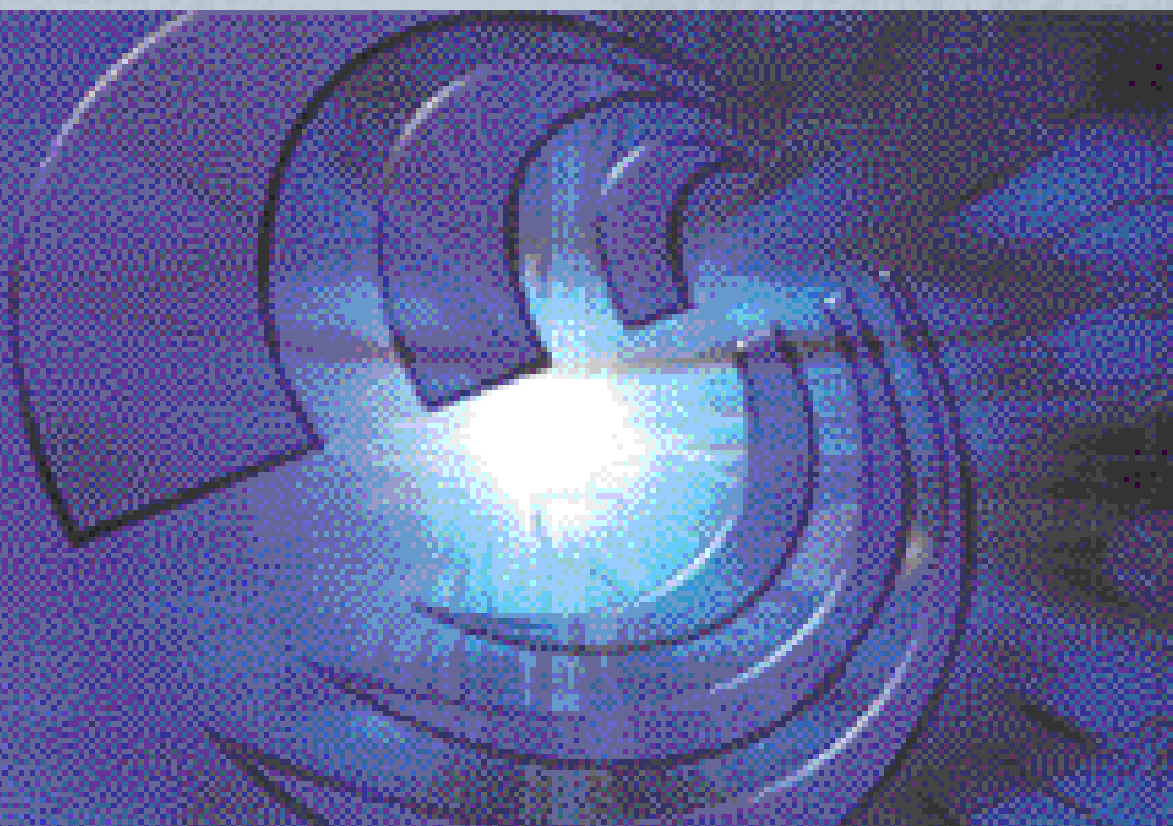




中策集团有限公司

China Strategic Holdings Limited



Interim Report 2001 中期报告

Condensed Consolidated Income Statement

For the six months ended 30th June, 2001

	Notes	Six months ended 30th June,	
		2001 HK\$'000 (unaudited)	2000 HK\$'000 as restated (see note 3) (unaudited)
Turnover		1,869,118	1,455,561
Cost of sales		(1,670,895)	(1,289,778)
Gross profit		198,223	165,783
Other revenue	5	87,503	194,838
Distribution costs		(95,993)	(75,051)
Administrative expenses		(114,601)	(94,443)
Other expenses	6	(101,030)	(343,448)
Loss from operations	7	(25,898)	(152,321)
Finance costs		(46,143)	(38,948)
Share of results of associates		(1,521)	240
Loss before taxation		(73,562)	(191,029)
Taxation	8	(8,151)	(1,573)
Loss before minority interests		(81,713)	(192,602)
Minority interests		56,939	30,543
Net loss for the period		(24,774)	(162,059)
Loss per share	9		
— Basic		(5.4) cents	(35.4) cents
— Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

