



中策集團有限公司

China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 0235

interim report
2008

Towards New Goals

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of China Strategic Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	NOTES	Six months ended 30th June, 2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Revenue		15,685	25,317
Cost of sales		(15,362)	(19,968)
Gross profit		323	5,349
Other income	4	16,090	47,635
Distribution costs		(1,047)	(1,675)
Administrative expenses		(16,716)	(11,172)
Impairment loss recognised in respect of goodwill	5	—	(25,807)
Fair value changes on investments held for trading		(59,801)	—
Other expenses		—	(190)
Finance costs	6	(48,185)	(3,768)
(Loss) profit before taxation		(109,336)	10,372
Income tax expense	7	—	(860)
(Loss) profit for the period	8	(109,336)	9,512
Attributable to:			
Equity holders of the parent		(109,336)	9,512
Minority interests		—	—
		(109,336)	9,512
		HK cents	HK cents
(Loss) earnings per share	10	(5.5)	2.2

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH JUNE, 2008

	<i>NOTES</i>	30.6.2008 HK\$'000 (unaudited)	31.12.2007 <i>HK\$'000</i> (audited)
Non-Current Assets			
Property, plant and equipment	11	98,278	91,739
Prepaid lease payments		19,820	19,604
Interest in an associate		—	—
Club debentures		825	825
Available-for-sale investments		25,592	36,978
		<hr/> 144,515 <hr/>	<hr/> 149,146 <hr/>
Current Assets			
Inventories		7,985	9,340
Trade receivables	12	3,208	3,585
Prepaid lease payments		476	466
Amount due from an associate		6,990	6,686
Loans and interest receivables		20,770	41,724
Other receivables, deposits and prepayments	13	108,841	6,158
Investments held for trading	14	196,742	13,800
Bank balances and cash	15	1,480,240	191,617
		<hr/> 1,825,252 <hr/>	<hr/> 273,376 <hr/>
Current Liabilities			
Trade payables, other payables and accrued charges	16	40,617	40,150
Amount due to an associate		7,155	6,686
Loan payables		62,094	82,100
Income tax payable		5,735	5,735
Bank borrowings		19,662	18,042
Bank overdraft	15	2,066	—
Obligations under finance leases		26	26
		<hr/> 137,355 <hr/>	<hr/> 152,739 <hr/>
Net Current Assets		<hr/> 1,687,897 <hr/>	<hr/> 120,637 <hr/>
Total Assets less Current Liabilities		<hr/> 1,832,412 <hr/>	<hr/> 269,783 <hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET (Con't)
AT 30TH JUNE, 2008**

	<i>NOTES</i>	30.6.2008 <i>HK\$'000</i> (unaudited)	31.12.2007 <i>HK\$'000</i> (audited)
Capital and Reserves			
Share capital	17	202,880	52,880
Reserves		545,693	91,925
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		748,573	144,805
Minority interests		261	261
		<hr/>	<hr/>
Total equity		748,834	145,066
		<hr/>	<hr/>
Non-Current Liabilities			
Deferred tax liabilities		49,644	4,172
Convertible notes	18	1,033,888	120,488
Obligations under finance leases		46	57
		<hr/>	<hr/>
		1,083,578	124,717
		<hr/>	<hr/>
		1,832,412	269,783
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008**

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000	Share option reserve HK\$'000	Convertible notes reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other non-distributable reserves HK\$'000	(Deficit) retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2007 (audited)	44,080	—	1,267	—	—	233	32,992	(354)	1,943	70,670	150,831	262	151,093
Exchange difference arising on translation	—	—	—	—	—	—	—	1,771	—	—	1,771	—	1,771
Gains on fair value of available-for-sale investments	—	—	—	—	—	—	17,063	—	—	—	17,063	—	17,063
Net income recognised directly in equity	—	—	—	—	—	—	17,063	1,771	—	—	18,834	—	18,834
Profit for the period	—	—	—	—	—	—	—	—	—	9,512	9,512	—	9,512
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(35,453)	—	—	—	(35,453)	—	(35,453)
Total recognised income (expense) for the period	—	—	—	—	—	—	(18,390)	1,771	—	9,512	(7,107)	—	(7,107)
At 30th June, 2007 (unaudited)	44,080	—	1,267	—	—	233	14,602	1,417	1,943	80,182	143,724	262	143,986

