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**CHINA STRATEGIC HOLDINGS LIMITED**  
**中策集團有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 235)**

**ANNOUNCEMENT OF RESULTS**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2012**

The board of directors (the “Board”) of China Strategic Holdings Limited (the “Company”) announces the results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2012 as follows:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31st December, 2012

|  | NOTES | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|-------|------------------|------------------|
| Revenue  | 3     | 5,665            | 9,319            |
| Cost of sales  |       | <u>(5,018)</u>   | <u>(5,283)</u>   |
| Gross profit   |       | 647              | 4,036            |
| Other income   | 4     | 10,489           | 11,037           |
| Selling and distribution costs                                   |       | (181)            | (236)            |
| Administrative expenses  |       | (41,789)         | (54,872)         |
| Other gains or losses  | 5     | (876)            | 6                |
| Finance costs  | 6     | (5,399)          | (5,222)          |
| Loss on financial assets at fair value<br>through profit or loss |       | <u>(53,592)</u>  | <u>(25,216)</u>  |
| Loss before tax  |       | (90,701)         | (70,467)         |
| Taxation   | 7     | <u>—</u>         | <u>—</u>         |
| Loss for the year  | 8     | <u>(90,701)</u>  | <u>(70,467)</u>  |

|  | NOTE | 2012<br>HK\$'000              | 2011<br>HK\$'000             |
|--|------|-------------------------------|------------------------------|
| <b>Other comprehensive (expense) income</b>                          |      |                               |                              |
| Exchange differences arising on translation<br>of foreign operations |      | (514)                         | 402                          |
| Fair value changes of available-for-sale investments                 |      | <u>(317)</u>                  | <u>(2,215)</u>               |
| Other comprehensive expense for the year                             |      | <u>(831)</u>                  | <u>(1,813)</u>               |
| Total comprehensive expense for the year                             |      | <u><u>(91,532)</u></u>        | <u><u>(72,280)</u></u>       |
| Loss for the year attributable to:                                   |      |                               |                              |
| Owners of the Company  |      | (90,612)                      | (70,131)                     |
| Non-controlling interests  |      | <u>(89)</u>                   | <u>(336)</u>                 |
|  |      | <u><u>(90,701)</u></u>        | <u><u>(70,467)</u></u>       |
| Total comprehensive expense attributable to:                         |      |                               |                              |
| Owners of the Company  |      | (91,443)                      | (71,944)                     |
| Non-controlling interests  |      | <u>(89)</u>                   | <u>(336)</u>                 |
|  |      | <u><u>(91,532)</u></u>        | <u><u>(72,280)</u></u>       |
| <b>Loss per share</b>  |      |                               |                              |
| – Basic and diluted  | 10   | <u><u>HK (2.45) cents</u></u> | <u><u>HK(1.90) cents</u></u> |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2012

|   | NOTES | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>Non-Current Assets</b>                             |       |                  |                  |
| Property, plant and equipment                         |       | 12,778           | 15,063           |
| Prepaid lease payments                                |       | 12,329           | 12,600           |
| Club debentures                                       |       | 825              | 825              |
| Available-for-sale investments                        |       | 1,292            | 1,609            |
|   |       | 27,224           | 30,097           |
| <b>Current Assets</b>                                 |       |                  |                  |
| Inventories   |       | 2,621            | 1,954            |
| Trade and other receivables                           | 11    | 17,525           | 9,435            |
| Prepaid lease payments                                |       | 340              | 334              |
| Financial assets at fair value through profit or loss |       | 469,770          | 166,997          |
| Bank balances and cash                                |       | 243,557          | 630,609          |
|   |       | 733,813          | 809,329          |
| <b>Current Liabilities</b>                            |       |                  |                  |
| Trade payables, other payables and accrued charges    | 12    | 16,019           | 19,390           |
| Loans payable   |       | —                | 96,960           |
| Income tax payable                                    |       | 6,964            | 6,964            |
| Bank borrowing  |       | 113,474          | —                |
|   |       | 136,457          | 123,314          |
| <b>Net Current Assets</b>                             |       | 597,356          | 686,015          |
| <b>Total Assets less Current Liabilities</b>          |       | 624,580          | 716,112          |
| <b>Capital and Reserves</b>                           |       |                  |                  |
| Share capital   |       | 369,918          | 369,918          |
| Reserves  |       | 254,869          | 346,312          |
|   |       | 624,787          | 716,230          |
| Equity attributable to owners of the Company          |       | 624,787          | 716,230          |
| Non-controlling interests                             |       | (207)            | (118)            |
|   |       | 624,580          | 716,112          |
| <b>Total Equity</b>                                   |       | 624,580          | 716,112          |