At 30th June, 2001

	Notes	30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)
Non-Current Assets			
Investment properties	10	153,829	71,818
Properties, plant and equipment	11	2,734,929	2,734,587
Properties under/held for development	12	159,565	157,401
Intangible assets		112,026	107,208
Goodwill	13	93,445	—
Interests in associates	14	183,925	115,752
Investments in securities	15	766,379	757,197
Receivables - due after one year	16	318,106	18,995
Loans to minority shareholders		26,765	28,074
		4,548,969	3,991,032
Current Assets			
Properties held for sale		43,962	31,081
Inventories		844,591	869,333
Trade debtors	17	763,394	667,817
Receivables - due within one year	16	66,091	50,217
Receivables due from associates	14	19,619	5,323
Other receivables, deposits and prepayments		314,249	367,624
Advances to contractors		199,039	184,443
Income and other tax recoverable		1,166	85
Investments in securities	15	60,000	67,800
Pledged bank deposits		129,719	612,351
Bank balances and cash		607,179	885,228
		3,049,009	3,741,302
Current Liabilities			
Creditors and accrued charges	18	519,860	674,566
Other payables		627,965	415,130
Income and other taxes payable		68,919	43,531
Bank loans and other borrowings			
- due within one year	19	1,115,996	1,351,545
		2,332,740	2,484,772
Net Current Assets		716,269	1,256,530
		5,265,238	5,247,562

Condensed Consolidated Balance Sheet (continued)

At 30th June, 2001

	Notes	30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)
Capital and Reserves			
Share capital	20	460,979	460,979
Reserves	21	2,364,954	2,388,875
		2,825,933	2,849,854
Minority Interests			
		1,734,836	1,699,376
Non-Current Liabilities			
Bank loans and other borrowings			
- due after one year	19	601,419	595,213
Deposits received		76,638	76,638
Loans from minority shareholders		26,412	26,481
		704,469	698,332
		5,265,238	5,247,562

Condensed Consolidated Statement of Recognised Gains and Losses

For the six months ended 30th June, 2001

	Six months ended 30th June, 2001 HK\$'000 (unaudited)
Exchange difference arising from translation of financial statements of operations outside Hong Kong	(9,495)
Share of reserves of associates	
Exchange reserve	(107)
Non-distributable reserves	193
Net losses not recognised in the condensed consolidated income statement	(9,409)
Net loss for the period	(24,774)
Total recognised gains and losses	(34,183)

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2001

	Six months ended 30th June, 2001 HK\$'000 (unaudited)
Net cash inflow from operating activities	202,684
Net cash outflow from returns on investment and servicing of finance	(46,251)
Tax paid in other jurisdictions	(1,804)
Net cash outflow from investing activities	<u>(138,414)</u>
Net cash inflow before financing activities	16,215
Net cash outflow from financing activities	<u>(291,703)</u>
Decrease in cash and cash equivalents	(275,488)
Cash and cash equivalents at 1st January, 2001	873,326
Effect of foreign exchange rate changes	<u>(9,936)</u>
Cash and cash equivalents at 30th June, 2001	<u><u>587,902</u></u>
Analysis of the balances of cash and cash equivalents	
Bank balances and cash	607,179
Bank overdraft	<u>(19,277)</u>
	<u><u>587,902</u></u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants except that, in this first year of implementation of the new SSAP, as permitted by the Listing Rules, no comparative amounts have been presented for either:

- the condensed consolidated statement of recognised gains and losses; or
- the condensed consolidated cash flow statement

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, hotel property and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has no significant effect on the financial statements for the current or prior period, except that in accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component in the notes to the condensed financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the retained profits as at 1st January, 2000 by HK\$46,098,000.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. PRIOR PERIOD RESTATEMENT

The Group's results for the six months ended 30th June, 2000 have been restated due to the restatement of results of China Enterprises Limited ("China Enterprises", formerly known as China Tire e-commerce.com Limited) for the same period. China Enterprises is a non wholly-owned subsidiary of the Group whose shares are listed on the New York Stock Exchange. It is engaged principally in the manufacturing of tires. Subsequent to the issuance of China Enterprises' unaudited condensed consolidated financial statements for the six months ended 30th June, 2000, its management determined that there should be additional provisions for doubtful debts and warranty expenses as at 30th June, 2000. The effect of the restatement to the results of the Group for the six months ended 30th June, 2000 is to increase cost of sales by approximately HK\$11 million, increase other expenses by approximately HK\$30 million, increase loss shared by minority interests by approximately HK\$29 million and increase net loss for the period by approximately HK\$12 million.

4. SEGMENT INFORMATION

An analysis of the Group's revenue and segment result by business and geographical segment is as follows:

	Revenue Six months ended 30th June,		Segment result Six months ended 30th June,	
	2001 as restated (see note 3) HK\$'000	2000 as restated (see note 3) HK\$'000	2001 as restated (see note 3) HK\$'000	2000 as restated (see note 3) HK\$'000
By business segment:				
Manufacturing				
Tires	1,541,853	1,192,080	4,086	(15,532)
Heavy industry	64,355	82,934	3,515	3,801
Consumer goods	94,360	97,744	3,594	3,779
Electronic products	23,102	67,697	(1,932)	(5,398)
	1,723,670	1,440,455	9,263	(13,350)
Property investment	74,142	1,895	(32,533)	(154)
Hotel operation	24,925	13,211	3,826	1,178
Newspaper publishing	46,381	—	(38,887)	—
Others	19,828	30,125	5,759	4,345
	1,888,946	1,485,686	(52,572)	(7,981)
Investment in shares, interest bearing notes and bank deposits	57,722	78,847	31,665	(230,206)
Result on disposal of subsidiaries	9,953	41,785	9,953	41,785
Result on diminution in value/dilution/disposal of associates	—	44,081	(14,944)	44,081
	1,956,621	1,650,399	(25,898)	(152,321)
Finance costs			(46,143)	(38,948)
Share of results of associates			(1,521)	240
Loss before taxation			(73,562)	(191,029)