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Con't)
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Attributable to equity holders of the Company											
	Share capital HKS'000	Share premium HKS'000	Special capital reserve HKS'000	Share option HKS'000	Convertible notes reserve HKS'000	Capital redemption reserve HKS'000	Investment revaluation reserve HKS'000	Exchange reserve HKS'000	Other non-distributable reserves HKS'000	(Deficit) retained profits HKS'000	Minority interests HKS'000	Total HKS'000
At 1st January, 2008 (audited)	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	261	145,066
Exchange difference arising on translation	-	-	-	-	-	-	-	5,419	-	-	-	5,419
Losses on fair value changes of available-for-sale investments	-	-	-	-	-	-	(6,480)	-	-	-	-	(6,480)
Income (expense) recognised directly in equity	-	-	-	-	-	-	(6,480)	5,419	-	-	-	(1,061)
Loss for the period	-	-	-	-	-	-	-	-	-	(109,336)	-	(109,336)
Realised upon disposal of available-for-sale investments	-	-	-	-	-	-	(802)	-	-	(802)	-	(802)
Total recognised (expense) income for the period	-	-	-	-	-	-	(7,282)	5,419	-	(109,336)	-	(111,199)
Issue of shares	150,000	345,000	-	-	-	-	-	-	-	-	-	495,000
Expenses related to issue of shares	-	(12,375)	-	-	-	-	-	-	-	-	-	(12,375)
Issue of convertible notes	-	-	-	-	275,590	-	-	-	-	-	-	275,590
Recognition of equity settled share-based payments	-	-	-	2,224	-	-	-	-	-	-	-	2,224
Share options lapsed	-	-	-	(1,582)	-	-	-	-	-	1,582	-	-
Deferred tax liabilities on recognition of equity component of convertible notes	-	-	-	-	(45,472)	-	-	-	-	-	-	(45,472)
At 30th June, 2008 (unaudited)	202,880	352,079	1,267	12,034	249,785	233	(942)	6,747	1,943	(77,463)	261	748,834

Notes:

- (a) The special capital reserve of the Group at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001. During the period ended 30th June, 2006, the amount was reduced as a result of the group reorganisation and capital reorganisation carried out by the Company.
- (b) The other non-distributable reserves of the Group include (i) the share premium of associates and (ii) the investment properties reserve of associates.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008**

	Six months ended 30th June,	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash used in operating activities	(354,103)	(3,816)
Net cash generated from investing activities:		
Proceeds from disposal of available-for-sale investments	4,906	47,727
Purchase of property, plant and equipment	(3,362)	(15,601)
Interest received	10,974	1,884
Other investing cash flows	956	901
	13,474	34,911
Net cash generated from financing activities:		
Net proceeds from issue of shares	482,625	—
Net proceeds from issue of convertible notes	1,143,821	—
Advances from related companies	—	16,073
Advance from an associate	469	802
Interest paid	(771)	(2,925)
Other financing cash flows	630	2,987
	1,626,774	16,937
Net increase in cash and cash equivalents	1,286,145	48,032
Cash and cash equivalents at beginning of the period	191,617	8,969
Effect of foreign exchange rate changes	412	212
Cash and cash equivalents at end of the period	1,478,174	57,213
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,480,240	57,213
Bank overdraft	(2,066)	—
	1,478,174	57,213

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2008.

