



中策集團有限公司
China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)
Stock code: 0235

Interim Report 2013

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, 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

	NOTES	Six months ended 30 th June, 2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Revenue	3	2,133	2,327
Cost of sales		(1,845)	(2,213)
Gross profit		288	114
Other income	4	11,943	6,170
Selling and distribution costs		(40)	(106)
Administrative expenses		(22,439)	(18,505)
Loss on financial assets at fair value through profit or loss	11	(62,881)	(2,611)
Finance costs	5	(3,733)	(2,599)
Loss for the period	7	(76,862)	(17,537)
Other comprehensive (expense) / income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(1,134)	(374)
Fair value changes on available-for-sale investments		18	(307)
Other comprehensive expense for the period		(1,116)	(681)
Total comprehensive expense for the period		(77,978)	(18,218)
Loss for the period attributable to:			
Owners of the Company		(76,839)	(17,481)
Non-controlling interests		(23)	(56)
		(76,862)	(17,537)
Total comprehensive expense attributable to:			
Owners of the Company		(77,955)	(18,162)
Non-controlling interests		(23)	(56)
		(77,978)	(18,218)
Loss per share			
Basic and diluted	9	HK(2.08) cents	HK(0.47) cent

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30TH JUNE, 2013**

	<i>NOTES</i>	30.6.2013 <i>HK\$'000</i> (Unaudited)	31.12.2012 <i>HK\$'000</i> (Audited)
Non-Current Assets			
Property, plant and equipment		11,756	12,778
Prepaid lease payments		12,512	12,329
Club debentures		825	825
Available-for-sale investments		1,310	1,292
		<hr/> 26,403 <hr/>	<hr/> 27,224 <hr/>
Current Assets			
Inventories		1,768	2,621
Trade and other receivables	10	67,774	17,525
Prepaid lease payments		154	340
Financial assets at fair value through profit or loss	11	340,111	469,770
Bank balances and cash	12	236,243	243,557
		<hr/> 646,050 <hr/>	<hr/> 733,813 <hr/>
Current Liabilities			
Trade payables, other payables and accrued charges	13	11,208	16,019
Income tax payable		6,964	6,964
Bank and other borrowings	14	107,679	113,474
		<hr/> 125,851 <hr/>	<hr/> 136,457 <hr/>
Net Current Assets		<hr/> 520,199 <hr/>	<hr/> 597,356 <hr/>
Total Assets less Current Liabilities		<hr/> 546,602 <hr/>	<hr/> 624,580 <hr/>
Capital and Reserves			
Share capital	15	369,918	369,918
Reserves		176,914	254,869
		<hr/> 546,832 <hr/>	<hr/> 624,787 <hr/>
Equity attributable to the owners of the Company		546,832	624,787
Non-controlling interests		(230)	(207)
		<hr/> 546,602 <hr/>	<hr/> 624,580 <hr/>
Total Equity		<hr/> 546,602 <hr/>	<hr/> 624,580 <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2013**

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Special capital reserve HK\$'000 <i>(Note)</i>	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Other non-distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 st 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 th 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
At 1 st January, 2013 (audited)	369,918	846,242	1,267	—	233	3,451	9,375	1,943	(607,642)	624,787	(207)	624,580
Loss for the period	—	—	—	—	—	—	—	—	(76,839)	(76,839)	(23)	(76,862)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	—	(1,134)	—	—	(1,134)	—	(1,134)
Fair value changes on available-for-sale investments	—	—	—	—	—	18	—	—	—	18	—	18
Total comprehensive income / (expense) for the period	—	—	—	—	—	18	(1,134)	—	(76,839)	(77,955)	(23)	(77,978)
At 30 th June, 2013 (unaudited)	369,918	846,242	1,267	—	233	3,469	8,241	1,943	(684,481)	546,832	(230)	546,602

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 31st December, 2001.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2013**

