIGATION**

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

**MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the Latest Practicable Date and which are material to the Group:

- (a) A conditional subscription agreement dated 23 March 2006 entered into between China Enterprises Limited (“CEL”) and Wing On Travel (Holdings) Limited (“Wing On”) in relation to the subscription of the HK\$300 million 2% convertible exchangeable notes due 2011 issued by Wing On and subscribed by CEL pursuant to the terms and conditions contained therein;
- (b) the First Placing Agreement;
- (c) the Second Share Placing Agreement; and
- (d) the CN Placing Agreement.

**EXPENSES**

The expenses in connection with the Second Share Placing and the CN Placing, including the placing commission, printing, registration, translation, legal and accounting fees, are estimated to be approximately HK\$71.5 million and will be payable by the Company.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of the Company at 8/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong. during normal business hours up to and including 2 October 2007:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the annual reports of the Company for the three years ended 31 Decemebr 2006; and
- (c) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix.

**MATERIAL ADVERSE CHANGE**

Save as disclosed herein and in the Circular, the Directors confirm that they are not aware of any material adverse change in the financial or trading position of the business or the prospects of the Group since 31 December 2006, being the date to which the latest audited consolidated financial statements of the Group were made up.

**CORPORATE INFORMATION**

- (a) The registered office of the Company is located at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kowloon, Hong Kong.
- (b) The share registrar and transfer office of the Company, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Ip Mei Ho, an associate member of the Hong Kong Institute of Chartered Secretaries.
- (d) The qualified accountant of the Company is Ms. Lo Wing Yan, Emmy, an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of China Strategic Holdings Limited (the “Company”) will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 2 October 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

**1. “THAT**

- (a) the placing agreement (the “**Placing Agreement**”) dated 23 August 2007 entered into between the Company as issuer and Kingston Securities Limited as placing agent (the “**Placing Agent**”) in relation to the placing of 1,500,000,000 new shares (the “**Placing Shares**”) of HK\$0.10 each in the share capital of the Company at a placing price of HK\$0.33 per Placing Share (as supplemented and amended by a side letter made between the Company and the Placing Agent on 29 August 2007), a copy of which is produced to the extraordinary general meeting marked “A” and signed by the Chairman of the said meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) conditional upon the listing committee appointed by The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Placing Shares, the allotment and issue of the Placing Shares to the relevant places pursuant to the Placing Agreement (the “**Share Special Mandate**”) be and is hereby approved;
- (c) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Placing Agreement and the Share Special Mandate and the transactions contemplated thereunder; and
- (d) in the event that completion of the Placing Agreement has not taken place by the end of 7 January 2008 (the “**Expiry Date**”), the authorization and approval granted under this resolution shall be revoked and shall expire by the end of the Expiry Date provided that nothing shall affect the Placing Agreement, the Share Special Mandate and the transactions contemplated hereunder (including but not limited to the allotment and issue of the Placing

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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Shares) in the event that any partial completion of the Placing Agreement has taken place on or before the Expiry Date, and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly.”

2. **“THAT**

- (a) the creation and issue by the Company of convertible redeemable notes in the maximum aggregate principal sum of HK\$1,320,000,000 due on 31 December 2010 (“**Convertible Notes**”), convertible into 4,000,000,000 new shares at the initial conversions price of HK\$0.33 per share (subject to adjustment) upon the terms and conditions (“**CN Conditions**”) contained in a placing agreement (“**CN Placing Agreement**”) dated 23 August 2007 (as supplemented and amended by a side letter made between the Company and the Placing Agent on 29 August 2007) (a copy of which has been produced to this meeting marked “B” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company and the placing agent, Kingston Securities Limited in connection with the placing of the Convertible Notes be and is hereby generally and unconditionally approved in all respects;
- (b) the CN Placing Agreement and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby generally and unconditionally approved, ratified and confirmed in all respects and the directors of the Company be and they are hereby generally and unconditionally authorized to issue the Convertible Notes on and subject to the terms of the CN Placing Agreement, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in the opinion of the directors of the Company, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the CN Placing Agreement and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of the CN Conditions) as are, in the opinion of the directors of the Company, in the interest of the Company and its shareholders as a whole;
- (c) the directors of the Company be and they are hereby generally and specifically authorized to allot and issue such number of new shares (“**CN Special Mandate**”) as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes approved to be issued under paragraph (a) of this resolution on and subject to the terms and conditions of the CN Placing Agreement and the CN Conditions. The CN Special Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 6 June 2007 and the Share Special Mandate (as defined in resolution No. 1 as set out in the notice convening this meeting) or such other general or special mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution (or to be granted to the directors of the Company at this meeting); and

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- (d) in the event that completion of the CN Placing Agreement has not taken place by the end of 7 January 2008 (the “**Expiry Date**”), the authorization and approval granted under this resolution shall be revoked and shall expire by the end of the Expiry Date provided that nothing shall affect the CN Placing Agreement, the CN Special Mandate and the transactions contemplated hereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of new shares in the capital of the Company upon exercise of the conversion rights under the Convertible Notes) in the event that any partial completion of the CN Placing Agreement has taken place on or before the Expiry Date, and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly.”.

By order of the Board  
**China Strategic Holdings Limited**  
**Chow Kam Wah**  
*Director*

Hong Kong, 14 September 2007

**Notes:**

1. A shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on his behalf. The proxy need not be a shareholder of the Company.
2. In order to be valid, a form of proxy must be deposited at the share registrar and transfer office of the Company, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto to if more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.