4. SEGMENT INFORMATION (continued)

	Revenue		Segment result	
	Six months ended 30th June,		Six months ended 30th June,	
	2001	2000	2001	2000
	as restated (see note 3)		as restated (see note 3)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical segment:				
Hong Kong	152,004	168,277	(63,543)	(176,522)
The People's Republic of China, other than Hong Kong ("PRC")	1,804,617	1,482,122	62,117	37,593
Overseas	—	—	(24,472)	(13,392)
	<u>1,956,621</u>	<u>1,650,399</u>	<u>(25,898)</u>	<u>(152,321)</u>
Finance costs			(46,143)	(38,948)
Share of results of associates			(1,521)	240
Loss before taxation			<u>(73,562)</u>	<u>(191,029)</u>

5. OTHER REVENUE

	Six months ended 30th June,	
	2001	2000
	as restated (see note 3)	
	HK\$'000	HK\$'000
Net gain on disposal of interest in subsidiaries	8,862	37,967
Add: Goodwill previously credited to reserves	244	—
Exchange reserves realised	746	2,002
Non-distributable reserves realised	101	1,816
	<u>9,953</u>	<u>41,785</u>
Gain on dilution of interest in associate (note)	—	42,856
Add/(Deduct): Goodwill previously written off against reserves	—	(2,067)
Exchange reserves realised	—	3,292
	<u>—</u>	<u>44,081</u>
Interest income	33,554	49,555
Unrealised gain on investments in securities	21,028	—
Dividend income from listed investments	3,140	713
Gain on disposal of property, plant and equipment	45	1,456
Others	19,783	28,669
Gain on disposal of investments in securities	—	28,579
	<u>87,503</u>	<u>194,838</u>

Note: The net gain on dilution of interest in associate during the period ended 30th June, 2000 represented a gain on dilution of equity interest in Asia Fiber Holdings Limited.

6. OTHER EXPENSES

	Six months ended 30th June,	
	2001	2000
		as restated (see note 3)
	HK\$'000	HK\$'000
Provision for doubtful debts	55,287	30,176
Loss on disposal of investments in securities	23,621	—
Impairment in value of goodwill of associates (note a)	11,078	—
Provision for diminution in value of investment in associates	3,591	—
Amortisation of goodwill	2,332	—
Loss on dilution of interest in an associate (note b)	275	—
Others	4,846	719
Provision in respect of properties held for resale	—	3,500
Unrealised loss on investments in securities	—	309,053
	<u>101,030</u>	<u>343,448</u>

Notes:

- (a) The amount represents impairment losses recognised in respect of goodwill relating to the acquisition of associates in prior years.
- (b) The loss on dilution of interest in an associate during the period represents a loss on dilution of equity interest in PacificNet.com, Inc., after the release of goodwill arising on acquisition of approximately HK\$275,000 previously written off against the Group's reserves.

7. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Six months ended 30th June,	
	2001	2000
		as restated (see note 3)
	HK\$'000	HK\$'000
Depreciation and amortisation of property, plant and equipment	82,630	60,552
Amortisation of intangible assets	<u>2,692</u>	<u>—</u>

8. TAXATION

	Six months ended 30th June,	
	2001	2000
		as restated (see note 3)
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	—	3
Taxation in other jurisdictions	<u>7,428</u>	<u>1,570</u>
Taxation attributable to the Company and its subsidiaries	<u>7,428</u>	<u>1,573</u>
Share of taxation of associates	<u>723</u>	<u>—</u>
	<u>8,151</u>	<u>1,573</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the prior period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$24,774,000 (HK\$162,059,000 for the six months ended 30th June, 2000 adjusted for restatement as described in Note 3) and on the weighted average of 460,978,942 (457,764,162 for the six months ended 30th June, 2000) ordinary shares in issue during the period adjusted for the effect of the Company's share consolidation, as described in note 26(b).

The calculation of the diluted loss per share has not assumed the exercise of the share options as their exercise would result in a decrease in loss per share for both periods.

10. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, investment properties of approximately HK\$96 million were acquired as a result of the acquisition of subsidiaries and approximately of HK\$14 million were disposed of at a consideration of approximately HK\$14 million to an independent third party.