## NOTES

### 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

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

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

|   |   |
|---|---|
| Amendments to HKFRSs                          | Annual Improvements to HKFRSs 2009 - 2011 Cycle <sup>1</sup>  |
| Amendments to HKFRS 7                         | Disclosures - Offsetting Financial Assets and Financial Liabilities <sup>1</sup>  |
| Amendments to HKFRS 9 and HKFRS 7             | Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>   |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance <sup>1</sup> |
| Amendments to HKFRS 10, HKFRS 12 and HKFRS 27 | Investment Entities <sup>2</sup>  |
| HKFRS 9                                       | Financial Instruments <sup>3</sup>  |
| HKFRS 10                                      | Consolidated Financial Statements <sup>1</sup>  |
| HKFRS 11                                      | Joint Arrangements <sup>1</sup>   |
| HKFRS 12                                      | Disclosure of Interests in Other Entities <sup>1</sup>  |
| HKFRS 13                                      | Fair Value Measurement <sup>1</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>   |
| Amendments to HKAS 1                          | Presentation of Items of Other Comprehensive Income <sup>4</sup>  |
| Amendments to HKAS 32                         | Offsetting Financial Assets and Financial Liabilities <sup>2</sup>  |
| HK(IFRIC) - Int 20                            | Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>  |

- <sup>1</sup> Effective for annual periods beginning on or after 1st January, 2013.
- <sup>2</sup> Effective for annual periods beginning on or after 1st January, 2014.
- <sup>3</sup> Effective for annual periods beginning on or after 1st January, 2015.
- <sup>4</sup> Effective for annual periods beginning on or after 1st July, 2012.

Except for those disclosed below, the directors of the Group anticipate that the application of the new and revised HKFRSs will have no materials impact on the results and financial positions of the Group.

#### *HKFRS 9 Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Based on the consolidated statement of financial position of the Group for the year ended 31st December, 2012, the directors anticipate that the adoption of HKFRS 9 is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities, except for available-for-sale investments .

### *Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a ‘statement of comprehensive income’ is renamed as a ‘statement of profit or loss and other comprehensive income’. 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 items of other comprehensive income to be 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 option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1st July, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

### *New and revised standards on consolidation, joint arrangements, associates and disclosures*

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements. HK (SIC) - INT 12 “Consolidation - Special purpose entities” will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1st January, 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards for the annual period beginning 1 January 2013 will not have a significant impact on the consolidated financial statements.

### *HKFRS 13 Fair Value measurement*

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it 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, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

### **3. SEGMENT INFORMATION**

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and performance assessment focuses on the Group’s business operations. This is also the basis upon which the Group is managed and organised. The Group’s operating and reportable segments under HKFRS 8 are as follows:

1. Investments in and trading of securities
2. Battery products - Manufacturing and trading of battery products and related accessories

*Segment revenues and results*

The following is an analysis of the Group's revenue and results by operating and reportable segment.

|   | Investments<br>in securities<br>HK\$'000 | Battery<br>products<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|---------------------------------|--------------------------|
| <i>For the year ended 31st December, 2012</i> |  |                                 |                          |
| Gross proceeds                                | <u>35,755</u>                            | <u>5,665</u>                    | <u>41,420</u>            |
| SEGMENT REVENUE                               |  |                                 |                          |
| External sales                                | <u>—</u>                                 | <u>5,665</u>                    | <u>5,665</u>             |
| RESULT  |  |                                 |                          |
| Segment result                                | <u>(46,414)</u>                          | <u>(4,831)</u>                  | (51,245)                 |
| Other income                                  |  |                                 | 1,441                    |
| Central administrative expenses               |  |                                 | (35,498)                 |
| Finance costs                                 |  |                                 | <u>(5,399)</u>           |
| Loss before tax                               |  |                                 | <u>(90,701)</u>          |
| <br>  |  |                                 |                          |
|   | Investments<br>in securities<br>HK\$'000 | Battery<br>products<br>HK\$'000 | Consolidated<br>HK\$'000 |
| <i>For the year ended 31st December, 2011</i> |  |                                 |                          |
| Gross proceeds                                | <u>60,778</u>                            | <u>9,319</u>                    | <u>70,097</u>            |
| SEGMENT REVENUE                               |  |                                 |                          |
| External sales                                | <u>—</u>                                 | <u>9,319</u>                    | <u>9,319</u>             |
| RESULT  |  |                                 |                          |
| Segment result                                | <u>(21,222)</u>                          | <u>(8,303)</u>                  | (29,525)                 |
| Other income                                  |  |                                 | 1,047                    |
| Central administrative expenses               |  |                                 | (36,767)                 |
| Finance costs                                 |  |                                 | <u>(5,222)</u>           |
| Loss before tax                               |  |                                 | <u>(70,467)</u>          |



