

# 中策集團有限公司 China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 0235



2011 Interim Report

## 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, 2011 together with the comparative figures for the corresponding period in 2010 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2011

	<i>NOTES</i>	<b>Six months ended 30<sup>th</sup> June, 2011 HK\$'000 (unaudited)</b>	<b>2010 HK\$'000 (unaudited)</b>
Revenue	3	<b>6,730</b>	5,764
Cost of sales		<b>(6,308)</b>	(5,539)
Gross profit		<b>422</b>	225
Other income	4	<b>6,182</b>	3,975
Selling and distribution costs		<b>(130)</b>	(328)
Administrative expenses		<b>(26,259)</b>	(93,570)
Gain on financial assets at fair value through profit or loss		<b>18,753</b>	7,794
Finance costs	5	<b>(2,615)</b>	(2,423)
Loss for the period	7	<b>(3,647)</b>	(84,327)
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		<b>630</b>	44
Fair value changes on available-for-sale financial investments		<b>510</b>	818
Other comprehensive income for the period		<b>1,140</b>	862
Total comprehensive expense for the period		<b>(2,507)</b>	(83,465)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME (Con't)  
FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2011**

	<i>NOTE</i>	<b>Six months ended 30<sup>th</sup> June,</b>	
		<b>2011</b>	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Loss for the period attributable to:			
Owners of the Company		<b>(3,647)</b>	(84,302)
Non-controlling interests		<u>—</u>	<u>(25)</u>
		<b><u>(3,647)</u></b>	<b><u>(84,327)</u></b>
Total comprehensive expense attributable to:			
Owners of the Company		<b>(2,507)</b>	(83,440)
Non-controlling interests		<u>—</u>	<u>(25)</u>
		<b><u>(2,507)</u></b>	<b><u>(83,465)</u></b>
Loss per share			
Basic and diluted	9	<b><u>HK(0.1) cent</u></b>	<u>HK(2.3) cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AT 30<sup>TH</sup> JUNE, 2011**

	<i>NOTES</i>	<b>30.6.2011</b> <i>HK\$'000</i> (unaudited)	31.12.2010 <i>HK\$'000</i> (audited)
<b>Non-Current Assets</b>			
Property, plant and equipment	10	<b>15,803</b>	16,906
Prepaid lease payments		<b>12,535</b>	12,542
Club debentures		<b>825</b>	825
Available-for-sale investments		<b>4,334</b>	3,824
		<hr/> <b>33,497</b> <hr/>	<hr/> 34,097 <hr/>
<b>Current Assets</b>			
Inventories		<b>668</b>	2,452
Trade and other receivables	11	<b>19,017</b>	37,782
Prepaid lease payments		<b>327</b>	327
Financial assets at fair value through profit or loss	12	<b>250,166</b>	242,408
Bank balances and cash	13	<b>595,639</b>	583,123
		<hr/> <b>865,817</b> <hr/>	<hr/> 866,092 <hr/>
<b>Current Liabilities</b>			
Trade and other payables	14	<b>13,112</b>	13,608
Loan payables	15	<b>93,353</b>	67,551
Income tax payable		<b>6,964</b>	6,964
Bank borrowings		—	23,669
Obligations under finance leases		—	5
		<hr/> <b>113,429</b> <hr/>	<hr/> 111,797 <hr/>
<b>Net Current Assets</b>		<hr/> <b>752,388</b> <hr/>	<hr/> 754,295 <hr/>
<b>Total Assets less Current Liabilities</b>		<hr/> <b>785,885</b> <hr/>	<hr/> 788,392 <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(Con't)**  
**AT 30<sup>TH</sup> JUNE, 2011**

	<i>NOTE</i>	<b>30.6.2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	31.12.2010 <i>HK\$'000</i> (audited)
<b>Capital and Reserves</b>			
Share capital	16	<b>369,918</b>	369,918
Reserves		<b>415,749</b>	418,256
		<hr/>	<hr/>
Equity attributable to the owners of the Company		<b>785,667</b>	788,174
Non-controlling interests		<b>218</b>	218
		<hr/>	<hr/>
<b>Total Equity</b>		<b>785,885</b>	788,392
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2011**

		Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000	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, 2010 (audited)	369,918	846,242	1,267	11,397	233	4,013	9,268	1,943	(999,655)	844,626	254	844,880
Loss for the period	—	—	—	—	—	—	—	—	(84,302)	(84,302)	(25)	(84,327)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	44	—	—	44	—	44
Fair value changes on available-for-sale investments	—	—	—	—	—	818	—	—	—	818	—	818
Total comprehensive income (expense) for the period	—	—	—	—	—	818	44	—	(84,302)	(83,440)	(25)	(83,465)
At 30 <sup>th</sup> June, 2010 (unaudited)	369,918	846,242	1,267	11,397	233	4,831	9,312	1,943	(483,957)	761,186	229	761,415
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

Note: The special capital reserve of the Group at 1<sup>st</sup> January, 2010 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, 2011**

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities	<b>12,190</b>	27,743
Net cash generated from (used in) investing activities:		
Interest received	<b>1,200</b>	521
Purchase of property, plant and equipment	<b>(4)</b>	(2,735)
	<b>1,196</b>	(2,214)
Net cash used in financing activities:		
Repayment of bank borrowings	<b>(24,059)</b>	—
Interest paid	<b>(450)</b>	(687)
Repayment of obligations under finance leases	<b>(5)</b>	(12)
New loan raised	<b>23,637</b>	—
	<b>(877)</b>	(699)
Net increase in cash and cash equivalents	<b>12,509</b>	24,830
Cash and cash equivalents at beginning of the period	<b>583,123</b>	482,769
Effect of foreign exchange rate changes	<b>7</b>	29
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>595,639</b>	507,628

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30<sup>TH</sup> JUNE, 2011

### 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, 2011 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, 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations (“new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”):

HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRS(s) (Amendments)	Improvements to HKFRSs issued in 2010

The application of the above new or revised 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 new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31<sup>st</sup> December, 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosures of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1<sup>st</sup> July, 2012

Those five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1<sup>st</sup> January, 2013.

Earlier application is permitted provided that all of those five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31<sup>st</sup> December, 2013 and expected that there will be no significant impact on the consolidated financial statements.

### 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>	<b>Battery products</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Six months ended 30<sup>th</sup> June, 2011</b>			
Gross proceeds	<u>11,578</u>	<u>6,730</u>	<u>18,308</u>
REVENUE			
External sales	<u>—</u>	<u>6,730</u>	<u>6,730</u>
RESULT			
Segment result	<u>22,340</u>	<u>(7,912)</u>	<u>14,428</u>
Other income			357
Central administrative costs			(15,817)
Finance costs			<u>(2,615)</u>
Loss for the period			<u>(3,647)</u>

### 3. SEGMENT INFORMATION (Con't)

	<b>Investments in securities</b> <i>HK\$'000</i>	<b>Battery products</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Six months ended 30<sup>th</sup> June, 2010</b>			
Gross proceeds	85,202	5,764	90,966
REVENUE			
External sales	—	5,764	5,764
RESULT			
Segment result	10,889	(8,561)	2,328
Other income			195
Central administrative costs			(84,427)
Finance costs			(2,423)
Loss for the period			(84,327)

Segment (loss) profit represents (loss) profit incurred/earned 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

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Dividend income from financial assets at fair value through profit or loss/available-for-sale investments	<b>2,802</b>	3,396
Interest income	<b>1,200</b>	521
Exchange gain, net	<b>34</b>	58
Reversal of allowance for inventories (Note)	<b>2,063</b>	—
Others	<b>83</b>	—
	<u><b>6,182</b></u>	<u>3,975</u>

Note: During the period, a significant portion of inventories for which allowance was previously made were sold. As a result, a reversal of allowance for inventories of HK\$2,063,000 has been recognised in the period.

