



中策集團有限公司  
China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 0235

INTERIM REPORT 2012



## UNAUDITED INTERIM RESULTS

The board of directors (the “Board”) of China Strategic Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30<sup>th</sup> June, 2012 together with the comparative figures for the corresponding period in 2011 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2012

	NOTES	Six months ended 30 <sup>th</sup> June,	
		2012	2011
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	2,327	6,730
Cost of sales		(2,213)	(6,308)
Gross profit		114	422
Other income	4	6,170	6,182
Selling and distribution costs		(106)	(130)
Administrative expenses		(18,505)	(26,259)
(Loss) gain on financial assets at fair value through profit or loss		(2,611)	18,753
Finance costs	5	(2,599)	(2,615)
Loss for the period	7	(17,537)	(3,647)
<b>Other comprehensive (expense) income</b>			
Exchange differences arising on translation of foreign operations		(374)	630
Fair value changes on available-for-sale investments		(307)	510
Other comprehensive (expense) income for the period		(681)	1,140
Total comprehensive expense for the period		(18,218)	(2,507)
Loss for the period attributable to:			
Owners of the Company		(17,481)	(3,647)
Non-controlling interests		(56)	—
		(17,537)	(3,647)
Total comprehensive expense attributable to:			
Owners of the Company		(18,162)	(2,507)
Non-controlling interests		(56)	—
		(18,218)	(2,507)
Loss per share			
Basic and diluted	9	HK(0.47) cent	HK(0.10) cent

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30<sup>TH</sup> JUNE, 2012**

	<i>NOTES</i>	<b>30.6.2012</b> <i>HK\$'000</i> (Unaudited)	31.12.2011 <i>HK\$'000</i> (Audited)
<b>Non-Current Assets</b>			
Property, plant and equipment		<b>13,697</b>	15,063
Prepaid lease payments		<b>12,333</b>	12,600
Club debentures		<b>825</b>	825
Available-for-sale investments		<b>1,302</b>	1,609
		<b>28,157</b>	30,097
<b>Current Assets</b>			
Inventories		<b>2,643</b>	1,954
Trade and other receivables	10	<b>11,966</b>	9,435
Prepaid lease payments		<b>334</b>	334
Financial assets at fair value through profit or loss	11	<b>195,366</b>	166,997
Bank balances and cash	12	<b>585,399</b>	630,609
		<b>795,708</b>	809,329
<b>Current Liabilities</b>			
Trade and other payables	13	<b>19,744</b>	19,390
Loan payables	14	<b>99,263</b>	96,960
Income tax payable		<b>6,964</b>	6,964
		<b>125,971</b>	123,314
<b>Net Current Assets</b>		<b>669,737</b>	686,015
<b>Total Assets less Current Liabilities</b>		<b>697,894</b>	716,112
<b>Capital and Reserves</b>			
Share capital	15	<b>369,918</b>	369,918
Reserves		<b>328,150</b>	346,312
Equity attributable to the owners of the Company		<b>698,068</b>	716,230
Non-controlling interests		<b>(174)</b>	(118)
<b>Total Equity</b>		<b>697,894</b>	716,112

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2012**

Attributable to owners of the Company

	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000 (Note)	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other non-distributable reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 <sup>st</sup> January, 2011 (audited)	369,918	846,242	1,267	11,397	233	5,983	9,487	1,943	(458,296)	788,174	218	788,392
Loss for the period	—	—	—	—	—	—	—	—	(3,647)	(3,647)	—	(3,647)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	630	—	—	630	—	630
Fair value changes on available-for-sale investments	—	—	—	—	—	510	—	—	—	510	—	510
Total comprehensive income (expense) for the period	—	—	—	—	—	510	630	—	(3,647)	(2,507)	—	(2,507)
At 30 <sup>th</sup> June, 2011 (unaudited)	369,918	846,242	1,267	11,397	233	6,493	10,117	1,943	(461,943)	785,667	218	785,885
At 1 <sup>st</sup> January, 2012 (audited)	369,918	846,242	1,267	11,397	233	3,768	9,889	1,943	(528,427)	716,230	(118)	716,112
Loss for the period	—	—	—	—	—	—	—	—	(17,481)	(17,481)	(56)	(17,537)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	(374)	—	—	(374)	—	(374)
Fair value changes on available-for-sale investments	—	—	—	—	—	(307)	—	—	—	(307)	—	(307)
Total comprehensive expense for the period	—	—	—	—	—	(307)	(374)	—	(17,481)	(18,162)	(56)	(18,218)
At 30 <sup>th</sup> June, 2012 (unaudited)	369,918	846,242	1,267	11,397	233	3,461	9,515	1,943	(545,908)	698,068	(174)	697,894

