



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, 2007

The board of directors (the “Board”) of China Strategic Holdings Limited (the “Company”) announces the financial results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Continuing operations			
Revenue	3	45,717	32,846
Cost of sales		(50,311)	(24,199)
Gross (loss) profit		(4,594)	8,647
Other income	4	48,779	31,551
Selling and distribution costs		(4,911)	(2,968)
Administrative expenses		(41,101)	(27,695)
Other expenses	5	(31,619)	(11,909)
Finance costs	6	(9,007)	(9,940)
Fair value changes on investments held for trading		34,485	564
Impairment loss on goodwill		(25,807)	—
Gain on disposal of interest in an associate		—	17,180
Loss on dilution of interest in an associate		—	(65,762)
Share of results of associates		—	16,681
Loss before tax		(33,775)	(43,651)
Income tax expense	7	(6,595)	(5,782)
Loss for the year from continuing operations		(40,370)	(49,433)
Discontinued operation			
Loss for the year from discontinued operation		—	(9,818)
Loss for the year	8	(40,370)	(59,251)

	NOTES	2007 HK\$'000	2006 HK\$'000
Attributable to:			
Equity holders of the Company		(40,369)	(38,417)
Minority interests		<u>(1)</u>	<u>(20,834)</u>
		<u>(40,370)</u>	<u>(59,251)</u>
Dividend in specie	9	<u>—</u>	<u>1,179,307</u>
Loss per share	10		
From continuing and discontinued operations			
– Basic		<u>HK\$(0.09)</u>	<u>HK\$(0.09)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations			
– Basic		<u>HK\$(0.09)</u>	<u>HK\$(0.07)</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTE	2007 HK\$'000	2006 HK\$'000
Non-Current Assets			
Property, plant and equipment		91,739	46,982
Prepaid lease payments		19,604	27,425
Goodwill		—	25,807
Investments in associates		—	—
Club debentures		825	825
Available-for-sale investments		36,978	60,127
		<u>149,146</u>	<u>161,166</u>
Current Assets			
Inventories		9,340	18,954
Trade receivables	12	3,585	7,825
Prepaid lease payments		466	626
Amount due from an associate		6,686	6,514
Loans and interest receivables		41,724	25,761
Other receivables, deposits and prepayments		6,158	4,888
Tax reserve certificates paid		—	5,916
Investments held for trading		13,800	8,115
Pledged bank deposits		—	1,078
Bank balances and cash		191,617	8,992
		<u>273,376</u>	<u>88,669</u>
Available-for-sale investments classified as held-for-sale		—	17,770
		<u>273,376</u>	<u>106,439</u>

	NOTE	2007 HK\$'000	2006 HK\$'000
Current Liabilities			
Trade payables, other payables and accrued charges	13	40,150	23,685
Amount due to a related company		—	4,128
Amount due to a subsidiary of an associate		6,686	—
Loan payables		82,100	58,568
Income tax payable		5,735	6,916
Bank borrowings		18,042	12,889
Obligations under finance leases		26	—
Bank overdrafts		—	23
		<u>152,739</u>	<u>106,209</u>
Net Current Assets		<u>120,637</u>	<u>230</u>
Total Assets less Current Liabilities		<u><u>269,783</u></u>	<u><u>161,396</u></u>
Capital and Reserves			
Share capital		52,880	44,080
Reserves		91,925	106,751
		<u>144,805</u>	<u>150,831</u>
Equity attributable to equity holders of the Company		144,805	150,831
Minority interests		261	262
		<u>145,066</u>	<u>151,093</u>
Total equity		<u>145,066</u>	<u>151,093</u>
Non-Current Liabilities			
Deferred tax liabilities		4,172	—
Amount due to a related company		—	5,310
Amount due to an associate		—	4,993
Convertible notes		120,488	—
Obligations under finance leases		57	—
		<u>124,717</u>	<u>10,303</u>
		<u><u>269,783</u></u>	<u><u>161,396</u></u>

NOTES

1. BASIC 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.

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 (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange 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, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations 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
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ³
HK(IFRIC) – INT 12	Service Concession Arrangements ⁴
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁵
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction 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 March, 2007

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

⁵ Effective for annual periods beginning on or after 1st July, 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 these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into the following two major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Battery products	—	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	—	Investments in and trading of securities and advance of receivables

In previous year, the Group also engaged in the sand mining activities in the People's Republic of China (the "PRC"). This segment of sand mining was discontinued on 19th May, 2006 as a result of group reorganisation announced in April 2005.