*Other Segment Information*

|   | Investments<br>in securities<br>HK\$'000 | Battery<br>products<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|---------------------------------|--------------------------|
| <i>For the year ended 31st December, 2012</i>                 |  |                                 |                          |
| Amounts included in the measure of segment profit or loss:    |  |                                 |                          |
| Depreciation of property, plant and equipment                 | 927                                      | 1,406                           | 2,333                    |
| Loss on financial assets at fair value through profit or loss | 53,592                                   | —                               | 53,592                   |
| Release of prepaid lease payments                             | 117                                      | 223                             | 340                      |

|   | Investments<br>in securities<br>HK\$'000 | Battery<br>products<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|--|---------------------------------|--------------------------|
| <i>For the year ended 31st December, 2011</i>                 |  |                                 |                          |
| Amounts included in the measure of segment profit or loss:    |  |                                 |                          |
| Depreciation of property, plant and equipment                 | 987                                      | 1,370                           | 2,357                    |
| Loss on financial assets at fair value through profit or loss | 25,216                                   | —                               | 25,216                   |
| Release of prepaid lease payments                             | 117                                      | 217                             | 334                      |

*Segment assets and liabilities*

As the Group's segment assets and liabilities are not regularly provided to the Company's executive directors, the measure of total assets and liabilities for each operating and reportable segment is not presented.

*Revenue from major products*

The Group's revenue are arising from manufacturing and trading of portable batteries.

### *Geographical information*

The Group's operations are located in the People's Republic of China (the "PRC") and Hong Kong.

Information about the Group's revenue from external customers by geographical location of the customers is presented based on the location of the operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

|           | Revenue from<br>external customers |              | Non-current<br>assets (Note) |               |
|-----------|------------------------------------|--------------|------------------------------|---------------|
|           | Year ended 31st December,          |              | As at 31st December,         |               |
|           | 2012                               | 2011         | 2012                         | 2011          |
|           | HK\$'000                           | HK\$'000     | HK\$'000                     | HK\$'000      |
| The PRC   | 5,665                              | 8,607        | 20,765                       | 22,234        |
| Hong Kong | —                                  | 712          | 5,167                        | 6,254         |
|           | <u>5,665</u>                       | <u>9,319</u> | <u>25,932</u>                | <u>28,488</u> |

Note: Non-current assets excluded available-for-sale investments.

### *Information about major customers*

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

|            | For the year ended<br>31st December, |              |
|------------|--------------------------------------|--------------|
|            | 2012                                 | 2011         |
|            | HK\$'000                             | HK\$'000     |
| Customer A | 2,527                                | 1,600        |
| Customer B | <u>1,278</u>                         | <u>1,017</u> |

All of the revenue is generated from manufacturing and trading of battery products and related accessories.

## **4. OTHER INCOME**

|  | 2012          | 2011          |
|--|---------------|---------------|
|  | HK\$'000      | HK\$'000      |
| Bank interest income   | 5,308         | 5,198         |
| Coupon interest from unlisted debt securities held for trading | 1,098         | —             |
| Dividend income from investments held for trading              | 3,781         | 3,840         |
| Others   | <u>302</u>    | <u>1,999</u>  |
|  | <u>10,489</u> | <u>11,037</u> |