In the opinion of the directors, there is no material difference between the carrying amount and the market value of investment property as at 30th June, 2001.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment with an aggregate net book value of approximately HK\$15 million were disposed of as a result of the disposal of certain subsidiaries.

The Group incurred expenditure of approximately HK\$14 million and HK\$29 million on plant and machinery and construction in progress in respect of the construction project of a toll highway in the PRC, respectively.

In the opinion of the directors, there is no material difference between the carrying amount and the market value of hotel property as at 30th June, 2001.

12. ADDITIONS TO PROPERTIES UNDER/HELD FOR DEVELOPMENT

During the period, the Group incurred expenditure of approximately HK\$2 million in the property development projects in the PRC.

13. MOVEMENTS IN GOODWILL

During the period, goodwill of approximately HK\$95 million has arisen from acquisition of subsidiaries. Amortisation of goodwill of approximately HK\$2 million was provided for in the condensed consolidated income statement during the period.

14. INTERESTS IN ASSOCIATES/RECEIVABLES DUE FROM ASSOCIATES

During the period, the Group acquired approximately 49% interest in Tung Fong Hung Investment Limited ("TFH Investment") for a consideration of approximately HK\$44 million. TFH Investment holds interests in Chinese medicine, food supplements, health products, pharmaceutical products and internet business.

Included in the amounts due from associates is an unsecured loan of approximately HK\$2 million advanced to TFH Investment. The aforesaid loan bears interest at the prevailing market rate and is repayable on demand.

15. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, investments in securities of approximately HK\$55 million were acquired as a result of the acquisition of subsidiaries. The Group also acquired certain investments at a cost of approximately HK\$154 million and disposed of certain investments of approximately HK\$225 million. In addition, an unrealised gain on investments in securities of approximately HK\$21 million has been recognised in the condensed consolidated income statement during the period.

16. MOVEMENTS IN RECEIVABLES

During the period, the Group advanced approximately HK\$290 million loan receivables to third parties and related companies. Except for amounts of approximately HK\$274 million which were secured, the remaining balances were unsecured. All amounts bear interest at prevailing market rates. Those amounts which will not be repaid within one year are shown as non-current. Details of loan receivables due from related companies are set out in note 24.

17. TRADE DEBTORS

The Group allows its trade customers a credit period normally ranging from 90 days to 180 days. The aged analysis of the trade debtors at the reporting date is as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0 - 90 days	454,629	323,133
90 - 180 days	191,829	244,787
Over 180 days	116,936	99,897
	<u>763,394</u>	<u>667,817</u>

18. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are creditors with the following aged analysis:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
0 - 90 days	235,632	322,077
90 - 180 days	60,448	82,623
Over 180 days	70,892	96,901
	366,972	501,601
Add: Accrued charges	152,888	172,965
	519,860	674,566

19. BANK LOANS AND OTHER BORROWINGS

During the period, the Group obtained additional other borrowings of approximately HK\$35 million which bear interest at prevailing market rates and are repayable within one year. The borrowings were used for general working capital purposes.

20. SHARE CAPITAL

	Number of shares	Value HK\$'000
Ordinary shares of HK\$0.10 each		
Issued and fully paid:		
Balance at 1st January, 2001 and 30th June, 2001	<u>4,609,789,420</u>	<u>460,979</u>

Details of changes in the Company's share capital subsequent to 30th June, 2001 have been set out in note 26(b).

21. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Goodwill on consolidation HK\$'000	Exchange reserve HK\$'000	Other non- distributable reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 2000							
— as originally reported	1,844,149	233	30,693	16,844	34,368	1,002,159	2,928,446
— prior period adjustment (note 2)	—	—	—	—	—	46,098	46,098
— as restated	1,844,149	233	30,693	16,844	34,368	1,048,257	2,974,544
Exchange adjustment	—	—	—	(1,223)	—	—	(1,223)
Premium on issue of shares	32,580	—	—	—	—	—	32,580
Arising on acquisition of interests in subsidiaries and associates	—	—	157,581	—	—	—	157,581
Impairment in value of goodwill of an associate	—	—	26,724	—	—	—	26,724
Realised on disposal of interest in subsidiaries	—	—	(3,958)	(691)	(3,151)	—	(7,800)
Realised on disposal/dilution of interest in associates	—	—	3,751	(2,735)	(557)	—	459
Share of net reserves movement of associates	—	—	(12,097)	(7,317)	2,204	—	(17,210)
Appropriated from retained profits	—	—	—	—	1,539	(1,539)	—
Net loss for the year	—	—	—	—	—	(730,682)	(730,682)
Dividend	—	—	—	—	—	(46,098)	(46,098)
At 31st December, 2000	1,876,729	233	202,694	4,878	34,403	269,938	2,388,875
Exchange adjustment	—	—	—	(9,495)	—	—	(9,495)
Impairment in value of goodwill of associates	—	—	11,078	—	—	—	11,078
Share of net reserves movement of associates	—	—	—	(107)	193	—	86
Realised on disposal of interest in subsidiaries	—	—	(244)	(746)	(101)	—	(1,091)
Realised on dilution of interest in an associate	—	—	275	—	—	—	275
Appropriated from retained profits	—	—	—	—	169	(169)	—
Net loss for the period	—	—	—	—	—	(24,774)	(24,774)
At 30th June, 2001	<u>1,876,729</u>	<u>233</u>	<u>213,803</u>	<u>(5,470)</u>	<u>34,664</u>	<u>244,995</u>	<u>2,364,954</u>

22. COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Contracted for but not provided in the condensed consolidated financial statements relating to:		
— Properties under/held for development	23,640	23,640
— Properties under construction	220,263	227,150
— Construction in progress	181,539	173,849
	425,442	424,639

The Group also entered into an agreement for the acquisition of an exclusive right to operate a database at the consideration of approximately HK\$30 million of which approximately HK\$8 million has been paid up to 30th June, 2001.

In additions, the Group had outstanding commitments payable under non-cancellable operating leases in respect of land and buildings as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Operating leases which expire:		
Within one year	4,868	142
In the second to fifth years inclusive	7,853	4,612
More than five years	3,675	—
	16,396	4,754

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases and rentals are negotiated for an average of two years.

23. CONTINGENT LIABILITIES

- (a) At 30th June, 2001, the Group issued guarantees to banks in respect of banking facilities granted to outsiders of approximately HK\$159 million (31.12.2000: HK\$279 million). In addition, the Group issued guarantees to banks in respect of banking facilities granted to associates amounted to approximately HK\$2 million (31.12.2000: HK\$2 million).
- (b) In August, 1999, the architect of Guangzhou Jiangnan Centre initiated legal proceedings against Eventic Limited ("Eventic"), a wholly-owned subsidiary of China Land Group Limited ("China Land") which is a non wholly-owned subsidiary of the Company, in respect of claim for payment of service fees and other expenses of HK\$0.6 million and HK\$6.6 million respectively.

Eventic vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervisory services provided.

In view of the counterclaim made by Eventic, the architect amended its total claim to HK\$7.7 million. At the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect to the Group.

24. RELATED PARTY TRANSACTIONS

During the period, the Group had the following significant transactions with related parties:

- (a) The Group advanced approximately HK\$122 million and HK\$108 million of loan receivables to Danwei Limited ("Danwei") and Lucklong Venture Limited ("Lucklong") respectively. Both amounts are secured, bear interest at Hong Kong Prime Rate plus 0.5% per annum and are repayable in 2003. During the period, Danwei and Lucklong paid interest of approximately HK\$5 million and HK\$4 million, respectively to the Group.
- (b) The Group acquired the entire share capital of Silvercomb Property Limited from Super Points Investment Limited ("Super Points") for a consideration of approximately HK\$106 million.

Dr. Chan Kwok Keung, Charles, Chairman of the Company, is a director of the ultimate holding company of Danwei, Lucklong and Super Points.

The above transactions were carried out in accordance with the terms agreed between the relevant parties.

25. PLEDGE OF ASSETS

At 30th June, 2001 and 31st December, 2000, the bank and other borrowings of the Group were secured by the following assets:

- (a) investment properties with a carrying value of HK\$74,630,000 (31.12.2000: HK\$32,130,000);
- (b) certain property, plant and equipment with a carrying value of HK\$372,385,000 (31.12.2000: HK\$238,033,000); and
- (c) bank deposits of HK\$129,719,000 (31.12.2000: HK\$612,351,000).

In addition, a wholly-owned subsidiary of China Land has issued two debentures in favour of a bank by way of creating a first floating charge on its entire interest in Shenzhen Longchen Xinyuan Industrial Co., Ltd., a subsidiary of China Land, which also has pledged its right to toll fee income to another bank to secure the credit facilities.

26. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to 30th June, 2001:

- (a) As announced on 23rd May, 2001, the Group, together with Star East Holdings Limited ("Star East"), the other shareholder of Gold Brilliant Limited ("Gold Brilliant"), entered into an agreement to dispose of their respective 65% and 35% interest in Gold Brilliant to a third party at an aggregate consideration of approximately HK\$206 million. Gold Brilliant's sole asset is an approximately 74.99% of the entire issued share capital of Premium Land Limited ("Premium Land", formerly known as Sing Pao Media Group Limited and Huey Tai International Limited). Pursuant to the agreement, the parties agreed that approximately 9.74% and 5.25% interest in Premium Land held by Gold Brilliant would be transferred to the Group and Star East, respectively, as repayment of the shareholders' loans due by Gold Brilliant to them. After the transfer of shares, Gold Brilliant would hold 60% interest in Premium Land. On the same date, the Group, together with Star East, through Expert Solution Limited, a company in which the Group owns 65% interest, agreed to acquire the entire interest in Actiwater Resources Limited ("Actiwater Resources"), with its principal subsidiaries mainly engaged in media interest business, from Premium Land at a consideration of approximately HK\$110 million. The above transactions constituted a connected transaction of the Company under the Listing Rules and were approved by the shareholders of the Company in an extraordinary general meeting held on 4th July, 2001.