Note The special capital reserve of the Group represented the amount arising from the capital reduction carried out by the Company during the year ended 31<sup>st</sup> December, 2001.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2012**

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Net cash (used in) generated from operating activities	<b>(48,652)</b>	12,190
Net cash generated from investing activities:		
Interest received	<b>3,503</b>	1,200
Purchase of property, plant and equipment	—	(4)
	<b>3,503</b>	1,196
Net cash used in financing activities:		
Interest paid	<b>(44)</b>	(450)
Repayment of bank borrowings	—	(24,059)
Repayment of obligations under finance leases	—	(5)
New loan raised	—	23,637
	<b>(44)</b>	(877)
Net (decrease) increase in cash and cash equivalents	<b>(45,193)</b>	12,509
Cash and cash equivalents at beginning of the period	<b>630,609</b>	583,123
Effect of foreign exchange rate changes	<b>(17)</b>	7
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>585,399</b>	595,639

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2012

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30<sup>th</sup> June, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31<sup>st</sup> December, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants “HKICPA”:

Amendments to HKFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 2. PRINCIPAL ACCOUNTING POLICIES (Con' t)

The Group has not early applied the following amendments to HKFRSs that have been issued after the date the consolidated financial statements of the Group for the year ended 31<sup>st</sup> December, 2011 were authorised for issuance and are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle <sup>1</sup>
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1<sup>st</sup> January, 2013.

The directors of the Company anticipate that the application of these two amendments will have no material impact on the results and the financial position of the Group.

### 3. SEGMENT INFORMATION

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

	<b>Investments in securities</b> <i>HK\$'000</i> (Unaudited)	<b>Battery products</b> <i>HK\$'000</i> (Unaudited)	<b>Consolidated</b> <i>HK\$'000</i> (Unaudited)
<b>Six months ended 30<sup>th</sup> June, 2012</b>			
REVENUE			
External sales	—	<u>2,327</u>	<u>2,327</u>
RESULT			
Segment result	<u>2,422</u>	<u>(3,330)</u>	<u>(908)</u>
Other income			<b>1,008</b>
Central administrative costs			<b>(15,038)</b>
Finance costs			<u><b>(2,599)</b></u>
Loss for the period			<u><b>(17,537)</b></u>
<b>Six months ended 30<sup>th</sup> June, 2011</b>			
REVENUE			
External sales	—	<u>6,730</u>	<u>6,730</u>
RESULT			
Segment result	<u>22,340</u>	<u>(7,912)</u>	14,428
Other income			357
Central administrative costs			(15,817)
Finance costs			<u>(2,615)</u>
Loss for the period			<u><b>(3,647)</b></u>

Segment profit (loss) represents profit (loss) earned/incurred by each segment without allocation of certain other income, central administrative costs and finance costs. This is the measure reported to the chief operation decision makers for the purpose of resource allocation and performance assessment.



#### 4. OTHER INCOME

	Six months ended 30 <sup>th</sup> June,	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Dividend income from financial assets at fair value through profit or loss/available-for-sale investments	2,572	2,802
Interest income	3,503	1,200
Exchange gain, net	—	34
Reversal of allowance for inventories (Note)	—	2,063
Others	95	83
	<u>6,170</u>	<u>6,182</u>

Note: During the six months ended 30<sup>th</sup> June, 2011, a significant portion of inventories for which allowance previously made were sold. As a result, a reversal of allowance for inventories of approximately HK\$2,063,000 has been recognised. No allowance was made for inventories during the six months ended 30<sup>th</sup> June, 2012.

#### 5. FINANCE COSTS

	Six months ended 30 <sup>th</sup> June,	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years:		
– loan payables	2,555	2,165
– bank borrowings and overdrafts	44	448
– obligation under finance leases	—	2
	<u>2,599</u>	<u>2,615</u>

## 6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax and The People's Republic of China Enterprise Income Tax has been made in the condensed consolidated financial statements for both periods, since the Group entities either incurred tax losses or estimated assessable profits which are wholly absorbed by tax losses brought forward.