#### 5. FINANCE COSTS

	<b>Six months ended 30<sup>th</sup> June,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Interest on borrowings wholly repayable within five years:		
– loan payables	<b>2,165</b>	1,736
– bank borrowings	<b>448</b>	684
– obligation under finance leases	<b>2</b>	3
	<u><b>2,615</b></u>	<u>2,423</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 since the assessable profits for both periods 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>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Amortisation of prepaid lease payments	<b>167</b>	160
Depreciation of property, plant and equipment	<b>2,279</b>	4,913
Legal and professional fee (Note)	<b>485</b>	64,836
	<u><b>2,931</b></u>	<u>59,909</u>

Note: During the six months ended 30<sup>th</sup> June, 2010, the Group incurred legal and professional fee of HK\$64,836,000, which were included in administrative expenses, mainly due to the Group's proposed acquisition of Nan Shan Life Insurance Company, Ltd., a well-established insurance company in Taiwan. The acquisition was terminated on 20<sup>th</sup> September, 2010 and details were set out in the Company's announcement on the same date.

## 8. DIVIDEND

No dividend were paid, declared or proposed during the period ended 30<sup>th</sup> June, 2011. The directors do not recommend the payment of an interim dividend (2010: 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 HK\$3,647,000 (2010: HK\$84,302,000) and the weighted average number of 3,699,183,927 (2010: 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, 2011 and 2010 does not include adjustments for the Company's outstanding share options as they have anti-dilutive effect.

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred an expenditure of HK\$4,000 (2010: HK\$2,735,000) on property, plant and equipment.

## **11. 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 HK\$1,190,000 (31<sup>st</sup> December, 2010: HK\$1,597,000) at the reporting date is aged within 90 days.

Included in the other receivables is an amount of HK\$9,789,000 (31<sup>st</sup> December, 2010: HK\$28,390,000) placed with security brokers for trading securities in Hong Kong, which are repayable on demand and interest bearing at 0.01% to 0.70% (2010: 0.01% to 0.70%) per annum.

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

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

As at 30<sup>th</sup> June, 2011, the Group had investments in equity securities listed in Hong Kong of HK\$239,755,000 (31<sup>st</sup> December, 2010: HK\$230,149,000), which were held for trading purposes, and unlisted debt securities designated as financial assets at fair value through profit or loss of HK\$10,411,000 (31<sup>st</sup> December, 2010: HK\$12,259,000).

## **13. 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 1.10% (31<sup>st</sup> December, 2010: 0.01% to 0.31%) per annum and have original maturity of three months or less.

#### 14. TRADE AND OTHER PAYABLES

As at 30<sup>th</sup> June, 2011, included in trade and other payables are trade payable of HK\$1,857,000 (31<sup>st</sup> December, 2010: HK\$1,555,000). The following is an analysis of trade payable by age, presented based on invoice date.

	<b>30.6.2011</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2010 <i>HK\$'000</i> (audited)
0 - 90 days	547	476
91 - 180 days	559	251
Over 180 days	751	828
	<u>1,857</u>	<u>1,555</u>

#### 15. LOAN PAYABLES

During the period, the Group obtained a new loan amounting to HK\$23,637,000 (2010: nil). The loan payables, carrying interest at 6.6% to 7.0% per annum, are unsecured and repayable on demand.

#### 16. SHARE CAPITAL

	Note	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, 2010		8,000,000,000	800,000
Increase during the period	(a)	<u>192,000,000,000</u>	<u>19,200,000</u>
As at 30 <sup>th</sup> June, 2010, 31 <sup>st</sup> December, 2010 and 30 <sup>th</sup> June 2011		<u>200,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:			
As at 1 <sup>st</sup> January, 2010, 30 <sup>th</sup> June, 2010, 31 <sup>st</sup> December, 2010 and 30 <sup>th</sup> June, 2011		<u>3,699,183,927</u>	<u>369,918</u>

- (a) Pursuant to a resolution passed on 16<sup>th</sup> March, 2010, the Company's authorised share capital was increased from HK\$800,000,000 to HK\$20,000,000,000 by the creation of an additional 192,000,000,000 ordinary shares of HK\$0.10 each in aggregate.