**5. OTHER GAINS OR LOSSES**

|  | 2012<br>HK\$'000    | 2011<br>HK\$'000 |
|--|---------------------|------------------|
| Exchange (loss) gain, net                                | (848)               | 1                |
| (Loss) gain on disposal of property, plant and equipment | <u>(28)</u>         | <u>5</u>         |
|  | <u><u>(876)</u></u> | <u><u>6</u></u>  |

**6. FINANCE COSTS**

|  | 2012<br>HK\$'000    | 2011<br>HK\$'000    |
|--|---------------------|---------------------|
| Interest on borrowings wholly repayable within five years: |                     |                     |
| Loans payable  | 4,600               | 4,730               |
| Bank borrowings  | 799                 | 490                 |
| Obligations under finance leases                           | <u>—</u>            | <u>2</u>            |
|  | <u><u>5,399</u></u> | <u><u>5,222</u></u> |

## 7. TAXATION

No provision for Hong Kong Profits Tax and the PRC Enterprise Income Tax is made for the year ended 31st December, 2012 and 2011 since the Group has no assessable profit in both years.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Group’s subsidiaries in the PRC is 25% from 1st January, 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, two PRC subsidiaries of the Group are exempted from PRC enterprise income tax for two years commencing from the year ended 31st December, 2008, followed by a 50% relief from PRC enterprise income tax for the next three years.

## 8. LOSS FOR THE YEAR

|  | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--|------------------|------------------|
| Loss for the year has been arrived at after charging:            |                  |                  |
| Staff costs  |                  |                  |
| – directors’ emoluments  | 18,851           | 24,230           |
| – other staff salaries, wages and other benefits                 | 3,320            | 5,137            |
| – retirement benefits schemes contributions, excluding directors | 191              | 200              |
|  | <u>22,362</u>    | <u>29,567</u>    |
| Total staff costs  | 22,362           | 29,567           |
| Auditor’s remuneration   | 888              | 898              |
| Depreciation of property, plant and equipment                    | 2,333            | 2,357            |
| Release of prepaid lease payments                                | 340              | 334              |
| Cost of inventories recognised as expense                        | <u>5,018</u>     | <u>5,283</u>     |

## 9. FINAL DIVIDEND

The Board of the Company does not recommend the payment of any final dividend for the year ended 31st December, 2012(2011: nil).

## 10. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to the owners of the Company of HK\$90,612,000 (2011: HK\$70,131,000) and 3,699,183,927 (2011: 3,699,183,927) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31st December, 2012 and 31st December, 2011 does not include adjustments for the Company's outstanding share options as they have anti-dilutive effect.

## 11. TRADE AND OTHER RECEIVABLES

|                                    | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Trade receivables                  | 1,399            | 1,333            |
| Less: allowance for doubtful debts | <u>—</u>         | <u>—</u>         |
|                                    | <u>1,399</u>     | <u>1,333</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:

|              | 2012<br>HK\$'000 | 2011<br>HK\$'000 |
|--------------|------------------|------------------|
| 0-90 days    | 1,111            | 921              |
| Over 90 days | <u>288</u>       | <u>412</u>       |
|              | <u>1,399</u>     | <u>1,333</u>     |

## 12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK\$2,947,000 (2011: HK\$1,711,000) with the following aged analysis based on invoice date at the end of the reporting period:

|               | 2012         | 2011         |
|---------------|--------------|--------------|
|               | HK\$'000     | HK\$'000     |
| 0-90 days     | 1,956        | 1,558        |
| 91-180 days   | —            | 66           |
| Over 180 days | 991          | 87           |
|               | <u>2,947</u> | <u>1,711</u> |

The average credit period is 90 days.

## 13. PLEDGE OF ASSETS

At 31st December, 2012, available-for-sale investments and financial assets at fair value through profit or loss with a carrying value of HK\$775,000 (2011: HK\$956,000) and HK\$2,081,000 (2011: HK\$2,532,000), respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2012 margin loan of HK\$1,150,000 (2011: HK\$1,053,000) 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the revenue of the Group was mainly generated from the manufacturing and trading of batteries products. Although the global economy was relatively stable last year, the rising labour cost, increasing competition and more stringent overseas safety requirements have resulted in a decrease of revenue and gross profit. When compared with the fiscal year of 2011, the revenue and gross profit from the batteries business has reported a decreased of approximately HK\$3.65 million and approximately HK\$3.39 million respectively. On the other hand, the bank interest income of the Group for the year ended 31st December, 2012 was approximately HK\$5.31 million which had increased 2.12% when compared with the year of 2011. The Group recorded a loss on financial assets at fair value through profit or loss of approximately HK\$53.59 million when compared to a loss of approximately HK\$25.22 million for last fiscal year. Overall, loss for the year ended 31st December, 2012 increased by approximately 28.71% to HK\$90.70 million when compared with the loss of HK\$70.47 million for the fiscal year of 2011.