26. POST BALANCE SHEET EVENTS (continued)

- (b) Pursuant to resolutions passed by the shareholders of the Company in an extraordinary general meeting held on 18th June, 2001, the Company carried out the following capital reorganisation ("Capital Reorganisation"):
- Every ten ordinary shares of HK\$0.10 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$1.00 each ("Consolidated Share") ("Share Consolidation");
 - Immediately following the Share Consolidation, the nominal value of the issued and unissued Consolidated Shares will be reduced from HK\$1.00 to HK\$0.10 each ("Capital Reduction");
 - The credit of approximately HK\$414 million arisen as a result of the Capital Reduction was credited to a special capital reserve account of the Company;
 - Upon the Capital Reduction becoming effective, the authorised capital of the Company will be increased from HK\$80,000,000 to HK\$800,000,000 by the creation of an additional 7,200,000,000 ordinary shares of HK\$0.10 each.

Details of the Capital Reorganisation were set out in the circular to the Company's shareholders dated 23rd May, 2001 and were approved by the High Court of the Hong Kong Special Administrative Region on 31st July, 2001.

- (c) As announced on 24th September, 2001, Actiwater Resources was disposed of by the Group and Star East to STAREASTnet.com Corporation ("STAREASTnet") or a subsidiary nominated by it at a consideration of HK\$210 million which will be satisfied as to HK\$50 million in cash and HK\$160 million by the issue of 1,600 million new shares in STAREASTnet at HK\$0.10 per share. The transaction has not been completed up to date of this report.

Independent Review Report

德勤 • 關黃陳方會計師行

Certified Public Accountants
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**Deloitte
Touche
Tohmatsu**

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 been instructed by the Company to review the interim financial report set out on pages 1 to 15.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants and the relevant provisions thereof. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required either for the condensed consolidated statement of recognised gains and losses or for the condensed consolidated cash flow statement to be included in the first interim financial report relating to accounting periods ended on or after 1st July, 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six months ended 30th June, 2000 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26th September, 2001

Interim dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2001 (2000: Nil).

Analysis of the Group's performance

The Group's turnover for the six months ended 30th June, 2001 totaled HK\$1.869 billion, representing an increase of 28.4% from HK\$1.456 billion over the comparable period last year. The improvement in revenue was mainly due to increased turnover in the manufacturing of and trading in tire products; property rental and hotel operation; newspaper publishing and distribution.

The Group's unaudited consolidated loss for the six months ended 30th June, 2001 amounted to HK\$24.8 million. This was primarily due to operating losses incurred in the Group's newspaper publishing operations, property investment operations and loss in sale of investments.

Liquidity and financial resources

During the first half of 2001, the Group financed its operations through cash generated from its business activities, banking facilities provided by its bankers and disposing of under-performing investments.

The Group's short-term borrowing has been reduced from HK\$1,352 million as at 31st December, 2000 to approximately HK\$1,116 million as at 30th June, 2001. Long-term borrowing has been increased from HK\$595 million as at 31st December, 2000 to approximately HK\$601 million as at 30th June, 2001. As a result, the Group's total borrowing has been reduced from HK\$1,947 million as at 31st December, 2000 to approximately HK\$1,717 million as at 30th June, 2001 representing a decrease of 11.8%. The gearing ratio, calculated to the total long-term borrowing divided by total shareholders funds increased from 0.209 to 0.213.

Cash and bank balances amounted to approximately HK\$737 million, most of which were denominated in Hong Kong dollars, Australian dollars and US dollars. The Company was not exposed to any material exchange rate fluctuation during the period under review.

Significant Investments

China Enterprises Limited (carried on business in Hong Kong as China Tire Holdings Limited)

For the period under review, China Enterprises Limited ("China Enterprises"), formerly known as China Tire e-commerce.com Limited, the New York Stock Exchange listed subsidiary of the Company saw tire prices decline slightly by approximately 2-3% due to the continued oversupply and high inventories. Despite the highly competitive environment, China Enterprises was able to achieve a 29% growth in its total sales revenue amounting to Rmb1.63 billion compared to Rmb1.26 billion recorded in the same period last year. The increase of 29% growth in sales revenue was largely due to China Enterprises' improved marketing strategies and expanding distribution network resulting in increased sales volume in both bias and radial products. On the operating level, the abolition of the 10% Consumption Tax on radial tire products also contributed significantly to sales growth. Gross profit margin also improved from 9.6% to 12.1% in the same period on the back of lower raw material costs and economic of scale achieved due to increase in production.