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Con't)

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

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

² Effective for annual periods beginning on or after 1st July, 2009

³ Effective for annual periods beginning on or after 1st July, 2008

⁴ Effective for annual periods beginning on or after 1st October, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

An analysis of the Group's revenue and contribution to operating results by business segments is as follows:

	Investments in securities and advance <i>HK\$'000</i>	Battery products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 30th June, 2008				
REVENUE				
External sales	<u>—</u>	<u>15,685</u>	<u>—</u>	<u>15,685</u>
RESULT				
Segment result	<u>(55,197)</u>	<u>(5,062)</u>	<u>8,685</u>	<u>(51,574)</u>
Unallocated corporate expenses				(9,577)
Finance costs				<u>(48,185)</u>
Loss before taxation				(109,336)
Taxation				<u>—</u>
Loss for the period				<u>(109,336)</u>

3. SEGMENT INFORMATION (Con't)

Business segments (Con't)

	Investments in securities and advance <i>HK\$'000</i>	Battery products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 30th June, 2007				
REVENUE				
External sales	<u>—</u>	<u>25,317</u>	<u>—</u>	<u>25,317</u>
RESULT				
Segment result	<u>45,735</u>	<u>(27,061)</u>	<u>1,029</u>	19,703
Unallocated corporate expenses				(5,563)
Finance costs				<u>(3,768)</u>
Profit before taxation				10,372
Taxation				<u>(860)</u>
Profit for the period				<u>9,512</u>

4. OTHER INCOME

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
Interest income	12,163	1,884
Dividend income from		
available-for-sale investments	1,567	606
Exchange gain	1,026	558
Changes in fair value of		
investments held for trading	—	1,911
Gain on disposal of		
available-for-sale investments	802	39,577
Gain on disposal of investments		
held for trading	—	2,474
Others	532	625
	16,090	47,635

5. GOODWILL

During the period ended 30th June, 2007, the Group recognised an impairment loss of approximately HK\$25,807,000 in relation to the goodwill arising on acquisition of subsidiaries which are included in the segment of battery products, determined based on a value in use calculation. In the opinion of the directors, other assets of such cash generating unit are not impaired for the period.

6. FINANCE COSTS

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
Interest on borrowings wholly		
repayable within five years:		
– bank borrowings	767	180
– loan payables	2,245	3,586
– obligation under finance lease	4	2
Effective interest on convertible notes	45,169	—
	48,185	3,768

7. INCOME TAX EXPENSE

The income tax charge for the six months ended 30th June, 2007 represented underprovision of Hong Kong Profits Tax in prior periods.

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

On 16th March, 2007, the People's Republic of China (the "PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1st January, 2008. No provision for PRC Enterprise Income tax has been made in the condensed consolidated financial statements as the Group's PRC subsidiaries has no assessable profit for both periods.

8. (LOSS) PROFIT FOR THE PERIOD

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

	Six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
Amortisation of prepaid lease payments	325	151
Depreciation of property, plant and equipment	2,157	1,116
Impairment loss recognised in respect of goodwill	—	25,807
Share based payment expenses	2,224	—
	<u><u>2,224</u></u>	<u><u>25,964</u></u>

9. DIVIDEND

The directors do not recommend the payment of any interim dividend (2007: nil).

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the period attributable to the equity holders of the Company of approximately HK\$109,336,000 (six months ended 30th June, 2007: profit of approximately HK\$9,512,000) and the weighted average number of 1,979,346,994 (six months ended 30th June, 2007: 440,797,543) ordinary shares in issue during the period.

No diluted loss per share has been presented for the six months ended 30th June, 2008 as the assumed conversion of the Company's outstanding convertible notes and exercise of share options at their exercise prices would result in a decrease in loss per share.

No diluted earnings per share has been presented for the six months ended 30th June, 2007 as there were no potential ordinary shares in issue during the period.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred an expenditure of approximately HK\$3,362,000 (six months ended 30th June, 2007: HK\$15,601,000) on property, plant and equipment.