## 7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following items:

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2012</b>	<b>2011</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Amortisation of prepaid lease payments	<b>169</b>	167
Depreciation of property, plant and equipment	<b>1,178</b>	2,279
	<b><u>1,178</u></b>	<b><u>2,279</u></b>

## 8. DIVIDEND

No dividend were paid, declared or proposed during the six months ended 30<sup>th</sup> June, 2012. The directors do not recommend the payment of an interim dividend for the six months ended 30<sup>th</sup> June, 2012 (2011: Nil).

## **9. LOSS PER SHARE**

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the loss for the period attributable to the owners of the Company of approximately HK\$17,481,000 (2011: HK\$3,647,000) and the number of 3,699,183,927 (2011: 3,699,183,927) ordinary shares in issue during the period.

The computation of diluted loss per share for the six months ended 30<sup>th</sup> June, 2012 and 2011 does not include adjustments for the Company's outstanding share options as they have anti-dilutive effect.

## **10. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period normally ranging from 90 days to 180 days to its trade customers. The aged analysis based on the invoice date of the trade receivable indicated that the Group's trade receivable of approximately HK\$1,422,000 (31<sup>st</sup> December, 2011: HK\$921,000) at the reporting date all is aged within 90 days.

Included in the other receivables is an amount of approximately HK\$1,176,000 (31<sup>st</sup> December, 2011: HK\$1,120,000) placed with securities brokers for trading securities in Hong Kong, which is unsecured, interest-free and repayable on demand.

The remaining balance of other receivables is unsecured, interest-free and repayable on demand.

## **11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

As at 30<sup>th</sup> June, 2012, the Group had investment in equity securities listed in Hong Kong of approximately HK\$186,040,000 (31<sup>st</sup> December, 2011: HK\$156,980,000), which were held for trading purposes, and unlisted debt securities designated as financial assets at fair value through profit or loss of approximately HK\$9,326,000 (31<sup>st</sup> December, 2011: HK\$10,017,000).

## 12. BANK BALANCES AND CASH

Bank balances and cash comprises cash and bank balances held by the Group that are interest bearing at prevailing market rate range from 0.01% to 1.81% (31<sup>st</sup> December, 2011: 0.01% to 1.94%) per annum and have original maturity of three months or less.

## 13. TRADE AND OTHER PAYABLES

As at 30<sup>th</sup> June, 2012, included in trade and other payables are trade payable of approximately HK\$4,060,000 (31<sup>st</sup> December, 2011: HK\$1,857,000). The following is an analysis of trade payable by age, presented based on invoice date.

	<b>30.6.2012</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2011 <b>HK\$'000</b> <b>(Audited)</b>
0 - 90 days	<b>3,645</b>	547
91 - 180 days	—	559
Over 180 days	<b>415</b>	751
	<hr/> <b>4,060</b> <hr/>	<hr/> 1,857 <hr/>

## 14. LOAN PAYABLES

The loan payables are unsecured, carry interest at 6.6% to 7.0% per annum (2011: 6.6% to 7.0% per annum) and are repayable on demand.

## 15. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
<b>Ordinary shares of HK\$0.10 each</b>		
Authorised:		
As at 1 <sup>st</sup> January, 2011, 30 <sup>th</sup> June, 2011, 31 <sup>st</sup> December, 2011 and 30 <sup>th</sup> June, 2012	<u>200,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
As at 1 <sup>st</sup> January, 2011, 30 <sup>th</sup> June, 2011, 31 <sup>st</sup> December, 2011 and 30 <sup>th</sup> June, 2012	<u>3,699,183,927</u>	<u>369,918</u>

## 16. PLEDGE OF ASSETS

As at 30<sup>th</sup> June, 2012, available-for-sale investments and financial assets at fair value through profit or loss with a carrying value of approximately HK\$784,000 (31<sup>st</sup> December, 2011: HK\$956,000) and HK\$1,977,000 (31<sup>st</sup> December, 2011: HK\$2,532,000) respectively were pledged to secure margin account credit facilities granted to the Group. As at 30<sup>th</sup> June, 2012, a margin loan of approximately HK\$1,098,000 (31<sup>st</sup> December, 2011: HK\$1,053,000), included in trade and other payables, was utilised by the Group and there is no restriction on trading of these available-for-sale investments and financial assets at fair value through profit or loss.