Compared to the same period last year, selling and administrative expenses increased 47.3% to Rmb203.4 million. The increase was due to increased in marketing and distribution expenses, in particular in transportation, packaging and incentives relating to rising sales volume and an increase in provision for doubtful debts.

For the six months ended 30th June, 2001, China Enterprises incurred a consolidated net loss of Rmb18 million (2000: net loss of Rmb21.7 million).

China Land Group Limited

China Land Group Limited ("China Land") incurred a loss attributable to shareholders for the first half year of 2001 amounted to HK\$38 million compared to HK\$14 million 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 remained sluggish, as consumer confidence had not yet recovered. 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 disposals of properties in both Hong Kong and the PRC. However, an improvement in profit of the hotel operations and property leasing business was recorded during the period as a result of stringent cost controls that were implemented.

It is expected that the Shenzhen Highway and Guangzhou Jiangnan Centre would contribute significant recurring income to China Land. In view of the successful association with Japan Travel Bureau, Inc (HK) Ltd., the management of the Plaza Canton Hotel in Guangzhou will continue to develop its institutional business. The Board of China Land is considering associations with a hotel management group with a view to upgrading the quality of service of the Plaza Canton Hotel and in turn improving its performance.

Australia Net.Com Limited

Australia Net.Com Limited ("ANC"), an Australian Stock Exchange listed subsidiary, recorded a consolidated operating profit after income tax of A\$35,023 compared with A\$2,757,224 for the preceding period. 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. Profit for the first half of 2000 mainly included dividends from the PRC investments and other investments.

Corporate developments

In April, 2001, the Company announced the consolidation for every ten issued and unissued shares into one consolidated share (the "Consolidated Share") and reduction of the nominal value of each of the issued and unissued Consolidated Shares from HK\$1.00 to HK\$0.10 (the "Capital Reduction") (collectively the "Capital Reorganisation"). The petition for the confirmation of the Capital Reduction was heard by the Court on Tuesday, 31st July, 2001. The Capital Reorganisation was effective from 10th August, 2001.

On 18th May, 2001, the Company and Star East Holdings Limited ("Star East") entered into a conditional agreement with Upland Profits Limited, a wholly-owned subsidiary of Capital Strategic Investment Limited ("CSI"), in respect of the disposal of shares in and shareholder loans from Gold Brilliant Limited ("Gold Brilliant"), a company beneficially held as to 65% by the Company and as to 35% by Star East, for the consideration of HK\$206 million. Gold Brilliant holds 74.99% shareholding in Premium Land Limited ("Premium Land") (formerly known as Sing Pao Media Group Limited). At the same time, the Company through Expert Solution Limited ("Expert Solution"), which was owned as to 65% by the Company and as to 35% by Star East, entered into a disposal agreement regarding the acquisition of the entire issued share capital of and shareholder loan to Actiwater Resources, a wholly-owned subsidiary of Premium Land whose principal activities are publication of Sing Pao Daily News, books and magazine publishing and an Internet portal specializing mainly in news and information in China, for a cash consideration of HK\$110 million. Further details can be found in circular to shareholders dated 18th June, 2001. Completion of the aforesaid transactions took place on 9th July, 2001.

On 24th September, 2001, Expert Solution entered into an acquisition agreement (the "Acquisition Agreement") with STAREASTnet.com Corporation ("STAREASTnet") regarding the disposal of the entire issued share capital of and shareholder's loan of approximately HK\$210.50 million to Actiwater Resources for consideration of HK\$210 million (the "Consideration"). The Consideration will be satisfied as to HK\$50 million in cash and HK\$160 million by the issue of 1,600 million new shares in STAREASTnet at HK\$0.10 per consideration share.

Prospects

During the period under review, the economy of the United States and most developed countries experienced slowdowns. Consumers turned more cautious amid rising layoffs and a decline in equity market valuations. The recent devastating attack on the heart of the American political and financial centre has profoundly altered the global economic, political and financial landscape. Given the level of uncertainty, the global economy will remain sluggish and the financial and equity markets will continue highly to be unstable. Nevertheless, the PRC had achieved a remarkable growth in its GDP of 7.9% in the first half of 2001 and expected improvement in the second half of 2001. The Group's existing business activities are expected to benefit from China's admission to the WTO and hosting of the Olympic Games in 2008. Taking advantage of current lower interest rate levels, the Group's efforts will be focused on strengthening business segments which enjoy unique leadership in market positioning and product offering and at the same time impose a more stringent credit and cost controls. It will intensify efforts to extract the comparative's advantage of its tire products and property operations in the China domestic market. It will at the same time, seek and identify other business opportunities in China. However, it must be pursued more cautiously.

Number of employees, remuneration policies and share option scheme

As at 30th June, 2001, the Group employed approximately 15,500 staff. Remuneration packages comprised of salary and year-end bonuses based on individual merits. No share options were granted or exercised during the period ended 30th June, 2001.