12. TRADE RECEIVABLES

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

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
0-90 days	3,052	3,343
91-180 days	156	36
Over 180 days	—	206
	<u>3,208</u>	<u>3,585</u>

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the other receivables, deposits and prepayments is an amount of approximately HK\$98,426,000 (31.12.2007: HK\$3,701,000) margin accounts placed with a security broker for securities trading purposes, which are repayable on demand and interest bearing at 0.7% to 1% (six months ended 30th June, 2007: 1% to 1.5%).

14. INVESTMENTS HELD FOR TRADING

During the period, the Group has made investment in equity securities listed in Hong Kong of approximately HK\$285,261,000 (six months ended 30th June, 2007: HK\$Nil). The loss from change in fair value on investments held for trading of approximately HK\$59,801,000 has been recognised in the condensed consolidated income statements for the six months ended 30th June, 2008 (six months ended 30th June, 2007: profit of approximately HK\$1,911,000).

15. BANK BALANCES AND CASH / BANK OVERDRAFT

Bank balances and cash comprises cash held by the Group and bank balances that are interest bearing at prevailing market rate range from 1% to 3% (31.12.2007: 1% to 4%) and have maturity of three months or less. Bank overdraft carries interest at market rates which range from 5% to 7% (31.12.2007: Nil).

16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

At 30th June, 2008, included in trade payables, other payables and accrued charges are trade payables of approximately HK\$4,553,000 (31.12.2007: HK\$4,660,000) with the following aged analysis at the balance sheet date:

	30.6.2008 HK\$'000	31.12.2007 <i>HK\$'000</i>
0-90 days	2,725	2,720
91-180 days	841	1,501
Over 180 days	987	439
	<hr/> 4,553 <hr/>	<hr/> 4,660 <hr/>

17. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2007, 30th June, 2007, 31 December, 2007 and 30th June, 2008	8,000,000,000	800,000
Issued and fully paid:		
At 1st January, 2007 and 30th June, 2007	440,797,543	44,080
Issue of shares	88,000,000	8,800
At 31st December, 2007	528,797,543	52,880
Issue of shares (<i>Note</i>)	1,500,000,000	150,000
At 30th June, 2008	2,028,797,543	202,880

Note: On 23rd August, 2007, a placing agreement was entered into with an independent placing agent ("Placing Agent"), pursuant to which the Company has appointed the Placing Agent to place 1,500,000,000 ordinary shares of HK\$0.10 each ("Placing Shares") in the Company at a price of HK\$0.33 per Placing Share. The Placing Shares were issued under the special mandate granted to the Directors of the Company on 2nd October, 2007. The net proceeds of HK\$482,625,000 will be used for working capitals and possible investment opportunities.

18. CONVERTIBLE NOTES

On 23rd August, 2007, the Company entered into convertible notes placing agreement with the independent placing agent for the placement of a maximum aggregate principal amount of HK\$1,320,000,000 on a best effort basis. The convertible notes will be non-interest bearing and have maturity date of 31st December, 2010. The placements are expected to raise maximum net proceeds of approximately HK\$1,287,000,000.

On 5th November, 2007 and 7th January, 2008, the convertible notes of aggregate principal amounts to HK\$146.9 million and HK\$1,173.2 million (“Convertible Notes”) were issued respectively.

The Convertible Notes holders had the right, at any time before the maturity date on 31st December, 2010, to convert the whole or part of the outstanding principal amount of the Convertible Notes into ordinary shares in the issued share capital of the Company of HK\$0.10 each, by giving prior written notice to the Company. The conversion price, subject to anti-dilutive adjustment, shall be HK\$0.33 per share from the date of issue of the convertible notes up to 31st December, 2008, HK\$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK\$0.39 per share from 1st January, 2010 to the maturity date.

The Company has the right to early redeem the Convertible Notes, at any time before the maturity date on 31st December, 2010, by giving not less than 7 business days’ prior written notice to the Convertible Note holders at the principal amount of the Convertible Notes so redeemed.