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(1,050)</u>	<u>(48,652)</u>
Net cash generated from investing activity:		
Interest received	<u>1,932</u>	<u>3,503</u>
	<u>1,932</u>	<u>3,503</u>
Net cash used in financing activities:		
Interest paid	(3,056)	(44)
Repayment of bank borrowing	(112,164)	—
Other borrowings raised	<u>107,002</u>	<u>—</u>
	<u>(8,218)</u>	<u>(44)</u>
Net decrease in cash and cash equivalents	(7,336)	(45,193)
Cash and cash equivalents at beginning of the period	243,557	630,609
Effect of foreign exchange rate changes	<u>22</u>	<u>(17)</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>236,243</u></u>	<u><u>585,399</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as 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”).

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine

2. PRINCIPAL ACCOUNTING POLICIES (Con't)

New and Revised Standards on Consolidation, Joint Arrangements, Associates and Disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

Impact of the Application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC) - Int 12 “Consolidation - Special Purpose Entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1st January, 2013) as to whether or not the Group has control over its investees in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that it has had control over the investees which are consolidated into the condensed consolidated financial statements before the application of HKFRS 10. The adoption of HKFRS 10 has therefore had no material effect on the amounts reported in this condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Con't)

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurements and disclosure requirements prospectively. Disclosures of fair value information are set out in note 18.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

2. PRINCIPAL ACCOUNTING POLICIES (Con't)

Amendments to HKAS 34 Interim Financial Reporting (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 *Interim Financial Reporting* as part of the *Annual Improvements to HKFRSs 2009 - 2011 Cycle* for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review assets and liabilities of the Group's reportable segments for performance assessment and resource allocation purpose, the Group has not included total assets and liabilities information as part of segment information.

The application of the other 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.

3. SEGMENT INFORMATION

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

	Investments in securities	Battery products	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended			
30th June, 2013			
REVENUE			
External sales	—	2,133	2,133
RESULT			
Segment result	(54,358)	(101)	(54,459)
Other income			92
Central administrative costs			(18,762)
Finance costs			(3,733)
Loss for the period			(76,862)
Six months ended			
30th June, 2012			
REVENUE			
External sales	—	2,327	2,327
RESULT			
Segment result	2,422	(3,330)	(908)
Other income			1,008
Central administrative costs			(15,038)
Finance costs			(2,599)
Loss for the period			(17,537)

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

	Six months ended 30 th June,	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
Dividend income from financial assets at fair value through profit or loss	7,232	2,572
Interest income	1,932	3,503
Exchange gain	2,661	—
Others	118	95
	<u>11,943</u>	<u>6,170</u>

5. FINANCE COSTS

	Six months ended 30 th June,	
	2013 <i>HK\$'000</i> (Unaudited)	2012 <i>HK\$'000</i> (Unaudited)
Interest on borrowings wholly repayable within five years:		
– loan payables	—	2,555
– bank and other borrowings and overdrafts	3,733	44
	<u>3,733</u>	<u>2,599</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:

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of prepaid lease payments	154	169
Depreciation of property, plant and equipment	1,213	1,178

8. DIVIDEND

No dividend were paid, declared or proposed during the six months ended 30th June, 2013. The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2013 (2012: 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\$76,839,000 (2012: HK\$17,481,000) and the number of 3,699,183,927 (2012: 3,699,183,927) ordinary shares in issue during the period.

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

10. TRADE AND OTHER RECEIVABLES

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Trade receivables	309	1,399
Less: Allowance for doubtful debts	—	—
	<u>309</u>	<u>1,399</u>

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

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
0 - 90 days	157	1,111
Over 90 days	152	288
	<u>309</u>	<u>1,399</u>

Included in the other receivables is an amount of approximately HK\$710,000 (31st December, 2012: HK\$1,527,000) placed with securities brokers for trading securities in Hong Kong, which is unsecured, interest-free and repayable on demand. Besides, it includes receivable of HK\$63,000,000 (31st December, 2012: Nil) in connection with the disposal of unlisted equity security (details set out in note 11).