An analysis of the Group's revenue and segment results and segment assets and liabilities by business segments is as follows:

	Continuing operations		Consolidated HK\$'000
	Investments in securities and advance HK\$'000	Battery products HK\$'000	
<i>For the year ended</i>			
<i>31st December, 2007</i>			
REVENUE			
Revenue			
– External	—	45,717	45,717
	<u> </u>	<u> </u>	<u> </u>
Other income			
– Dividend income from available for-sale investments	3,189	—	3,189
– Dividend income from investments held for trading	152	—	152
– Interest income	2,067	—	2,067
– Others	—	2,311	2,311
	<u> </u>	<u> </u>	<u> </u>
	5,408	2,311	7,719
	<u> </u>	<u> </u>	<u> </u>
RESULT			
Segment result	18,582	(39,238)	(20,656)
	<u> </u>	<u> </u>	
Unallocated corporate income			37,418
Unallocated corporate expenses			(41,530)
Finance costs			(9,007)
			<u> </u>
Loss before tax			(33,775)
Income tax expenses			(6,595)
			<u> </u>
Loss for the year			<u> </u> <u> </u>

	Continuing operations			Discontinued operation		
	Investments in securities and advance	Battery products	Elimination	Sub-total	Sand mining	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the year ended</i>						
<i>31st December, 2006</i>						
REVENUE						
Revenue						
- External	—	32,846	—	32,846	2,726	35,572
- Inter-segment	182	—	(182)	—	—	—
	<u>182</u>	<u>32,846</u>	<u>(182)</u>	<u>32,846</u>	<u>2,726</u>	<u>35,572</u>
Other income						
- Interest income	22,068	—	—	22,068	—	22,068
- Dividend income from available-for-sale investments	4,321	—	—	4,321	—	4,321
- Dividend income from investments held for trading	355	—	—	355	—	355
- Others	149	1,303	—	1,452	97	1,549
	<u>26,893</u>	<u>1,303</u>	<u>—</u>	<u>28,196</u>	<u>97</u>	<u>28,293</u>
RESULT						
Segment result	<u>21,538</u>	<u>(771)</u>	<u>(182)</u>	20,585	(9,818)	10,767
Unallocated corporate income				2,961	—	2,961
Unallocated corporate expenses				(25,356)	—	(25,356)
Finance costs				(9,940)	—	(9,940)
Gain on disposal of interest in an associate				17,180	—	17,180
Loss on dilution of interest in an associate				(65,762)	—	(65,762)
Share of results of associates				16,681	—	16,681
Loss before tax				(43,651)	(9,818)	(53,469)
Income tax expense				(5,782)	—	(5,782)
Loss for the year				<u>(49,433)</u>	<u>(9,818)</u>	<u>(59,251)</u>

Inter-segment sales are charged at terms determined and agreed between the group companies.

Geographical segments

The following table provides an analysis of the Group's revenue by geographic market, irrespective of the origin of the goods and services:

	2007 HK\$'000	2006 HK\$'000
Continuing operations:		
PRC	29,611	17,097
Hong Kong	16,106	15,749
	<u>45,717</u>	<u>32,846</u>
Discontinued operation:		
PRC	<u>—</u>	<u>2,726</u>

4. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Gain on disposal of available -for-sale investments	39,625	—	—	—	39,625	—
Dividend income from available-for-sale investments	3,189	4,321	—	—	3,189	4,321
Interest income from available -for-sale investments	—	773	—	—	—	773
	<u>42,814</u>	<u>5,094</u>	<u>—</u>	<u>—</u>	<u>42,814</u>	<u>5,094</u>
Interest income from loans receivables	2,481	21,295	—	—	2,481	21,295
Interest income from banks	785	2,169	—	—	785	2,169
	<u>3,266</u>	<u>23,464</u>	<u>—</u>	<u>—</u>	<u>3,266</u>	<u>23,464</u>
Dividend income from investments held for trading	152	355	—	—	152	355
Others	2,547	2,638	—	97	2,547	2,735
	<u>48,779</u>	<u>31,551</u>	<u>—</u>	<u>97</u>	<u>48,779</u>	<u>31,648</u>

