

CSI

Capital Strategic Investment Limited

資本策略投資有限公司

88 Gloucester Road

53 - 55 Chatham Road South

Interim Report 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2004

	Notes	Six months ended 30th September, 2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover		159,370	238,124
Cost of sales		(138,959)	(203,526)
Gross profit		20,411	34,598
Other operating income	4	3,992	4,770
Other operating expenses		(3,675)	—
Administrative expenses		(14,268)	(6,915)
Other expenses	5	(6,159)	(5,000)
Profit from operations	6	301	27,453
Finance costs		(1,134)	(953)
Gain on disposal of interests in subsidiaries		47,228	—
Share of results of associates		(171)	(7,813)
Amortization of goodwill of interest in an associate		(75)	(1,321)
Loss on dilution of interest in an associate		(2,021)	—
Profit before taxation		44,128	17,366
Taxation	7	(1,954)	(685)
Profit before minority interests		42,174	16,681
Minority interests		—	(159)
Net profit for the period		42,174	16,522
Earnings per share	8		
— Basic		11.0 cents	4.3 cents
— Diluted		10.8 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

	Notes	30th September, 2004 HK\$'000 (unaudited)	31st March, 2004 HK\$'000 (audited)
Non-Current Assets			
Investment properties	9	670,704	482,650
Property, plant and equipment	10	987	5,740
Interests in associates		25,407	63,138
Investments in securities	11	34,261	36,250
Deposits paid on acquisition of property, plant and equipment		5,201	2,596
Deferred tax asset		299	275
		736,859	590,649
Current Assets			
Trade and other receivables	12	3,043	16,785
Deposit held in stakeholders		4,835	5,807
Investments in securities	11	88,095	111,484
Properties held for sale		5,150	42,226
Taxation recoverable		189	189
Pledged bank deposits		5,219	5,219
Bank balances and cash		184,098	133,290
		290,629	315,000

	<i>Notes</i>	30th September, 2004 HK\$'000 (unaudited)	31st March, 2004 HK\$'000 (audited)
Current Liabilities			
Accruals and other payables		12,721	10,351
Taxation payable		4,407	2,107
Bank borrowings-due within one year	13	24,580	47,582
		41,708	60,040
Net Current Assets			
		248,921	254,960
		985,780	845,609
Capital and Reserves			
Share capital	14	15,338	15,338
Reserves		726,566	697,917
		741,904	713,255
Non-Current Liabilities			
Bank borrowings — due after one year	13	243,320	131,476
Deferred tax liability		556	878
		243,876	132,354
		985,780	845,609

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2004

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Investment Property Revaluation Reserve HK\$'000	Accumulated Profits (losses) HK\$'000	Total HK\$'000
At 1st April, 2003	15,338	23,225	276,058	—	153,488	468,109
Net profit for the period	—	—	—	—	16,522	16,522
At 30th September, 2003	15,338	23,225	276,058	—	170,010	484,631
Surplus arising on revaluation of investment properties	—	—	—	214,503	—	214,503
Net profit for the period	—	—	—	—	14,121	14,121
At 31st March, 2004	15,338	23,225	276,058	214,503	184,131	713,255
Release of revaluation reserve upon disposal of a subsidiary	—	—	—	(13,525)	—	(13,525)
Net profit for the period	—	—	—	—	42,174	42,174
At 30th September, 2004	<u>15,338</u>	<u>23,225</u>	<u>276,058</u>	<u>200,978</u>	<u>226,305</u>	<u>741,904</u>

The contributed surplus of the Group represented the amount arising from capital reorganization carried out by the Company during the year ended 31st March, 2003.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2004

	Six months ended	
	30th September,	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	110,880	165,103
Net cash used in investing activities	(148,914)	(204,616)
Net cash from financing activities	93,840	115,350
Net increase in cash and cash equivalents	55,806	75,837
Cash and cash equivalents at beginning of the period	128,292	32,864
Cash and cash equivalent at end of the period	184,098	108,701
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	184,098	108,704
Bank overdraft	—	(3)
	184,098	108,701



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules 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") No.25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31st March, 2004.

3. SEGMENT INFORMATION

Business segments

The Group's primary format for reporting segment information is business segments.