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 <i>HK\$'000</i> (Audited)
Listed securities held for trading, at fair value:		
Equity securities listed in Hong Kong	296,777	373,299
Equity security listed outside Hong Kong	6,724	—
Unlisted debt security held for trading, at fair value:		
Bonds with fixed interest rate of 2.5% and maturity date on 4 th January, 2014 issued by a Hong Kong listed issuer	29,400	34,800
Unlisted security held for trading, at fair value:		
Unlisted equity security	—	54,600
Unlisted debt security designated as financial assets at fair value through profit or loss (“FVTPL”):		
Convertible notes issued by a Hong Kong listed issuer	7,210	7,071
	<u>340,111</u>	<u>469,770</u>

The Group acquired unlisted unsecured bonds at purchase price of HK\$75,000,000 through a broker during the year ended 31st December, 2012.

The unlisted unsecured bonds, issued by a company listed on The Stock Exchange of Hong Kong Limited, with principal amount of HK\$120,000,000, carry coupon rate of 2.5% per annum, are redeemable by issuer at any time before maturity at its principal amount together with interest accrued at the redemption date. The bonds are repayable upon maturity on 4th January, 2014 or extended maturity date of 4th January, 2019, if the issuer has delivered an extension notice to bondholders at any time before extension deadline, with an adjusted coupon rate of 12.5%.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Con't)

The fair value of the unlisted unsecured bonds as at 30th June, 2013 has been arrived at on basis of a valuation with reference to the valuation performed by an external independent qualified valuer not connected with the Group. The fair value of the unlisted unsecured bonds as at 30th June, 2013 were determined using discounted cash flows method using the interest rate of 64% applied at the time by the market to instruments of comparable credit status, credit quality and taking into account the probability of extension of the bonds.

As at 31st December, 2012, the Group held 1.18% equity interest in a private entity incorporated in the Cayman Islands. The fair value of the unlisted equity security has been arrived at on the basis of a valuation carried out as at that date by an external independent qualified valuer. The fair value of the unlisted equity security is determined with reference to publicly available information of comparable companies applying a marketability discount. During the period ended 30th June, 2013, the entire 1.18% equity interest was disposed to an independent third party at a consideration of HK\$63,000,000, resulting an increase in fair value of HK\$8,400,000.

During the year 31st December, 2011, the Group acquired convertible notes of principal amount HK\$10,000,000 issued by a Hong Kong listed issuer (the "Convertible Notes"). The Convertible Notes carry 5% coupon rate and will mature on 12th October, 2014. The Group has the right, at any time following the date of issue of the Convertible Notes until the date falling 7 days before (and excluding) the maturity date, to convert the whole principal amount of the Convertible Notes into ordinary shares at conversion price of HK\$1.00, by giving prior written notice to the issuer.

The issuer has the right at any time from the date of issue the Convertible Notes and inclusive of the maturity date to redeem the whole or any part (in an amount or integral multiple of HK\$1,000,000) of the aggregate outstanding principal amount of the Convertible Notes at principal amount outstanding plus any interest accrued at the redemption date, unless a conversion notice have previously been given by the Group to the issuer in accordance with the terms and conditions of the Convertible Notes.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Con't)

During the period ended 30th June 2013, an increase in fair value of HK\$139,000 is recognised in the consolidated statement of profit or loss and other comprehensive income. At 30th June, 2013, the fair value of the debt component of the Convertible Notes is determined using the prevailing market interest rate of 29.67% while the fair value of the embedded derivative of the Convertible Notes is determined using Black-Scholes model by an external independent qualified valuer with the following inputs:

	30.6.2013	31.12.2012
Valuation date share price	: HK\$0.305	HK\$0.247
Exercise price	: HK\$1.000	HK\$1.000
Expected life	: 1.72 years	2 years
Expected volatility	: 49.73%	43.83%
Expected yield	: Nil	Nil
Risk-free rate	: 0.44%	0.11%

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 1.30% (31st December, 2012: 0.01% to 1.81%) per annum and have original maturity of three months or less.