During the year of 2012, the Group financed its operations mainly through cash generated from its business activities and banking facilities provided by principal bankers and external borrowings. As at 31st December, 2012, the Group had working capital calculated by current assets less current liabilities of approximately HK\$597.36 million and the current ratio decreased to 5.38, compared with the working capital of approximately HK\$686.02 million and current ratio of 6.56 as at 31st December, 2011.

For the year under review, the net cash used in operating activities of approximately of HK\$403.87 million compared with net cash from operating activities of approximately HK\$41.69 million in the year of 2011. The net cash from investing activities and financing activities were approximately HK\$6.42 million and HK\$10.40 million respectively, compared with approximately HK\$5.19 million and HK\$0.59 million respectively in the year of 2011.

The Group's bank and other borrowings were increased 17.03% from approximately HK\$96.96 million as at 31st December, 2011 to approximately HK\$113.47 million as at 31st December, 2012. At 31st December, 2012, bank borrowing denominated in RMB was variable rate loans. There were no convertible notes and long term borrowing outstanding. The gearing ratio was 0.22 (31st December, 2011: 0.17) calculated by the total liabilities of HK\$136.46 million (31st December, 2011: HK\$123.31 million) divided by total owners' equity of HK\$624.79 million (31st December, 2011: HK\$716.23 million).

As at 31st December, 2012, the Group had cash and bank balances amounted to approximately of HK\$243.56 million and are mainly denominated in Hong Kong dollars, financial assets at fair value through profit or loss were in an amount of approximately HK\$469.77 million and there was no bank deposit pledged. During the year ended 31st December, 2012, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign contracts, currency swaps or other financial derivatives.

As at 31st December, 2012, the Group employed 90 staff, the staff cost (excluding directors' emoluments) was around HK\$3.51 million for the year 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. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 10th June, 2011, a new share option scheme (the "New Option Scheme") was adopted by the Company and the share option scheme adopted on 4th June, 2002 (the "Old Option Scheme") was terminated. Since the adoption of the New Option Scheme, no options can be granted under the Old Option Scheme. During the year ended 31st December, 2012, no share option has been granted or exercised and 24,800,000 shares option that granted under the Old Option Scheme have been lapsed. As at 31st December, 2012, the Group has no share option outstanding.

Looking ahead, it is observed that the increasing labour costs and competition, the management of the Group anticipates that the results from manufacturing and trading of batteries products remain under pressure. We will adopt a prudent approach in seeking new investment opportunities to improve our business mix, diversify our business from battery manufacturing in order to maximize shareholders' value.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



## **CORPORATE GOVERNANCE**

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2012, except for the following deviations:

Code Provision A2.1 requires the roles of the Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company has deviated from the requirement since 2nd March, 2012 due to the resignation of the Chairman. The Board 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.

## **EMOLUMENT POLICY**

A Remuneration Committee is set up for reviewing the Group's emolument policy structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market statistic.

The Company has adopted a share option scheme as an incentive to directors and participants.

## **DIRECTORS' SECURITIES TRANSACTIONS**

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 own code of conduct regarding directors' securities transactions. Based on specific enquiry of all the directors of the Company (the "Director(s)"), the Directors complied throughout the year in review with the required standards as set out in the Model Code.

## **PUBLICATION OF ANNUAL REPORT**

A full text of the Company's 2012 Annual Report will be despatched to the members of the Company and published on the respective websites of the Stock Exchange of Hong Kong Limited and the Company (<http://www.cshgroup.com>) in due course.

## **REVIEW BY AUDIT COMMITTEE**

The 2012 annual results have been reviewed by the audit committee.

By Order of the Board  
**CHINA STRATEGIC HOLDINGS LIMITED**  
**Or Ching Fai**  
*Chairman*

Hong Kong, 28th March, 2013

*As at the date hereof, the Board 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. Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying as independent non-executive Directors.*