5. OTHER EXPENSES

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impairment loss on available -for-sale investments	5,348	—	—	—	5,348	—
Impairment loss on amount due from an associate	1,272	—	—	—	1,272	—
Impairment loss on loans and interest receivables	191	6,283	—	—	191	6,283
Impairment loss on other receivables	946	5,626	—	—	946	5,626
Impairment loss on loans and receivables	2,409	11,909	—	—	2,409	11,909
Impairment loss on prepaid lease payments	8,015	—	—	—	8,015	—
Commission expenses on investments held for trading	15,847	—	—	—	15,847	—
	<u>31,619</u>	<u>11,909</u>	<u>—</u>	<u>—</u>	<u>31,619</u>	<u>11,909</u>

6. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:						
Bank borrowings	1,071	933	—	—	1,071	933
Loan payables	6,782	9,006	—	—	6,782	9,006
Obligations under finance leases	6	1	—	—	6	1
Effective interest on convertible notes	1,148	—	—	—	1,148	—
	<u>9,007</u>	<u>9,940</u>	<u>—</u>	<u>—</u>	<u>9,007</u>	<u>9,940</u>

7. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Current tax:						
Hong Kong Profits Tax						
– Current year	3,520	—	—	—	3,520	—
– Underprovision in prior years	860	5,785	—	—	860	5,785
Taxation in other jurisdictions						
– Current year	2,215	(3)	—	—	2,215	(3)
	<u>6,595</u>	<u>5,782</u>	<u>—</u>	<u>—</u>	<u>6,595</u>	<u>5,782</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the previous relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

On 16th March, 2007, the President of PRC promulgated Order No. 63 – Law of the PRC on Enterprise Income Tax (the “New Law”). On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for the subsidiaries established in the PRC from 1st January, 2008 and provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the New Tax Law and which were entitled to a preferential lower tax rate and tax holiday under the then effective tax laws or regulations.

8. LOSS FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Loss for the year has been arrived at after charging (crediting):						
Staff costs						
– directors' emoluments	5,737	1,707	—	—	5,737	1,707
– other staff costs	12,833	13,364	—	356	12,833	13,720
– retirement benefits schemes contributions, excluding directors	326	353	—	4	326	357
– share-based payment expenses, excluding directors	8,069	—	—	—	8,069	—
Total staff costs	26,965	15,424	—	360	26,965	15,784
Auditor's remuneration	1,180	1,000	—	—	1,180	1,000
Depreciation of property, plant and equipment	2,357	1,986	—	4,452	2,357	6,438
Release of prepaid lease payments	638	622	—	—	638	622
Cost of inventories recognised as expense	36,324	17,258	—	2,411	36,324	19,669
Impairment loss on goodwill	25,807	—	—	4,561	25,807	4,561
Impairment loss on inventories (note)	13,987	—	—	—	13,987	—
Reversal of impairment loss on trade receivables	(310)	—	—	—	(310)	—
Loss (gain) on disposal of property, plant and equipment	161	(102)	—	—	161	(102)

Note: An amount of approximately HK\$13,987,000 was written off for inventories due to obsolescence.

9. DIVIDEND IN SPECIE

Pursuant to the group reorganisation announced in April 2005, shares in a former subsidiary of the Company were distributed as dividend in specie in May 2006.

10. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic loss per share is based on the loss for the year attributable to the equity holders of the Company of approximately HK\$40,369,000 (2006: HK\$38,417,000) and the weighted average number of 464,666,036 (2006: 440,797,543) ordinary shares in issued during the year.

The computation of diluted loss per share for the year ended 31st December, 2007 does not assume the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

No diluted loss per share has been presented for the year ended 31st December, 2006 as there were no potential ordinary shares in issue during the year.