Directors' Interests in Shares

As at 30th June, 2001, the interests of the directors in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 29 of the SDI Ordinance to be entered in the register, or pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") referred to therein are as follows:

	Number of Shares (Note 1)		
	Personal Interests	Family Interests	Corporate Interests
Chan Kwok Keung, Charles (Note 2)	—	—	804,400,000
Lien Kait Long	6,325	—	—

Notes:

1. Share(s) of HK\$0.10 each in the capital of the Company.
2. Dr. Chan Kwok Keung, Charles ("Dr. Chan") is deemed to be interested in 804,400,000 shares in the Company held by Calisan Developments Limited ("Calisan") by virtue of his interest in Chinaview International Limited ("Chinaview") which owns more than one-third of the issued share capital of Calisan. Details of which are disclosed under the heading "Substantial Shareholders".

Save as disclosed above, as at 30th June, 2001, none of the Company's directors or their associates had any personal, family, corporate or other interests in any shares of the Company or any of its associated corporations, within the meaning of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

None of directors or chief executive (including their spouse and children under the age of 18) had been granted, or exercised, any rights to subscribe for the equity or debt securities of the Company during the period.

At no time during the period was the Company, its subsidiaries or any of its associated corporations, a party to any arrangements to enable the directors of the Company or their spouse and children under the age of 18, to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate or had exercised any such rights during the period.

Substantial Shareholders

As at 30th June, 2001, the following persons were recorded in the register kept by the Company under Section 16 of the SDI Ordinance for the purposes of sections 3 to 7 of the SDI Ordinance as being interested in shares representing 10% or more of the issued share capital of the Company:

Name	Note	No. of shares	Approximate % of issued share capital
Calisan	1	804,400,000	17.45
Great Decision Limited	1	804,400,000	17.45
Paul Y. - ITC Investments Group Limited	1	804,400,000	17.45
Paul Y. - ITC Construction Holdings (B.V.I.) Limited	1	804,400,000	17.45
Paul Y. - ITC Construction Holdings Limited	1	804,400,000	17.45
Hollyfield Group Limited	1	804,400,000	17.45
ITC Investment Holdings Limited	1	804,400,000	17.45
ITC Corporation Limited	1	804,400,000	17.45
Galaxyway Investments Limited	1	804,400,000	17.45
Chinaview	1	804,400,000	17.45
Dr. Chan	1	804,400,000	17.45
Well Orient Limited	2	804,400,000	17.45
Powervote Technology Limited	2	804,400,000	17.45
Hanny Magnetics (B.V.I.) Limited	2	804,400,000	17.45
Hanny Holdings Limited	2	804,400,000	17.45

Notes:

- Dr. Chan owns the entire interest of Chinaview which in turn owns the entire interest in Galaxyway Investments Limited ("Galaxyway"). Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC Corporation Limited ("ITC"). ITC owns the entire interest of ITC Investment Holdings Limited ("ITC Investment"). ITC Investment owns the entire interest in Hollyfield Group Limited ("Hollyfield"). Hollyfield owns more than one-third of the entire issued share capital of Paul Y. - ITC Construction Holdings Limited ("Paul Y."). Paul Y. owns the entire interest of Paul Y. - ITC Construction Holdings (B.V.I.) Limited ("PYBVI") which in turn owns the entire interest in Paul Y. - ITC Investments Group Limited ("PYITCIG"). PYITCIG owns the entire interest of Great Decision Limited ("GDL") which in turn owns the entire interest in Calisan. Accordingly, GDL, PYITCIG, PYBVI, Paul Y., Hollyfield, ITC Investment, ITC, Galaxyway, Chinaview and Dr. Chan were deemed to be interested in 804,400,000 shares of the Company which were held by Calisan.
- Well Orient Limited ("WOL") is wholly-owned by Powervote Technology Limited ("PTL") which is in turn owned by Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics"). Hanny Magnetics is wholly-owned by Hanny Holdings Limited ("Hanny"). PTL, Hanny Magnetics and Hanny were deemed to be interested in 804,400,000 shares of the Company which were held by WOL.

Save as disclosed above, as at 30th June, 2001, the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the unaudited interim financial report for the six months ended 30th June, 2001.

The interim financial report of the Company for the six months ended 30th June, 2001 has been reviewed by the auditors, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standard 700 'Engagements to Review Interim Financial Reports' issued by the Hong Kong Society of Accountants and an unqualified review report is issued.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the listed shares of the Company by the Company or its subsidiaries during the period.

Code of Best Practice

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30th June, 2001, in compliance with the Code of Best Practice stipulated in the Appendix 14 of the Listing Rules.

Publication of Detailed Interim Results Announcement on the Website of The Stock Exchange

A detailed interim results announcement containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website (<http://www.hkex.com.hk>) in due course.

By Order of the Board
Dr. Chan Kwok Keung, Charles
Chairman

Hong Kong, 26th September, 2001