On initial recognition, the fair value of the liability component of the Convertible Notes is determined using the prevailing market interest of similar non-convertible debts at 9.68%. The difference between the gross proceeds of the issue of the Convertible Notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the Convertible Notes into equity, is included in equity (convertible notes reserve).

At 30th June, 2008, the Convertible Notes with the aggregate principal of HK\$1,320 million remained outstanding.

The movement of the liability component of the Convertible Notes for the six months ended 30th June, 2008 is set out below:

	30.6.2008 HK\$'000	30.6.2007 HK\$'000
At beginning of the period	120,488	—
Issue of Convertible Notes	868,231	—
Effective interest expenses	45,169	—
	<hr/>	<hr/>
At end of the period	<u>1,033,888</u>	<u>—</u>

19. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	28,800,000
Granted during the period	20,000,000
Lapsed during the period	(4,000,000)
	<hr/>
Outstanding at the end of the period	<u>44,800,000</u>

The closing price of the Company's share immediately before 19th March, 2008, the date of grant of the options, was HK\$0.52.

The fair values of the options determined at the dates of grant, 19th March, 2008 using the Black-Scholes option pricing model were HK\$2,224,000.

The following assumptions were used to calculate the fair values of share options:

Grant date share price	HK\$0.52
Exercise price	HK\$0.58
Expected life	3.0 to 5.4 years
Expected volatility	110.99% – 125.86%
Dividend yield	Nil
Risk-free interest rate	1.35% – 1.95%

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

20. COMMITMENTS

- (a) At the balance sheet date, the Group had the following capital commitments:

	30.6.2008	31.12.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	—	3,332
	<u> </u>	<u> </u>

- (b) On 11th January, 2008, the Group entered into a framework agreement with an independent third party to acquire part or entire equity interests of 蘇尼特左旗小白陽礦業有限公司 and not less than 20% share capital of 蘇尼特左旗芒來礦業有限公司. Details are set out in the announcement of the Company dated 11th January, 2008. This transaction is still under negotiation up to the date of this report.

21. PLEDGE OF ASSETS

- (a) At 30th June, 2008, available-for-sale investments and investments held for trading with a carrying value of approximately HK\$13,780,000 (31.12.2007: HK\$25,270,000) and HK\$6,904,000 (31.12.2007: HK\$7,735,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 30th June, 2008, margin loan facility of approximately HK\$2,066,000 (31.12.2007: nil) was utilised by the Group.
- (b) At 30th June, 2008, prepaid lease payment with a carrying value of approximately HK\$9,610,000 (31.12.2007: HK\$9,160,000) was pledged to secure short-term bank loan granted to the Group.

22. RELATED PARTY DISCLOSURES

Related parties transactions

During the period ended 30th June, 2007, the Group had loan interest expense paid and payable of approximately HK\$873,000 to Wing On Travel (Holdings) Limited, which ceased to be an associate of a former substantial shareholder of the Company during the year ended 31st December, 2007.

MANAGEMENT DISCUSSION & ANALYSIS

The revenue of the Group for the six months ended 30th June, 2008 decreased by approximately HK\$9.63 million to approximately HK\$15.69 million. The revenue for the period was generated from the manufacturing and trading of batteries products. With the financial crisis arisen from sub-prime mortgage crisis in United States, the world economy has become unstable, the Group's batteries manufacturing and trading business has been tough leading to decrease in the revenue of the Group. Gross profit ratio deteriorated under the significant increase global energy price and raw material costs, compared to the same period last year. Interest income increased by approximately HK\$10.28 million mainly because of increase in interest generated by cash balances received from fund raising activities. Due to the adverse market condition, the Group recorded a loss from fair value changes on investments held for trading of approximately HK\$59.80 million as opposed to a gain of HK\$1.91 million for the corresponding period last year. During the period, the Company had granted share options to a director to subscribe ordinary shares of the Company, an amount of approximately HK\$2.22 million was recognized and included in the administrative expenses for the current period to reflect the effect of granting the share options to a director. Finance costs had increased during the period as the second tranche of 2007 convertible note in the amount of HK\$1.173 billion was issued on 7th January, 2008, as a result, an amount of HK\$45.17 million was recognised as financial expenses for the period under the requirements of the Hong Kong Accounting standard ("HKAS") 39 and HKAS 32; however, there was no cash outlay from the Company for that financial expenses during the period. Overall, net loss for the six months ended 30th June, 2008 was approximately HK\$109.34 million as opposed to a net profit of approximately HK\$9.51 million for the corresponding period in 2007.