## **17. PLEDGE OF ASSETS**

As at 30<sup>th</sup> June, 2011, available-for-sale investments and financial assets at fair value through profit or loss with a carrying value of HK\$2,823,000 (31<sup>st</sup> December, 2010: HK\$2,353,000) and HK\$3,988,000 (31<sup>st</sup> December, 2010: HK\$4,451,000) respectively were pledged to secure margin account credit facilities granted to the Group. As at 30<sup>th</sup> June, 2011, a margin loan of HK\$1,011,000 (31<sup>st</sup> December, 2010: HK\$971,000) 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.

As at 30<sup>th</sup> June, 2010, prepaid lease payment with a carrying value of HK\$9,476,000 and building (included in property, plant and equipment) with a carrying value of HK\$11,513,000 were pledged to secure short-term bank loan granted to a subsidiary. The pledge was released during the six-month ended 30<sup>th</sup> June, 2011 upon repayment of the bank loan.

## **18. SHARE-BASED PAYMENTS**

Under the share option scheme of the Company adopted on 4<sup>th</sup> June, 2002 (the “Old Scheme”), the Board may, at its discretion, grant options to the directors and eligible participants (as defined in the Old Scheme) pursuant to the Old 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 Scheme”) was adopted by the Company and the Old Scheme was terminated. Since the adoption of the New Scheme, no further options can be granted under the Old Scheme.

There were no share option granted under the Old Scheme and the New 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, 2011, the Group has 24,800,000 (31<sup>st</sup> December, 2010: 24,800,000) share options outstanding.





## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

### **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 interim financial information set out on pages 1 to 15, which comprises the condensed consolidated statement of financial position of China Strategic Holdings Limited (the “Company”) and its subsidiaries as of 30<sup>th</sup> June, 2011 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information 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 the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
26<sup>th</sup> August, 2011

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group's principal activities were manufacturing and trading of battery products, as well as investments in securities. With the gradually stabilized of the global economy, the revenue from manufacturing and trading of battery products of the Group for the six months ended 30<sup>th</sup> June 2011 increased by approximately HK\$0.97 million to approximately HK\$6.73 million. Compared with the same period of 2010, the interest income and gain on financial assets at fair value through profit or loss were increased by approximately 130.33% and 140.61% respectively. The administrative expenses for the period were approximately HK\$26.26 million, representing approximately 71.94% decreased when compared with the same period of 2010. There was a significant decrease in administrative expenses for the six months ended 30<sup>th</sup> June, 2011 as there was a substantial amount of administrative expenses incurred due to the proposed acquisition project of the Group (which was terminated on 20<sup>th</sup> September, 2010) for the corresponding period ended 30<sup>th</sup> June, 2010. The finance costs, mainly from interests on loan payables and bank borrowings for the first half of 2011 was increased approximately by 7.92% to HK\$2.62 million. Overall, net loss for the six months ended 30<sup>th</sup> June, 2011 was approximately HK\$3.65 million as compared to net loss for the six months ended 30<sup>th</sup> June, 2010 was approximately HK\$84.33 million.

During the period under review, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers and external borrowings. As at 30<sup>th</sup> June, 2011, the Group had working capital of approximately HK\$752.39 million, calculated by current assets less current liabilities and the current ratio decreased to 7.63, compared with the working capital of approximately HK\$754.30 million and current ratio of 7.75 as at 31<sup>st</sup> December, 2010.

In the period under review, the net cash from operating activities was approximately HK\$12.19 million compared with approximately HK\$27.74 million in the same period of 2010. The net cash from investing activities and used in financing activities in the first half of 2011 was approximately HK\$1.20 million and HK\$0.88 million respectively compared with approximately HK\$2.21 million net cash generated from investing activities and HK\$0.70 million net cash used in financing activities in the same period of 2010.