From continuing operations

The calculation of the basic loss per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Loss for the year attributable to equity holders of the Company	40,369	38,417
Less: Loss for the year from discontinued operation attributable to equity holders of the Company	<u>—</u>	<u>(9,480)</u>
Loss for the year for the purposes of basic loss per share from continuing operations	<u>40,369</u>	<u>28,937</u>

The weighted average number of shares for calculation of basic and diluted loss per share from continuing operations are the same as those detailed above for the continuing and discontinuing operations.

From discontinued operation

For the year ended 31st December, 2006, basic loss per share for discontinued operation was HK\$0.02 per share, based on the loss for the year from the discontinued operation attributable to the equity holders of the Company of approximately HK\$9,480,000 and the denominators detailed above for basic loss per share.

11. FINAL DIVIDEND

The board of directors of the Company does not recommend the payment of any final dividend for the year ended 31st December, 2007 (2006: nil).

12. TRADE RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Trade receivables	4,284	8,806
Less: allowance for doubtful debts	(699)	(981)
	<u>3,585</u>	<u>7,825</u>

The Group allows its trade customers with credit period normally ranging from 90 days to 180 days. The following is an aged analysis of trade receivables, net of allowance for doubtful debts at the reporting date:

	2007 HK\$'000	2006 HK\$'000
0-90 days	3,343	7,067
91-180 days	36	620
Over 180 days	206	138
	<u>3,585</u>	<u>7,825</u>

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK\$4,660,000 (2006: HK\$5,501,000) with the following aged analysis:

	2007 HK\$'000	2006 HK\$'000
0-90 days	2,720	3,836
91-180 days	1,501	1,025
Over 180 days	439	640
	<u>4,660</u>	<u>5,501</u>

The average credit period on purchases of goods is 90 days.

14. CONTINGENT LIABILITIES

	2007 HK\$'000	2006 HK\$'000
Corporate guarantee given by the Company for banking facilities granted to:		
an associate (note a)	<u>—</u>	<u>8,000</u>
	<u>—</u>	<u>8,000</u>

- (a) During the year ended 31st December, 2006, the Company issued “all monies” guarantee and indemnity to a bank for the banking facilities granted to an associate and nil amount was utilised by that associate as at 31st December, 2006. Such guarantee has been released as at 31st December, 2007.

15. COMMITMENTS

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

	2007 HK\$'000	2006 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	3,332	14,562
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>—</u>	<u>20,000</u>
	<u>3,332</u>	<u>34,562</u>

- (b) On 28th December, 2007, the Group entered into a memorandum of understanding with an independent third party to acquire 100% equity interests in 西烏珠穆沁旗金正礦業有限責任公司 (「西烏珠穆沁旗金正礦業」). 西烏珠穆沁旗金正礦業 is a company incorporated in the PRC and owns the mining right of 西烏珠穆沁旗金正礦業有限責任公司金正煤礦, which is located in the PRC. This transaction is under the negotiation up to the date of this announcement. Details are set out in the announcement of the Company dated 27th December, 2007.

16. PLEDGE OF ASSETS

- (a) At 31st December, 2007, available-for-sale investments and investments held for trading with a carrying value of approximately HK\$25,270,000 (2006: HK\$64,476,000) and HK\$7,735,000 (2006: HK\$309,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2007 and 31st December, 2006, no margin loan facility were utilised by the Group.
- (b) At 31st December, 2007, prepaid lease payment with a carrying value of approximately HK\$9,160,000 (2006: HK\$8,678,000) was pledged to secure short-term bank loan granted to the Group.
- (c) As at 31st December, 2006, bank deposits of approximately HK\$1,078,000 (2007: Nil) was pledged to banks to secure credit facilities granted to the Group.

MANAGEMENT DISCUSSION & ANALYSIS

For the year ended 31st December, 2007, revenue from the segment of the battery products increased by 39.2% as compared to the financial year ended in 2006.

Production and sales for the battery products operation has increased in the year of 2007, however due to keen competition in pricing and the increased production costs that generally affected factories in China, the battery products operation suffered a loss in 2007.