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

As at 30th June, 2013, included in trade payables, other payables and accrued charges are trade payable of approximately HK\$3,162,000 (31st December, 2012: HK\$2,947,000) with the following aged analysis based on invoice date at the end of the reporting period.

	30.6.2013	31.12.2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 - 90 days	2,011	1,956
91 - 180 days	—	—
Over 180 days	1,151	991
	<u>3,162</u>	<u>2,947</u>

14. BANK AND OTHER BORROWINGS

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 <i>HK\$'000</i> (Audited)
Unsecured bank borrowing repayable within one year	—	113,474
Unsecured other borrowings repayable within one year	107,679	—
	<u>107,679</u>	<u>113,474</u>

During the current interim period, the Group repaid in full the unsecured bank loan. The loan bore interest at quoted lending rate of the People's Bank of China (the "PBOC") plus 2% per annum. Effective interest rate for the loan was 6.5% per annum.

During the current interim period, the Group had borrowings with a total principal amount of HK\$107,002,000 plus interest of HK\$677,000 payable to independent third parties. The borrowing with principal amount of HK\$52,715,000 carried interest at Hong Kong Prime Rate plus 2% per annum. Effective rate of interest for this borrowing was 7% per annum. The borrowing with principal amount of HK\$54,287,000 carried interest at Hong Kong Prime Rate plus 3% per annum. Effective rate of interest for this borrowing was 8% per annum. These borrowings are unsecured and repayable within one year.

15. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
As at 1 st January, 2012, 30 th June, 2012, 31 st December, 2012 and 30 th June, 2013	<u>200,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
As at 1 st January, 2012, 30 th June, 2012, 31 st December, 2012 and 30 th June, 2013	<u>3,699,183,927</u>	<u>369,918</u>

16. PLEDGE OF ASSETS

As at 30th June, 2013, available-for-sale investments and financial assets at fair value through profit or loss with a carrying value of approximately HK\$784,000 (31st December, 2012: HK\$775,000) and HK\$1,850,000 (31st December, 2012: HK\$2,081,000) respectively were pledged to secure margin account credit facilities granted to the Group. As at 30th June, 2013, a margin loan of approximately HK\$1,205,000 (31st December, 2012: HK\$1,150,000) 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.

17. SHARE-BASED PAYMENTS

Under the share option scheme of the Company adopted on 10th June, 2011 (the “2011 Scheme”), the Board may, at its discretion, grant options to the Participants (as defined in the circular of the Company dated 6th May, 2011) enable them to subscribe for shares of the Company as incentives or rewards for their contribution to the Group.

Prior to the adoption of 2011 Scheme, the Company had an option scheme which adopted on 4th June, 2002 (“Old Option Scheme”) for a period of 10 years. The Old Option Scheme was terminated on 10th June, 2011 since the adoption of 2011 Scheme. For the six months ended 30th June, 2012, there was no exercise for 24,800,000 share options granted under Old Option Scheme which subsequently lapsed in July 2012.

There were no share option granted under the 2011 Scheme during the period under review. No share options were outstanding as at 30th June, 2013 and 31st December, 2012.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group’s financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset that are not based on observable market data (unobservable inputs).

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Con' t)

Financial assets	Fair value as at 30 th June, 2013 <i>HK\$'000</i>	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available-for-sale investments					
Listed equity securities	1,310	Level 1	Quoted bid prices in an active market.	N/A	N/A
Listed securities held for trading					
Equity securities listed in Hong Kong	296,777	Level 1	Quoted bid prices in an active market.	N/A	N/A
Equity security listed outside Hong Kong	6,724	Level 1			
Unlisted debt security held for trading					
Bonds with fixed interest rate of 2.5% and maturity date on 4 th January, 2014 issued by a Hong Kong listed issuer	29,400	Level 3	Hull-White model with Trinomial Tree method. The key inputs are: risk-free rate, mean-reverting rate of short rate, volatility of short rate, remaining time to maturity.	Mean-reverting rate of short rate, estimated by calibrating the model to the market price of caps, floors and swaption at the valuation date, quoted from Bloomberg. Volatility, estimated by calibrating the model to the market price of caps, floors and swaption at the valuation date, quoted from Bloomberg.	The higher the mean-reverting rate of short rate, the higher the fair value. The higher the volatility, the higher the fair value.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Con' t)

