LIQUIDITY AND FINANCIAL RESOURCES

During 2001, the Group was mainly financed by proceeds from placing and subscription of shares, internally generated cash, disposal of under-performing investments, banking facilities and loans from fellow subsidiaries.

From 31st December, 2000 to 31st December, 2001, short-term borrowings decreased from approximately HK$72 million to approximately HK$28 million and long term borrowings increased from approximately HK$550 million to approximately HK$632 million. Total borrowings amounted to HK$660 million as at 31st December, 2001, representing an increase of 6.1% 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 People's Republic of China (the "PRC") for investment and development purposes. The Group's gearing ratio increased to 1.0 (31.12.2000: 0.59), which is calculated based on long term borrowings of HK$632 million and total shareholders funds of HK$635 million. Cash and cash equivalents decreased from approximately HK$53 million to approximately HK$46 million. As most of the Company's bank deposits were denominated in Hong Kong dollars and deposited with banks as short-term deposits, exposure to foreign exchange risk was minimal.

As at 31st December, 2001, certain properties and bank deposits of the Group with an aggregate carrying value of approximately HK$58 million were pledged to banks to secure general banking facilities granted to the Group.

MATERIAL 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 (the "Centergate Agreement") on 13th July, 2001 to acquire certain properties located in Beijing at a consideration of HK$188 million. The consideration shall 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.

Moreover, two other subsidiaries of the Company had entered into another conditional agreement (the "Jiulong Garden 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 for a gross floor area up to 600,000 square meters at a consideration of RMB1,700 per square meter, subject to the due diligence investigations.

As announced on 11th February, 2002, the Centergate Agreement has become null and void and of no further effect on 7th February, 2002 due to non-fulfillment of one of the conditions set out in the Centergate Agreement. The subsidiary of the Company renounced all the Option on 7th February, 2002 due to non-fulfillment of the condition set out in the Jiulong Garden Agreement. As a result, the Jiulong Garden Agreement shall cease to take further effect. The Group has neither paid any cash nor issued any of the Consideration Shares for the transactions under these two agreements.

MATERIAL DISPOSALS

In March 2001, the Group completed the disposal of its entire interests in five development sites in Guilin. The aggregate consideration is approximately RMB24.4 million.

In November 2001, the Group completed the disposal of 30% of its entire interests in Hong Kong Macau Square, Huizhou for a total consideration of HK$30 million. The Group still holds 70% interests in this project.

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 the Company of US$0.02 each (the "Shares") to independent investors 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. As a result of the slowing down in the development pace of the Group's PRC projects, a large portion of the net proceeds received from placing and subscription of Shares was used to repay borrowings due to fellow subsidiaries and bank loans. The application of net proceeds is shown as below:

	Proposed application as set out in the Company's announcement dated 4th July, 2001	Actual application
	HK$'000	HK$'000
Net proceeds	88,300	88,300
PRC project development costs	(68,300)	(18,600)
Repayment of borrowings due to fellow subsidiaries	(20,000)	(49,600)
Repayment of bank loans	–	(12,200)
General working capital and administrative expenses	–	(7,900)
Amount of unused proceeds at 31st December, 2001	N/A	Nil

COMMENTS ON SEGMENTAL INFORMATION

The Group's turnover for the year ended 31st December, 2001 was approximately HK$114.9 million (2000: HK$69.7 million). Such increase was mainly attributable to the sale of properties in both Hong Kong and the PRC.

The operating loss for the year included provisions made for revaluation deficits of the investment properties and diminution in value of properties and investment securities totalling HK$508 million, after consideration of various underlying conditions of the Group's assets.

The performance of hotel operations and rental income remained steady during the year. Excluding the provisions, the operating profits contributed by these two business segments were approximately HK$8 million. With the commencement of operations in toll road in Shenzhen and the leasing of commercial podium of Paul Y. Plaza in 2002, a stable recurring income is expected to be generated in the forthcoming years.

After making a provision of approximately HK$508 million, the Group recorded the loss attributable to shareholders of approximately HK$394 million.

NUMBER OF EMPLOYEES, STAFF BENEFITS AND SHARE OPTION SCHEME

As at 31st December, 2001, the Group had approximately 920 full-time employees in Hong Kong head office and the PRC. The Group provides comprehensive benefits to its employees such as competitive medical insurance for staff in Hong Kong head office. Pursuant to the share option scheme of the Company adopted on 27th June 2000, the Board may grant options to executive directors and full-time employees of the Company or any of its subsidiaries to subscribe for Shares. No share options were granted or exercised during the year.

CONTINGENT LIABILITIES

Litigation

(i) In August 1999, the architect of Paul Y. Plaza (formerly named as Jiangnan Centre) initiated legal proceedings against Eventic Limited ("Eventic"), a 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 has vigorously defended the claims and made a counterclaim for loss and damages suffered due to insufficient supervision services provided.

In view of the counterclaim made by Eventic, the architect amended its total claims 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 Board considers the outcome of the proceedings will not have material adverse financial effect to the Group.

(ii) In July 2001, Huizhou World Express Property Ltd. ("Huizhou World Express"), an indirect non-wholly owned subsidiary of the Company, initiated legal proceedings against the Huizhou Municipal Government of the Guangdong Province, the PRC, in its capacity as the guarantor of Huizhou Jia Cheng Group Co., Ltd. ("Huizhou Jia Cheng"), the main contractor in the construction of Hongkong Macau Square, Huizhou under a guarantee letter dated 7th September, 1994 executed by the Huizhou Municipal Government in favour of Huizhou World Express. The amount claimed by Huizhou World Express was RMB243.6 million, being the construction costs of RMB167.5 million paid by Huizhou World Express to Huizhou Jia Cheng together with the damages for the amount of RMB76.1 million.

CONTINGENT LIABILITIES *(Continued)*

Litigation *(Continued)*

As at the date of this report, Huizhou World Express is waiting for the hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the total construction costs of Hongkong Macau Square has already been written off, the Board is of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Huizhou World Express.

(iii) In November 2001, the purchasers (the "Purchasers") of certain properties of Hongkong Macau Square, Huizhou according to the pre-sale agreements dated 7th September, 1994 initiated legal proceedings against Huizhou World Express for failure to hand over the properties of Hongkong Macau Square to the Purchasers. The amounts claimed by the Purchasers were approximately HK$76.6 million, being the pre-sale deposits together with damages of RMB64.2 million and relevant legal expenses.

In January 2002, Huizhou World Express filed in its defences alleging that in accordance with the terms of the above-mentioned agreements, any disputes between the contractual parties should be resolved by means of arbitration. As at the date of this report, the Intermediate People's Court of Huizhou, Guangdong Province is still considering the cases. At this stage, the outcome cannot be predicted with certainty and no further provision has been made in the financial statements.