The Group's bank and other borrowings slightly increased from approximately HK\$91.22 million as at 31<sup>st</sup> December 2010 to approximately HK\$93.35 million as at 30<sup>th</sup> June, 2011, representing an increase of 2.34%. At 30<sup>th</sup> June, 2011, bank and other borrowings were variable rate loans and were denominated in Renminbi and Hong Kong dollars. As at 30<sup>th</sup> June, 2011, there were no long-term borrowings outstanding. The gearing ratio was approximately 0.14 (31<sup>st</sup> December, 2010: 0.14) calculated by the total liabilities of HK\$113.43 million (31<sup>st</sup> December, 2010: HK\$111.80 million) divided by total shareholders' equity of HK\$785.89 million (31<sup>st</sup> December, 2010: HK\$788.39 million).

## MANAGEMENT DISCUSSION AND ANALYSIS (Con't)

An insignificant amount of capital expenditure for the six months ended 30<sup>th</sup> June, 2011 was used primarily for purchasing of property, plant and equipment. The Group's capital expenditure will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 30<sup>th</sup> June, 2011, the Group had cash and bank balances amount to approximately of HK\$595.64 million and is mainly denominated in Hong Kong dollars. Financial assets at fair value through profit or loss were in an amount of HK\$250.17 million. As at 30<sup>th</sup> June, 2011, there was no bank deposit pledged. During the period ended 30<sup>th</sup> June, 2011, 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, 2011, the Group employed approximately 90 staff, the staff cost (excluding directors' emoluments) was approximately HK\$3.16 million for the period under review. The staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the employees in the 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 Scheme"), the Board may, at its discretion, grant options to the directors and eligible participants (as defined in the Old Scheme) pursuant to the Old 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 Scheme") was adopted by the Company and the Old Scheme was terminated. Since the adoption of the New Scheme, no further options can be granted under the Old Scheme.

There were no share option granted and exercised under the Old Scheme and the New Scheme of the Company during the period under review. As at 30<sup>th</sup> June, 2011, 24,800,000 share options were still outstanding.

Looking forward, the pace of economic recovery in the United States is likely to be more subdued than expected and debt crisis in Europe, the market in the second half of 2011 will remain full of challenging. The Group tends to remain cautious on the battery manufacturing and trading business and the performance of securities investments operation. In order to diversify our business, the management of the Group will continue caution in identifying new investment opportunities not only in financial service institutions but also in other investment opportunities with good strategic value aiming at maximizing the shareholders' value.

## CORPORATE GOVERNANCE

The Company has, during the six months ended 30<sup>th</sup> June, 2011, 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 deviation:

### Code provision A.4.1

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Currently all independent non-executive directors of the Company are not appointed for a specific term. However, the Company’s articles of association 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, 2011, 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
	Beneficiary of a trust	Share options	Total		
Chan Ling, Eva (“Ms. Chan”)	—	4,400,000	4,400,000	0.12	1
Ma Si Hang, Frederick	3,000,000	—	3,000,000	0.08	

*Note:*

1. 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.

## DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Con't)

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 1.1.2011	Granted/lapsed during the period	At 30.6.2011
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
				<u>24,800,000</u>	<u>—</u>	<u>24,800,000</u>

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.

Except as disclosed above, as at 30<sup>th</sup> June, 2011, 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, 2011, 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 standard set out in the Model Code during the six months ended 30<sup>th</sup> June, 2011.

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

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

## **REVIEW BY AUDIT COMMITTEE**

Having been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, the 2011 interim report has been reviewed by audit committee which comprises three independent non-executive Directors of the Company.

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, Mr. Ma Si Hang, Frederick as a non-executive Director 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**

**Ma Si Hang, Frederick**

*Chairman*

Hong Kong, 26<sup>th</sup> August, 2011