Financial assets	Fair value as at 30 th June, 2013 <i>HKS'000</i>	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted debt security designated as financial assets at FVTPL					
Convertible notes issued by a Hong Kong listed issuer	7,210	Level 3	Black-Scholes model with Trinomial Tree method. The key inputs are: Stock price, conversion price, remaining time to maturity, risk-free rate, dividend yield and volatility.	Volatility, estimated by using the historical daily volatility of six comparable companies at the valuation date, quoted from Bloomberg. Dividend yield, estimated by the trailing 12-month dividend payout of the issuer	The higher the volatility, the higher the fair value. The higher the dividend yield, the lower the fair value.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Con't)

Reconciliation of Level 3 fair value measurements of financial assets is as follows:

	Unlisted debt securities <i>HK\$'000</i>	Unlisted equity security <i>HK\$'000</i>	Unlisted convertible notes investment <i>HK\$'000</i>
At 1 st January, 2013 (Audited)	34,800	54,600	7,071
Total (losses) gains recognised in profit or loss	(5,400)	8,400	139
Disposal	—	(63,000)	—
	<hr/>	<hr/>	<hr/>
At 30 th June, 2013 (Unaudited)	29,400	—	7,210
	<hr/>	<hr/>	<hr/>

Of the total gains or losses for the period recognised in profit or loss, HK\$5,400,000 loss relates to unlisted debt securities held for trading and HK\$139,000 gain relates to unlisted convertible notes investment designated as fair value through profit or loss held at the end of the current reporting period.

Fair value measurements and valuation process

The board of directors of the Company has closely monitored and determined the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages external independent qualified valuers to perform the valuation. The board of directors of the Company works closely with external independent qualified valuers to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

19. 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:

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	9,899	8,664
Post-employment benefits	37	37
	<u>9,936</u>	<u>8,701</u>

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

20. EVENT AFTER THE END OF THE INTERIM PERIOD

On 31st July, 2013, the Group through a wholly-owned subsidiary enters into the Joint Investment Agreement with a third party (“Investment Partner”), whereby an entity will be set up by both parties and the shareholdings owned by the Group and the Investment Partner are as to 51% and 49% respectively. The initial capital injection is agreed to be HK\$50 million. The entity will be engaged in money-lending and other related business.

Deloitte.

德勤

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 21, which comprise the condensed consolidated statement of financial position as of 30th June, 2013 and the related condensed consolidated statement of profit or loss and other 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 Interim 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 the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30th August, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group recorded consolidated revenue from manufacturing and trading of battery products decreased by 8.3% to HK\$2.13 million when compared with the six months ended 30th June, 2012. On the other hand, the Group recorded a loss on financial assets at fair value through profit or loss of approximately HK\$62.88 million for the six months ended 30th June, 2013 as compared to approximately HK\$2.61 million for the corresponding six months ended 30th June, 2012 as the result of the unstable global economic and investment market conditions. When compared with the corresponding six months ended 30th June, 2012, interest income was decreased by HK\$1.57 million to HK\$1.93 million. Finance costs mainly from interests on bank and other borrowings for the six months ended 30th June, 2013, were increased by 43.6% to HK\$3.73 million. Overall, net loss for the six months ended 30th June, 2013 was HK\$76.86 million as compared to a net loss of HK\$17.54 million for the six months ended 30th June, 2012.

During the period under review, the Group financed its operations mainly through cash generated from its operating activities, banking facilities provided by principal bankers and external borrowings. As at 30th June, 2013, the Group had working capital of approximately HK\$520.20 million, calculated by current assets less current liabilities, and the current ratio decreased to 5.13, compared with the working capital of approximately HK\$597.36 million and current ratio of 5.38 as at 31st December, 2012.

