

REVIEW OF OPERATIONS AND RESULTS

The loss attributable to shareholders of the Company and its subsidiaries (the "Group") for the first half year of 2001 was HK\$38,111,000 compared to HK\$14,077,000 for the corresponding period in the previous year.

During the first half of 2001, the growth of the global economy further slowed down. The property market still remained sluggish, as consumer confidence had not yet recovered. Despite these difficulties faced by the Group, the management has endeavored to keep the Group financially stable.

The loss incurred during the period was mainly attributable to an unrealised provision for the diminution in value of a listed investment, and loss on disposal of properties in both Hong Kong and the People's Republic of China (the "PRC"). However, it is worthy of mention that, an improvement in profit generated from the hotel operation and property leasing business was recorded during the period as a result of stringent cost control.

The board of directors (the "Board") of the Company does not recommend the payment of interim dividend for the period (2000: Nil).

Liquidity and financial resources

During the first half of 2001, the Group's business was financed mainly by internally generated cash, disposal of under performing investments, and loans from fellow subsidiaries.

From 31st December, 2000 to 30th June, 2001, short-term borrowings decreased from approximately HK\$72 million to approximately HK\$42 million and long term borrowings increased from approximately HK\$550 million to approximately HK\$715 million. Total borrowings amounted to HK\$757 million as at 30th June, 2001, representing an increase of 21.7% over total borrowings of HK\$622 million on 31st December, 2000. The borrowings were mainly used for the acquisition of various property interests in Hong Kong and the PRC for investment and development purposes. The Group's gearing ratio, defined as its long term borrowings divided by total shareholders funds for the period, was 0.79 (31.12.2000: 0.59). Cash and cash equivalents decreased from approximately HK\$53 million to approximately HK\$39 million. As most of the Company's cash deposits were denominated in Hong Kong dollars and deposited with banks as short-term deposits, exposure to foreign exchange risk was minimal.

As at 30th June, 2001, certain properties and bank deposits of the Group with an aggregate carrying value of approximately HK\$66.6 million were pledged to banks to secure general banking facilities granted to the Group.

At the date of this report, the proceedings against Eventic Limited, a wholly-owned subsidiary of the Company, in respect of claims of HK\$7.7 million, are still ongoing. However, after taking into consideration of the advice of the Group's legal counsel, the outcome of the proceedings is unlikely to have material adverse financial impact on the Group.

New acquisitions

In January 2001, the Group acquired various property interests in Hong Kong and the PRC for investment and development purposes. The consideration of the acquisition was HK\$106 million.

As announced on 16th July, 2001, a wholly-owned subsidiary of the Company had entered into a conditional agreement with Beijing Centergate Development and Construction Co., Ltd. (the "Vendor") on 13th July, 2001 to acquire certain properties located in Beijing, the PRC at a consideration of HK\$188 million. The Vendor is a company incorporated in the PRC and a subsidiary of Beijing Centergate Technologies (Holdings) Co., Ltd., a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange. The consideration will be satisfied by HK\$45 million cash and 220,000,000 new shares (the "Consideration Shares") of the Company at the issue price of HK\$0.65 per share. The Consideration Shares, when issued, represent approximately 16.1% of the existing issued share capital (the "Shares") of the Company and 13.9% of the Shares as enlarged by the allotment and issue of the Consideration Shares.

Moreover, two other subsidiaries of the Company had entered into another conditional agreement on 13th July, 2001, pursuant to which, one of the subsidiaries of the Company was granted the options (the "Option") to acquire the development rights of a residential property development project located in Beijing, the PRC for a gross floor area up to 600,000 square meters at a consideration of RMB1,700 per square meter. On the same date, 200,000 square meters relating to the Option were exercised at a total cash consideration of RMB340 million (approximately HK\$312.8 million), subject to the due diligence investigation.

Due diligence investigations of the two acquisitions are still in progress.

Placing and subscription of shares

In July 2001, China Strategic Holdings Limited ("CSH"), the ultimate holding company of the Company placed through a placing agent 226,000,000 existing Shares of US\$0.02 each to independent investor(s) at a price of HK\$0.40 per Share. In return, CSH subscribed for 226,000,000 new Shares at the same price of HK\$0.40 per Share. The net proceeds of approximately HK\$88 million were used to repay borrowings and as working capital of the Group.

The proforma adjusted consolidated net tangible assets of the Group after the placing and subscription of Shares are as follows:

	HK\$'000
Consolidated net tangible assets as at 30th June, 2001	901,374
Net proceeds received under the subscription of 226,000,000 Shares	88,000
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Proforma adjusted consolidated net tangible assets	989,374
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Employees and staff benefits

As at 30th June, 2001, the Group had approximately 790 employees of whom 30 were in Hong Kong head office and 760 were in the PRC. The Group provides comprehensive benefits to its employees such as medical insurance for staff in Hong Kong head office. Besides, the Group has adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Scheme Ordinance.

Others

Construction of the Shenzhen Highway is at its final stage. The Group is now preparing for the commencement of operations of the Shenzhen Highway which is expected to be at the end of 2001.

The fittings and refurbishment work of the commercial podium of Guangzhou Jiangnan Centre have been commenced. The Group has approached numerous sizable companies in the retail field about holding an anchor tenancy of the podium and the response was encouraging. The Group will step up the leasing campaign shortly. The Board anticipates that the podium will start its business by the end of 2001 and will generate recurring income to the Group.

Prospects

It is expected that the Shenzhen Highway and Guangzhou Jiangnan Centre would contribute significant recurring income to the Group.

In view of the successful association with Japan Travel Bureau, Inc (HK) Ltd., the management of the Plaza Canton Hotel (the "Hotel") in Guangzhou will continue to develop its institutional business and is planning to carry out a comprehensive renovation program to upgrade the Hotel facilities. The Board is considering associations with a hotel management group with a view to upgrade the quality of service of the Hotel and in turn will improve its performance.

It is expected that the PRC would join the World Trade Organization early next year. The Board shall leap at every business opportunity that arises.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors

Chan Kwok Hung

Chan Fut Yan

Cheung Hon Kit

(Appointed on 1st September, 2001)

Chau Mei Wah, Rosanna

Mok Yat Fan, Edmond

Lee Kim Ying

Cheng Yin Ching, Anna

Lam Shan

(Resigned on 17th September, 2001)

Independent non-executive directors

Wong Pui Fai

Chan Shu Kin

(Appointed on 26th June, 2001)

Kwok Chi Keung

(Resigned on 26th June, 2001)

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2001, none of the directors nor their respective associates had any interests in any shares of the Company or any of its associated corporations as defined by the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register kept by the Company under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.