## 17. SHARE-BASED PAYMENTS

Under the share option scheme of the Company adopted on 4<sup>th</sup> June, 2002 (the “Old Option Scheme”), the Board may, at its discretion, grant options to the directors and eligible participants (as defined in the Old Option Scheme) to enable them to subscribe for shares of the Company as incentives or rewards for their contribution to the Group.

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 10<sup>th</sup> June, 2011, a new share option scheme (the “New Option Scheme”) was adopted by the Company and the Old Option Scheme was terminated. Since the adoption of the New Option Scheme, no further options can be granted under the Old Option Scheme.

There were no share option granted under the New Option Scheme during the period under review. During the period, no share option granted had been exercised or lapsed. As at 30<sup>th</sup> June, 2012, 24,800,000 (31<sup>st</sup> December, 2011: 24,800,000) share options were still outstanding.

## 18. RELATED PARTY DISCLOSURES

### *Compensation of key management personnel*

The remuneration of directors who are also identified as members of key management during the periods was as follows:

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Short-term employee benefits	<b>8,664</b>	9,636
Post-employment benefits	<b>37</b>	39
	<b>8,701</b>	<b>9,675</b>

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**TO THE BOARD OF DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED**

中策集團有限公司

*(incorporated in Hong Kong with limited liability)*

**INTRODUCTION**

We have reviewed the condensed consolidated financial statements of China Strategic Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 1 to 13, which comprise the condensed consolidated statement of financial position as of 30<sup>th</sup> June, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Condensed Consolidated Financial Statements Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
28<sup>th</sup> August, 2012



## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, on account of the increasing operating costs and faltering global economy, the Group recorded the consolidated revenue from manufacturing and trading of battery products decreased by HK\$4.40 million to HK\$2.33 million when compared with the six months ended 30<sup>th</sup> June, 2011. On the other hand, the Group recorded a loss on financial assets at fair value through profit or loss of approximately HK\$2.61 million for the six months ended 30<sup>th</sup> June, 2012 as compared to a gain on financial assets at fair value through profit or loss of approximately HK\$18.75 million for the correspondence six months ended 30<sup>th</sup> June, 2011 as the result of the unstable global economic and investment market conditions. When compared with the correspondence six months ended 30<sup>th</sup> June 2011, the interest income was increased by HK\$2.30 million to HK\$3.50 million. The finance costs, mainly from interests on loan payables and bank borrowings for the six months ended 30<sup>th</sup> June 2012, was slightly decreased by 1% to HK\$2.60 million. Overall, net loss for the six months ended 30<sup>th</sup> June, 2012 was HK\$17.54 million as compared to HK\$3.65 million for the six months ended 30<sup>th</sup> June, 2011.

The Group's bank and other borrowings slightly increased from approximately HK\$96.96 million as at 31<sup>st</sup> December 2011 to approximately HK\$99.26 million as at 30<sup>th</sup> June, 2012, representing an increase of 2.37%. As at 30<sup>th</sup> June, 2012, bank and other borrowings were variable rate loans and were denominated in Renminbi and Hong Kong dollars. There were no long-term borrowings outstanding. The gearing ratio was approximately 0.18 (31<sup>st</sup> December, 2011: 0.17) calculated by the total liabilities of HK\$125.97 million (31<sup>st</sup> December, 2011: HK\$123.31 million) divided by total equity of HK\$697.89 million (31<sup>st</sup> December, 2011: HK\$716.11 million).

There was no significant capital expenditure incurred for the six months ended 30<sup>th</sup> June, 2012. Future capital expenditure will be continued to be funded primarily by internal resources or external borrowings or a combination of both as required.

## MANAGEMENT DISCUSSION AND ANALYSIS (Con't)

As at 30<sup>th</sup> June, 2012, the Group had cash and bank balances amounted to approximately of HK\$585.40 million and is mainly denominated in Hong Kong dollars. Financial assets at fair value through profit or loss were in an amount of HK\$195.37 million. As at 30<sup>th</sup> June, 2012, there was no pledged bank deposit. During the six months ended 30<sup>th</sup> June, 2012, 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 30<sup>th</sup> June, 2012, the Group employed approximately 79 staff. For the period under review, the staff cost (excluding directors' emoluments) was approximately HK\$1.96 million. 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 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.