For the investments in securities and advance the segment result decreased by 13.7% or HK\$2.9 million to HK\$18.6 million in 2007 from HK\$21.5 million in 2006. Interest income derived from this segment decreased by 90.6% or HK\$20.0 million to HK\$2.1 million in 2007 from HK\$22.1 million in 2006. This decrease is attributable to the fact that pursuant to the group reorganisation, the Group paid dividend in specie in 2006 and a total of HK\$596.8 million loans and interest receivables, and bank balances and cash were distributed. Excluding the above effect, the performance of investment in securities and advance in 2007 was significantly improved due to the fact that there was approximately HK\$34.5 million gained from fair value change on investments held for trading.

Administrative expenses increased by HK\$13.4 million mainly due to the recognition of share based payment expenses arising from the share options issued to the eligible participants amounting to HK\$11.4 million during the year. Other expenses also increased by HK\$19.7 million. It mainly represented the increased incidental commission expenses relating to investment held for trading during the year. An impairment of HK\$25.8 million was recognised in relation to the goodwill arising on acquisition of the segment of battery products.

The Group disposed of its entire 22.65% equity interests in China Velocity Group Limited in 2006 and the interests in Wing On Travel (Holdings) Limited ("Wing On") were diluted upon the placement of shares by Wing On and thus Wing On ceased to be an associate in 2006. Therefore during the year there was no contribution from associates recognized. Overall, loss for the year 2007 amounted to HK\$40.4 million, a decrease of 31.9% from the year 2006.

During the financial year of 2007, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers, external borrowings, share placing and placing of convertible notes. As at 31st December, 2007, the Group had working capital calculated by current assets less current liabilities of approximately HK\$120.6 million and the current ratio decreased to 1.79, compared with working capital of approximately HK\$0.2 million and current ratio of 1.00 as at 31st December, 2006.

In the fiscal year of 2007, the net cash from operating activities was approximately HK\$6.6 million compared with HK\$27.2 million used in operating activities in the same period of 2006. The net cash used in investing activities and from financing activities in the fiscal year of 2007 was approximately HK\$4.3 million and HK\$183.6 million respectively compared with the net cash used in investing activities approximately HK\$58.7 million and net cash used in financing activities HK\$15.7 million respectively in 2006.

The Group's short-term bank overdraft and bank and other borrowings increased from approximately HK\$12.9 million as at 31st December 2006 to approximately HK\$18.1 million as at 31st December 2007, representing an increase of 39.7%. There was HK\$0.06 million long term borrowings as at 31st December 2007 (31st December 2006: Nil). As at 31st December 2007, the Group had convertible notes issued on 5 November 2007 with outstanding principal amount of HK\$146.9 million, the convertible notes are non-interest bearing and with maturity on 31 December 2010. The outstanding convertible notes are convertible at HK\$0.33 per share from the date of issue upto 31 December 2008, HK\$0.36 per share from 1 January 2009 to 31 December 2009 and HK\$0.39 per share from 1 January 2010 to 31 December 2010. As at 31 December 2007, the liability component of the convertible notes was approximately HK\$120.5 million. The gearing ratio was approximately 0.83, calculated by the total long-term borrowing, bank loans, other borrowings and convertible notes of HK\$120.5 million divided by total shareholders' funds of 144.8 million.

Capital expenditure aggregated to approximately HK\$43.5 million for the year ended 31st December 2007 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. Details of the Group's contingent liabilities, commitments and pledge of assets are disclosed in notes 14, 15 and 16 respectively of this announcement.

Cash and bank balances amounted to approximately HK\$191.6 million as at 31st December, 2007, and is mainly denominated in Hong Kong dollars. As at 31st December 2007, there was no bank deposit pledged. During the year ended 31st December 2007, 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 exchange contracts, currency swaps or other financial derivatives. As at 31st December 2007, the Company issued "all monies" guarantee and indemnity to a bank for the bank facilities granted to a non-wholly owned subsidiary.

As at 31st December 2007, the Group employed approximately 337 staff, the staff cost (excluding directors' emoluments) was around HK\$21.2 million for the year. Staff remuneration package are normally reviewed annually. The Group has participated in Mandatory Provident Fund Scheme. In addition, the Group provides other benefits which include double pay and medical benefits.