During the period under review, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers, external borrowings, share placing and placing of convertible notes. As at 30th June, 2008, the Group had working capital calculated by current assets less current liabilities of approximately HK\$1.69 billion and the current ratio increased to 13.29, compared with the working capital of approximately HK\$120.64 million and current ratio of 1.79 as at 31st December, 2007.

In the period under review, the net cash used in operating activities was approximately HK\$354.10 million compared with HK\$3.82 million used in operating activities in the same period of 2007. The net cash generated by investing activities and financing activities in the first half of fiscal year of 2008 was approximately HK\$13.47 million and HK\$1.63 billion respectively compared with approximately HK\$34.91 million net cash generated by investing activities and HK\$16.94 million net cash generated by financing activities in the same period of 2007.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

The Group's bank overdraft and bank and other borrowings increased from approximately HK\$18.04 million as at 31st December, 2007 to approximately HK\$21.73 million as at 30th June, 2008, representing an increase of approximately 20%. There was HK\$0.04 million long term borrowings as at 30th June, 2008 (31st December, 2007: HK\$0.06 million). As at 30th June, 2008, the Group had convertible notes issued on 5th November, 2007 and 7th January, 2008 with aggregated outstanding principal amount of HK\$1.32 billion, the convertible notes are non-interest bearing and with maturity on 31st December, 2010. The outstanding convertible notes are convertible at HK\$0.33 per share from the date of issue upto 31st December, 2008, HK\$0.36 per share from 1st January, 2009 to 31st December, 2009 and HK\$0.39 per share from 1st January, 2010 to 31st December, 2010. The liability component of the convertible notes was approximately HK\$1.03 billion. The gearing ratio was approximately 0.62 calculated by the total liabilities of HK\$1.22 billion divided by total assets of HK\$1.97 billion.

Capital expenditure aggregated to approximately HK\$3.4 million for the six months ended 30th June, 2008 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 30th June, 2008, the Group had cash and bank balances amounted to approximately of HK\$1.48 billion and is mainly denominated in Hong Kong dollars. Fair value of investments held for trading was in an amount of HK\$196.74 million. As at 30th June, 2008, there was no bank deposit pledged. During the period ended 30th June, 2008, 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 30th June, 2008, the Company issued all monies guarantee and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary.

As at 30th June, 2008, the Group employed approximately 278 staff, the staff cost (excluding directors' emoluments) was around HK\$4.98 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. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits.

During the period under review, the Company granted share option to a Director to subscribe 20,000,000 ordinary shares of the Company at the subscription price of HK\$0.58 per share. As at 30th June, 2008, 44,800,000 share options were still outstanding. During the period under review, no options granted had been exercised.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

On 23rd August, 2007, the Company entered into a placing agreement with Kingston Securities Limited (“Kingston”) pursuant to which, Kingston agreed to place, on a best effort basis, 1,500,000,000 new shares at HK\$0.33 per share of nominal value of HK\$0.1 each to independent third parties (“Placing”). The Placing was completed on 7th January, 2008 and the net proceeds of HK\$482.6 million was initially intended to be used for potential investment or business opportunities.