Under the share option scheme of the Company adopted on 4<sup>th</sup> June, 2002 (the "Old Option Scheme"), the Board may, at its discretion, grant options to the Directors and eligible participants (as defined in the Old Option Scheme) to enable them to subscribe for shares of the Company as incentives or rewards for their contribution to the Group. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 10<sup>th</sup> June, 2011, a new share option scheme (the "New Option Scheme") was adopted by the Company and the Old Option Scheme was terminated. Since the adoption of the New Option Scheme, no further options can be granted under the Old Option Scheme. There was no share option granted and exercised under the Old Option Scheme and New Option Scheme of the Company during the period under review. As at 30<sup>th</sup> June, 2012, 24,800,000 share options were still outstanding and such share options were lapsed on 9<sup>th</sup> July, 2012.

Looking forward, the European debt crisis still lingers on and the economy of the United States remains staggering, the market environment of the global economy for the year of 2012 may continue to be challenging. The management of the Group is cautious on the performance of the financial assets at fair value through profit or loss and will adopt a prudent approach when seeking new investment opportunities. We will continue to look for opportunities to improve our business mix, diversify our business from battery manufacturing with a view to create value for shareholders.

## **CORPORATE GOVERNANCE**

The Company has, during the six months ended 30<sup>th</sup> June, 2012, met the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the following deviations:

### **Code provision A.2.1**

Code provision A.2.1 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 2<sup>nd</sup> March, 2012 due to the resignation of the Chairman and Mr. Or Ching Fai has been re-designated as Chairman of the Company. Since then, Mr. Or acted as Chairman and Chief Executive Officer. Although this arrangement constitutes a deviation from the Code, the Board considers that the structure, where the leadership of the Board is distinct from the executive responsibilities for running of the business operations, will not impair the balance of power and authority between the Board and the management of the business, the Board further believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

### **Code provision A.4.1**

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

## DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30<sup>th</sup> June, 2012, the interest and short positions of the directors of the Company (the "Director(s)") in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Long positions in shares and underlying shares of the Company:

Name of Directors	Number of shares and underlying shares			Approximate% of the issued share capital of the Company	Note
	Share options	Total			
Chan Ling, Eva ("Ms. Chan")	4,400,000	4,400,000		0.12	1

*Note:*

- The personal interest of Ms. Chan represents an interest in 4,400,000 underlying shares in respect of share options granted by the Company as stated below. Such share options were lapsed on 9<sup>th</sup> July, 2012.

The following table discloses movements in the Company's share options during the period:

	Date of grant	Exercisable period	Exercise price HK\$	Number of share options		
				At 1.1.2012	Granted/lapsed during the period	At 30.6.2012
Eligible participants	10.7.2007	10.7.2007 to 9.7.2012	0.724	20,400,000	—	20,400,000
Executive Director:						
Chan Ling, Eva	10.7.2007	10.7.2007 to 9.7.2012	0.724	4,400,000	—	4,400,000
				24,800,000	—	24,800,000

*Note:* The number and/or exercise price of the share options is/are subject to adjustment in the case of rights issue or other changes in the Company's share capital. The above mentioned outstanding share options were lapsed on 9<sup>th</sup> July, 2012.

Except as disclosed above, as at 30<sup>th</sup> June, 2012, none of Directors nor chief executives 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 recorded in the register required to be kept under Section 352 of the SFO, or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code").

## **SUBSTANTIAL SHAREHOLDERS**

As at 30<sup>th</sup> June, 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed no person, not being a Director or chief executive of the Company had interests or a short positions in the shares and underlying shares of the Company that were required to be recorded in that register.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as its code of conduct regarding director's securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30<sup>th</sup> June, 2012.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its shares during the six months ended 30<sup>th</sup> June, 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

## **REVIEW BY AUDIT COMMITTEE**

Having been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, the 2012 interim report has been reviewed by audit committee of the Company (the "Audit Committee"). The Audit Committee currently comprises three independent non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying.

As the date of this interim report, the Board of the Company comprises Mr. Or Ching Fai, Ms. Chiu Ching Ching, Mr. Yau Wing Yiu, Mr. Hui Richard Rui, Ms. Chan Ling, Eva and Mr. Chow Kam Wah as executive Directors, and Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying as independent non-executive Directors.

By order of the Board

**CHINA STRATEGIC HOLDINGS LIMITED**

**Or Ching Fai**

*Chairman*

Hong Kong, 28<sup>th</sup> August, 2012