As another year comes to a close, I hereby present on behalf of the board of directors, the 2000 annual results of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31st December, 2000.

YEAR 2000 – CONSOLIDATION AND REBALANCING OF OUR INVESTMENT PORTFOLIO

In the year 2000, the effects of turbulent financial markets around the world were evident for many investors as they saw a substantial decrease in the value of their technology-concentrated investment portfolios.

In the face a volatile market, the Group continued to follow its long-standing policy of balancing its asset portfolio and attempted to diversify its operations in the year 2000 by entering into different businesses, including property trading and development, hotel operation and toll-road project development. In addition, the Group further expanded into such businesses as printing and publishing and health food retailing during the financial year under review. Nevertheless, the Group continued its prudent investment objectives in information technology and e-commerce related businesses as mentioned in its 1999 Annual Report.

Our shareholding in a number of investment projects were disposed of, with satisfactory terms, during this housekeeping exercise in order to better organize the Group's investment portfolio. This re-structuring of our investments gives the existing portfolio a more balanced composition, providing the Group with the ability to seize upcoming chances and opportunities.

ANALYSIS OF THE GROUP'S PERFORMANCE

The Group reported a turnover of HK$3,158 million for the year ended 31st December, 2000, representing a decrease of approximately 15.8% from HK$3,750 million for the corresponding period in 1999. The decrease was primarily due to the disposal of the Company's interests in China Online (Bermuda) Limited in December 1999 and some of the Chinese joint ventures, including Yantai C.S.I. Pharmaceutical Co., Limited and Ningbo C.S.I. Power & Machinery Group Co., Limited during 1999 and 2000. The effect of the decrease has been partially offset by an increase in the turnover of China Tire e-commerce.com Limited and the inclusion of China Land Group Limited ("China Land") for the year.

The Group recorded a loss of HK$731 million for the year compared to a net profit of HK$1,048 million recorded last year. This was mainly attributable to the loss arising from the disposal of listed investments and the unrealized loss on investments in securities.

Total assets for the year ended 31st December, 2000 increased by approximately 11.4% to HK$7,732 million from HK$6,940 million as of the end of 1999. This was mainly due to the inclusion of China Land's assets since it became a subsidiary of the Company in March 2000.

Chairman's Statement

Basic loss per share for the year ended 31st December, 2000 was 15.91 HK cents in comparison to an earnings per share of 23.39 HK cents recorded for the same period last year, based on the weighted average number of 4,593,759,557 (1999: 4,478,053,804) ordinary shares in issue during the year.

LIQUIDITY AND FINANCIAL RESOURCES

During the year 2000, the Group's business was financed mainly by internally generated cash and disposal of investments.

From 31st December, 1999 to 31st December, 2000, trade debtors decreased from approximately HK$733 million to approximately HK$668 million; short-term borrowings increased from approximately HK$1,158 million to approximately HK$1,352 million and long-term borrowings increased from approximately HK$115 million to approximately HK$595 million. Total borrowings amounted to HK$1,947 million as at 31st December, 2000, representing an increase of 52.9% over total borrowings of HK$1,273 million on 31st December, 1999. The increase was mainly due to the inclusion of China Land's borrowing on a consolidated basis, amounting to approximately HK$600 million. The Group's gearing ratio, defined as its long term borrowings divided by total shareholders funds for the year, was 0.20 (1999: 0.03). Cash and cash equivalents decreased from HK$2,146 million on 31st December, 1999 to HK$1,498 million at 31st December, 2000. As most of the Company's cash deposits were denominated in US and HK dollars and deposited with banks as short-term deposits, exposure to foreign exchange risk was minimal.

During the year under review, the Company issued and allotted 129,500,000 shares of HK$0.10 each in the Company as a result of the exercise of 129,500,000 options. The total proceeds received thereof were HK$45,530,000.

SIGNIFICANT INVESTMENTS

China Tire e-commerce.com Limited

China Tire e-commerce.com Limited ("China Tire"), formerly known as China Tire Holdings Limited, the New York Stock Exchange listed subsidiary of the Company, reported a record year of turnover of Rmb2,816 million compared to Rmb2,622 million last year, representing an increase of 7% or Rmb194 million. This was due, for the most part, to an increase in export sales in the overseas market. Export sales of tires to the overseas market achieved a positive growth, comprising 28% of the total turnover of China Tire. China Tire recorded a net loss of Rmb79.4 million as compared to a net loss of Rmb153.2 million in 1999. The loss in the year 2000 was attributable to lower gross margins, certain provisions for doubtful debts and warranty claims, and a further provision in the amount of Rmb15 million for a long-overdue court awarded compensation receivable from its investment in Chongqing, PRC.

China's expected entry into the World Trade Organisation (the "WTO"), is anticipated to cause the China market to be more competitive. As a result, it is anticipated that selling prices for bias and radial tire products will remain weak. The export of tires to the overseas market will continue to experience positive growth but margins will be continuously under pressure. China Tire is vigorously considering various strategies to address the continuing rise in selling prices and other increasing operating costs so as to reduce the constraints on improving margins. China Tire will pursue opportunities to reduce costs and improve operating efficiency, reinforcing credit and production control to strengthen its overall operating results. China Tire will continue to enhance its marketing and distribution networks so as to further expand its sales volume. We look forward to the challenging year ahead.

China Land Group Limited

China Land Group Limited ("China Land"), formerly known as Po Wing Kwan International Holdings Limited, became a subsidiary of the Company in March 2000. The performance of China Land during the year was weakened by the sluggish property market in mainland China and Hong Kong. Operating loss for the year was approximately HK$583 million as compared to a loss of HK$226 million in 1999. The reported loss was mainly contributed by the provision for impairment and revaluation losses on properties and provision for advances to contractors.

It is expected that the Shenzhen Highway will commence its operation in the third quarter of 2001 and will contribute significant recurring income to the Group. China Land has associated with Japan Travel Bureau, Inc (HK) Ltd. and will continue to develop institutional tours to stay at Plaza Canton Hotel (the "Hotel"). China Land believes the Hotel is geographically well located as a subway is due to be completed in 2002 which brings the new China Guangzhou Convention Centre (venue of Guangzhou Trade Fairs) to close proximity of the Hotel. With China Land's significant investments in the PRC, we anticipate that it will benefit from the PRC's imminent entry to the World Trade Organization. China Land's business shall prosper, leaving behind the years of subdued performance.

Australia Net.com Limited

Australia Net.com Limited ("ANC"), formerly known as MRI Holdings Limited, an Australia Stock Exchange listed subsidiary, recorded a consolidated operating profit after income tax of A$1,076,988 compared with A$516,292 for the preceding year. The increase in profits during the year mainly arose from the interest income from surplus fund and dividend income from investments, which were offset by the provision on listed investments. During 1999, ANC realised all its investments and operational activities in the PRC leaving ANC with substantial cash resources with which to take advantage of investment opportunities as they arise.