During the period under review, the net cash used in operating activities was approximately HK\$1.05 million compared with the corresponding six months ended 30th June, 2012 was approximately HK\$48.65 million. The net cash generated from investing activities and used in financing activities for the six months ended 30th June, 2013 was approximately HK\$1.93 million and HK\$8.22 million respectively compared with the corresponding six months ended 30th June, 2012 was approximately HK\$3.50 million and HK\$0.04 million respectively.

The Group's bank and other borrowings slightly decreased from approximately HK\$113.47 million as at 31st December, 2012 to approximately HK\$107.68 million as at 30th June, 2013, representing a decrease of 5.1%. As at 30th June, 2013, bank and other borrowings were variable rate loans and were denominated in Hong Kong dollars. There were no long-term borrowings outstanding. The gearing ratio was approximately 0.23 (31st December, 2012: 0.22) calculated by the total liabilities of HK\$125.85 million (31st December, 2012: HK\$136.46 million) divided by total shareholders' equity of HK\$546.83 million (31st December, 2012: HK\$624.79 million).

There was no significant capital expenditure incurred for the six months ended 30th June, 2013. 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 30th June, 2013, the Group had cash and bank balances amounted to approximately of HK\$236.24 million and is mainly denominated in Hong Kong dollars. Financial assets at fair value through profit or loss were in an amount of HK\$340.11 million. As at 30th June, 2013, there was no pledged bank deposit. During the six months ended 30th June, 2013, 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, 2013, the Group employed approximately 82 staff. For the period under review, the staff costs (excluding directors' emoluments) was approximately HK\$ 1.76 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 10th June, 2011 (the "Option Scheme"), the Board may, at its discretion, grant options to the directors and Participants (as defined in the Option Scheme) enable them to subscribe for shares of the Company as incentives or rewards for their contribution to the Group. Since the adoption of the Option Scheme, there was no share option granted and exercised during the period under review. As at 30th June, 2013, no share option was outstanding.

On 31st July, 2013, Main Choice (an indirect wholly-owned subsidiary of the Company) has entered into a Joint Investment Agreement with the Investment Partner. Pursuant to the Joint Investment Agreement, both Main Choice and Investment Partner have agreed to establish the Investee Company to be incorporated in Hong Kong with issued share capital of HK\$10,000. Upon incorporation of the Investee Company, Main Choice will have 51% shareholding and will become an indirectly owned subsidiary of the Company. Both Main Choice and Cordoba shall further inject their respective pro rata contributions into the Investee Company such that the total amount of the investment in the Investee Company will be HK\$50 million. Terms used herein shall, unless otherwise defined, have the same meanings as defined in the announcement of the Company dated 31st July, 2013. Further details are set out in the announcement of the Company dated 31st July, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS (Con't)

Looking ahead, with the recent and continual decline and deterioration in the battery business environment adversely affecting the Group, the management of the Group anticipates that the results from manufacturing and trading of batteries products remain under pressure. The Group has been looking for opportunities to diversify the Group's income and asset base with a view to lessen its reliance on its existing businesses. The Group intended to extend the scope of its existing principal activities to include money lending and other related financing business by setting up new subsidiaries of the Company and/or by forming the Investee Company with other parties, so as to diversify its business scope with a view to broaden the Group's revenue base and achieve better shareholder's return. 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, not only financing business but also seeking investment opportunities with Investment Partner, to improve our business mix and diversify our business from battery manufacturing in order to maximize shareholders' value.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30th June, 2013, met the code provisions set out in the Corporate Governance Code and Corporate Governance Report (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. Mr. Or Ching Fai 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.

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

As at 30th June, 2013, none of Directors nor chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be 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 30th June, 2013, 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 30th June, 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30th June, 2013. 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 2013 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 (Chairman of Audit Committee), 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. 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, 30th August, 2013