On 23rd August, 2007, the Company also entered into the placing agreement with Kingston, pursuant to which, Kingston agreed to place, on a best effort basis, the convertible notes in an aggregate principal amount of HK\$1,320 million (“CN Placing”). The convertible notes are non-interest bearing and would carry a right to convert into new Shares at the conversion price subject to adjustment, HK\$0.33 per share from the date of issue of the convertible notes to 31st December, 2008, HK\$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK\$0.39 per share from 1st January, 2010 to 31st December, 2010 which is the maturity date of the convertible notes. On 5th November, 2007 and 7th January, 2008, the aggregate principal amounts of HK\$146.9 million and HK\$1,173.20 million were issued to independent third parties respectively. The net proceeds of approximately HK\$1,287 million were initially intended to be used for potential investments or business opportunities. Details of the share placing and placing of convertible notes were disclosed in the Company’s announcements dated 30th August, 2007, and the Company’s circular dated 14th September, 2007. As at 30th June, 2008, the Convertible Notes with the aggregate principal amount of HK\$1.32 billion remained outstanding.

On 7th March, 2008, the Company announced the change of use of proceeds from the Placing and CN Placing, 50% of the relevant net proceeds was to be used for general working capital with the rest remained unchanged.

Looking forward, as the sub-prime mortgage crisis in USA has slow down the USA’s and the global economy, the market in the second half of 2008 may become more difficult. Thus, the Group is cautious on the performance of securities investment and the batteries trading business is also expected to be difficult. Following the completion of the placing of shares and placing of convertible notes, the Group’s capital and shareholders base are much strengthened. The Board will continue to seek for suitable investments or business opportunities with good strategic value to enhance the shareholders’ value of the Company.

On 11th January, 2008, the Group entered into a framework agreement with an independent third party (the “vendor”) to acquire part or entire share capital of 蘇尼特左旗小白陽礦業有限公司 and not less than 20% share capital of 蘇尼特左旗芒來礦業有限公司. Further details are set out in the announcement of the Company dated 11th January, 2008. This transaction is still under negotiation up to the date of this report.

MANAGEMENT DISCUSSION & ANALYSIS (Con't)

At 30th June, 2008, available-for-sale investments and investments held for trading with a carrying value of approximately HK\$13,780,000 (31.12.2007: HK\$25,270,000) and HK\$6,904,000 (31.12.2007: HK\$7,735,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 30th June, 2008, margin loan facility of approximately HK\$2,066,000 (31.12.2007: nil) was utilised by the Group. Besides, at 30th June, 2008, prepaid lease payment with a carrying value of approximately HK\$9,610,000 (31.12.2007: HK\$9,160,000) was pledged to secure short-term bank loan granted to the Group.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30th June, 2008 met the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the following deviations:

(a) Code provision A.4.1

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

(b) Code provision B.1.1

Code Provision B.1.1 requires setting up of the remuneration committee. The Company has deviated from the requirement during the six month ended 30th June, 2008 and the remuneration committee has been set up on 11th September, 2008.

(c) Code provision E.1.2

The Code requires the chairman of the board to attend the annual general meeting of the Company. Ms. Chiu Ching Ching did not attend the 2008 annual general meeting as she was not in Hong Kong on that day.

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

As at 30th June, 2008, the interest and short positions of the directors of the Company 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:

Name of Director	Nature of interest	Number of Underlying Shares (long position)	Approximate percentage of existing issued share capital of the Company
Chan Ling, Eva ("Ms. Chan")	Personal	4,400,000 ¹	0.22
Zhang Hong Ren ("Mr. Zhang")	Personal	20,000,000 ²	0.99

Notes:

1. The personal interest of Ms. Chan represents an interest in 4,400,000 underlying shares in respect of options granted by the Company as stated below.
2. The personal interest of Mr. Zhang represents an interest in 20,000,000 underlying shares in respect of 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:

Name of category of participant	Number of share options					Outstanding at 30th June 2008	Date of grant of share options	Exercise period of share options	Exercise price of share options** HK\$ per share
	Outstanding at 1st, January 2008	Granted during the period*	Exercised during the period	Lapsed during the period	Cancelled during the period				
Directors									
Ms. Chan Ling, Eva	4,400,000	—	—	—	—	4,400,000	10.7.2007	10.7.2007 to 9.7.2012	0.724
Mr Kwok Ka Lap, Alva	4,000,000	—	—	(4,000,000)	—	—	10.7.2007	10.7.2007 to 9.7.2012	0.724
Mr. Zhang Hong Ren	—	20,000,000	—	—	—	20,000,000	19.3.2008	19.3.2008 to 14.2.2014	0.58
	8,400,000	20,000,000	—	(4,000,000)	—	24,400,000			
Other Employees working Under continuous employment contracts									
In aggregate	20,400,000	—	—	—	—	20,400,000	10.7.2007	10.7.2007 to 9.7.2012	0.724
	28,440,000	20,000,000	—	(4,000,000)	—	44,800,000			

Notes to the table of movements in the Company's share options during the period.

* The closing prices of the shares of the Company immediately before the dates of grant were HK\$0.52.

** The number and/or exercise price of the share options is/are subject to adjustment in the case of rights or other changes in the company's share capital.

Except as disclosed above, as at 30th June, 2008, 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 "Hong Kong Stock Exchange") pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Future Ordinance shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Name	Notes	Capacity	Long position/ short position	No. of shares held	No. of (convertible notes) held	Approximate % of the issued shares ordinary share capital of the Company
Fan Guo Ping		Beneficial owner	Long position	380,910,000	528,180,000	44.81%
Yeung Bo Lin		Beneficial owner	Long position	606,060,000	—	29.87%
Mak Tai Wo		Beneficial owner	Long position	—	200,000,000	9.86%
Tse Young Lai		Beneficial owner	Long position	200,000,000	—	9.86%
Leung Ngok		Beneficial owner	Long position	—	196,000,000	9.66%
Ruan Yuan		Beneficial owner	Long position	160,000,000	25,000,000	9.12%
So Chi Ming		Beneficial owner	Long position	—	185,000,000	9.12%
Wong Chun Loong		Beneficial owner	Long position	—	185,000,000	9.12%
Zhang Ming		Beneficial owner	Long position	—	185,000,000	9.12%
Kingston Finance Limited	1	Interests held by controlled corporation	Long position	—	1,437,270,000	70.84%
Chu Yuet Wah	1	Beneficial owner	Long position	—	1,537,270,000	75.77%
Lee Wai Man	1	Beneficial owner	Long position	—	1,537,270,000	75.77%
Ma Siu Fong	1	Beneficial owner	Long position	—	1,537,270,000	75.77%
Chau Lai Him		Beneficial owner	Long position	—	146,000,000	7.20%
Wong Lai Hop		Beneficial owner	Long position	—	115,000,000	5.67%
Liu Wing Yan, Winnie		Beneficial owner	Long position	103,030,000	—	5.08%

SUBSTANTIAL SHAREHOLDERS (Con't)

Long positions (Con't)

Name	Notes	Capacity	Long position/ short position	No. of shares held	No. of (convertible notes) held	Approximate % of the issued shares ordinary share capital of the Company
Chan Guang Lin		Beneficial owner	Long position	4,470,000	909,090,000	45.03%

Notes:

1. Kingston Finance Limited is beneficially owner by Ms. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively. Mr. Lee Wai Man is the spouse of Ms Ma Siu Fong.

Other than disclosed above, the Company had not been notified of any other interests or short position in the issued shares of the Company as at 30th June, 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director's securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30th June, 2008.

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 Auditors, Deloitte Touche Tohmatsu, the 2008 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 Ms. Chiu Ching Ching, Mr. Wong Ah Chik, Mr. Zhang Hong Ren, Mr. Hui Richard Rui, Ms. Chan Ling, Eva, Mr. Lee Sun Man and Mr. Chow Kam Wah as Executive Directors, and Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying as Independent Non Executive Directors.

By order of the Board
CHINA STRATEGIC HOLDINGS LIMITED
Zhang Hong Ren
Director

Hong Kong, 24 September 2008