During the year 2007, the company has granted share option to Directors and Employees to subscribe 42,000,000 ordinary shares of the Company at the subscription price of HK\$0.724 per share. During the year, 13,200,000 share options have been lapsed upon the changes in staff. As at 31 December 2007, 28,800,000 share options were still outstanding. During the year, no options granted had been exercised.

On 23 August 2007, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a fully written basis, 88,000,000 new ordinary shares ("Shares") at HK\$0.33 per share of nominal value of HK\$0.1 each to independent third parties. The closing price of the Company's share was HK\$0.38 per Share on 22 August 2007. The gross proceeds from the placing was approximately HK\$29.0 million and the net proceeds approximately HK\$28.3 million equivalent to HK\$0.321 per Share. The placing of Shares was completed on 24 September 2007 and the net proceeds of HK\$28.3 million to be used for general working capital purposes. Details of the placing were disclosed in the company's announcement dated 30 August 2007.

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

On 23 August 2007, the Company further 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 31 December 2008, HK\$0.36 per share from 1 January 2009 to 31 December 2009, and HK\$0.39 per share from 1 January 2010 to 31 December 2010 which is the maturity date of the convertible notes. On 5 November 2007, the aggregate principal amount of HK\$146.9 million has been issued and on 7 January 2008, the aggregate principal amount of HK\$1,173.1 million has been issued. The net proceeds of approximately HK\$1,287 million were initially intended to be used for potential investment or business opportunities. As at 31 December 2007, the net proceeds from the second share placing and placing of convertible notes have not been utilised. Details of the share placing and placing of the convertible notes were disclosed in the Company's announcements dated 30 August 2007 and the Company's circular dated 14 September 2007.

On 3 March 2008, the Company has announced the change of use of proceeds from the Second Placing and CN Placing, 50% of the relevant net proceeds is now to be used for general working capital with the rest remained unchanged.

Looking ahead, although the appreciation of RMB and the increased cost of raw materials will be expected to have impact on the company's general performance, the Group foresees enormous opportunities will continue to arise from China's growing economy, high growth rate of capital investments from both foreign and domestic fundings and a resultant upsurge in consumer spending. The opportunities in the PRC market will continue to be the focus of domestic and international investors. 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 investment or business opportunities with good strategic value not only on existing businesses but also in other business area such as natural resources business to enhance the shareholder's value of the Company.

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% equity interests of 蘇尼特左旗芒來礦業有限公司, which are engaged in mining and railway companies invested by the vendor in Mongolia, the PRC. This transaction is under the negotiation up to the date of this announcement. Details are set out in the announcement of the Company dated 11th January, 2008.

The Group acknowledges the economic challenges ahead that might come from the domestic and international level. The Group will therefore maintain a prudent and vigilant attitude when assessing any potential investment or acquisition opportunities. Also as part of our risk management philosophy, the Group will aim to gradually diversify its business and investments so as to maintain a more balanced and healthy portfolio.

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 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, 2007, except for the following deviations:

1. Code Provision A.4.1. stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company is fair and reasonable.
2. Code Provision B.1.1 requires setting up of the remuneration committee with a majority of the members being independent non executive directors. The Company has deviated from the requirement since 18 Oct 2007 due to the resignation of the committee members, The Company is in the process of establishing a remuneration committee as more time is needed before all details including the composition and terms of reference are determined.
3. Code Provision E.1.2. stipulates that the chairman of the board should attend the annual general meeting. The Chairman was unable to attend the 2007 annual general meeting as he had another engagement that was important to the business of the Company.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in Appendix 10 to 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 directors complied throughout the year in review with the required standards as set out in the Model Code.

REVIEW BY AUDIT COMMITTEE

The 2007 annual results have been reviewed by the audit committee.

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

Hong Kong, 25 April 2008

As at the date of this announcement, the Board comprises Ms. Chiu Ching Ching, Mr. Wong Ah Chik, Mr. Zhang Hong Ren, Ms. Chan Ling, Eva, Mr. Lee Sun Man and Mr. Chow Kam Wah as executive directors of the Company, and Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying as independent non-executive directors of the Company.