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	Continuing operation		
	Property investment	Securities investment	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the six months ended 30th September, 2004			
TURNOVER			
External sales	<u>119,011</u>	<u>40,359</u>	<u>159,370</u>
RESULT			
Segment result	<u>19,157</u>	<u>(17,156)</u>	2,001
Unallocated corporate expenses			(4,189)
Interest income			2,129
Dividend income			<u>360</u>
Profit from operations			<u>301</u>

	Discontinuing operation	Continuing operation		Consolidated
	Estate agency	Property investment	Securities investment	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note)</i>			
For the six months ended 30th September, 2003				
TURNOVER				
External sales	1,340	5,286	231,498	238,124
RESULT				
Segment result	468	1,476	24,537	26,481
Unallocated corporate expenses				(2,708)
Interest income				2,728
Dividend income				952
Profit from operations				27,453

Note:

On 5th September, 2003, the Group entered into an agreement to dispose of its entire interest in Consecutive Profits Limited and its subsidiaries, which were mainly engaged in the provision of estate agency services. The disposal was completed on 30th January, 2004 and accordingly, the business segment of provision of estate agency services was regarded as discontinuing operation during the six months ended 30th September, 2003.

Geographical segment

Over 90% of the Group's turnover and profit from operations were derived from Hong Kong and accordingly, no geographical segments is presented.

4. OTHER OPERATING INCOME

	Six months ended 30th September, 2004	2003
	HK\$'000	<i>HK\$'000</i>
Dividend income from listed investments	360	952
Interest income	2,129	2,728
Gain on disposal of property held for development	—	530
Gain on disposal of property, plant & equipment	1,417	—
Others	86	560
	3,992	4,770

5. OTHER EXPENSES

	Six months ended 30th September, 2004	2003
	HK\$'000	<i>HK\$'000</i>
Revaluation decrease of investment properties	—	2,000
Impairment loss of investments in securities	6,159	3,000
	6,159	5,000

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	790	1,068

7. TAXATION

	Six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	2,300	685
Deferred tax	(346)	—
Attributable to the Company and its subsidiaries	1,954	685

Hong Kong Profits Tax was provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit of the subsidiaries of the Group.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share are based on the following data:

	Six months ended 30th September, 2004		2003
	HK\$'000		HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share:			
Net profit for the period	42,174		16,522
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	383,448,000		383,448,000
Effect of dilutive potential ordinary shares:			
Share options	7,160,000		
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	390,608,000		

The calculation of the basic earnings per share is based on the net profit for the period of HK\$42,174,000 (HK\$16,522,000 for the six months ended 30th September, 2003) and on the weighted average of 383,448,000 (383,448,000 for the six months ended 30th September, 2003 after adjustment for the effect of the share consolidation completed in August, 2004) ordinary shares in issue during the period.

No diluted earnings per share for the period ended 30th September, 2003 was presented as the exercise price of the share options was greater than the average market price of the Company's shares during the period.



9. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group acquired an investment property at a consideration of approximately HK\$232,704,000.

Investment property with a carrying amount of approximately HK\$44,650,000 was disposed of as a result of the disposal of a subsidiary.

The directors considered that there was no material change in the market values of the investment properties since 31st March, 2004.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, property, plant and equipment with an aggregate net book value of approximately HK\$3,963,000 was disposed of for a consideration of approximately HK\$5,380,000 and resulting in a gain on disposal of approximately HK\$1,417,000.

11. MOVEMENTS IN INVESTMENTS IN SECURITIES

During the period, the Group acquired other investments at consideration of approximately HK\$28,952,000 and disposed of other investments with the carrying value of approximately HK\$39,878,000.

In addition, an unrealized holding loss on other investments of approximately HK\$8,293,000 has been charged to the condensed consolidated income statement during the period. The directors reviewed the carrying amount of investment securities with reference to the market value of the assets held by the investee and identified an impairment loss of approximately HK\$6,159,000 which was charged to the condensed consolidated income statement.

12. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers a credit period normally ranging from 30 days to 90 days. The aged analysis of the trade debtors at reporting date is as follows:

	30th September, 2004 HK\$'000	31st March, 2004 HK\$'000
0-30 days	<u>—</u>	<u>144</u>
	—	144
Other receivables	<u>3,043</u>	<u>16,641</u>
	<u>3,043</u>	<u>16,785</u>

13. BANK BORROWINGS

During the period, the Group obtained new bank loans of approximately HK\$145,000,000. The bank loans bear interest at prevailing market rates and repayable in instalments over a period of 10 years.

14. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 31st March, 2004	18,000,000,000	180,000
Share Consolidation (<i>Note</i>)	<u>(13,500,000,000)</u>	<u>—</u>
Ordinary shares of HK\$0.04 each at 30th September, 2004	<u>4,500,000,000</u>	<u>180,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 31st March, 2004	1,533,791,800	15,338
Share Consolidation (<i>Note</i>)	<u>(1,150,343,850)</u>	<u>—</u>
Ordinary shares of HK\$0.04 each at 30th September, 2004	<u>383,447,950</u>	<u>15,338</u>

Note:

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 30th August, 2004, every four ordinary shares of HK\$0.01 each in the issued and unissued share capital were consolidated into one ordinary share of HK\$0.04 each. The nominal value of the issued and unissued shares after the share consolidation were increased from HK\$0.01 to HK\$0.04 each. Details of these were set out in the Company's circular dated 30th July, 2004.

15. CONTINGENT LIABILITIES

	30th September, 2004 HK\$'000	31st March, 2004 HK\$'000
Corporate guarantee given by the Group for banking facilities granted to an associate	<u>—</u>	<u>101,000</u>

16. PLEDGE OF ASSETS

As 30th September 2004, the following assets were pledged to secure banking facilities granted to the Group:

- (a) Investment properties with a carrying value of approximately HK\$670,704,000 (31st March, 2004: HK\$482,650,000).
- (b) Bank deposit of approximately HK\$5,219,000 (31st March, 2004: HK\$5,219,000).

The Group also executed the assignment of rental income of investment properties with banks to secure the banking facilities granted to the Group.

17. CAPITAL COMMITMENTS

	30th September, 2004 HK\$'000	31st March, 2004 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>7,825</u>	<u>10,430</u>

18. DISPOSAL OF SUBSIDIARIES

During the period ended 30th September, 2004, the Group disposed of its subsidiaries for an aggregate consideration of approximately HK\$139,253,000. Details of the disposal are summarised as follows:

	Six months ended	
	30th September,	2003
	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of	105,550	—
Release of investment property revaluation reserve upon disposal	(13,525)	—
	92,025	—
Gain on disposal of subsidiaries	47,228	—
Consideration	139,253	—
Satisfied by:		
Cash	139,253	—
Net cash inflow arising on disposal:		
Cash consideration received	139,253	—
Bank balances and cash disposed of	(80)	—
	139,173	—

The subsidiaries disposed of did not make any significant contribution to the results and cash flows of the Group during the current period.



INDEPENDENT REVIEW REPORT

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CAPITAL STRATEGIC INVESTMENT LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 16.

Responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the relevant provisions thereof. 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 Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. 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 September, 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16th December, 2004



INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2004. (2003: Nil)


REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$159.4 million for the six months ended 30th September, 2004, representing a decrease of 33% from approximately HK\$238 million for the corresponding period in the last year. The decrease of revenue generated from securities trading by approximately HK\$191.1 million was partly offset by the increase in revenue generated from property investment by approximately HK\$113.7 million. The Group recorded a net profit of approximately HK\$42.2 million for the six months ended 30th September, 2004 compared to a net profit of approximately HK\$16.5 million in the last period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquid position which included highly liquid investment in securities of approximately HK\$88 million and bank balances and cash of approximately HK\$189.3 million. The Group generally financed its operations through its internal resources and bank facilities provided by its principal bankers.

The Group's short-term bank borrowing has been decreased from approximately HK\$47.6 million as at 31st March, 2004 to approximately HK\$24.6 million as at 30th September, 2004, and long-term bank borrowing has been increased from approximately HK\$131.5 million as at 31st March, 2004 to approximately HK\$243.3 million as at 30th September, 2004. All the bank borrowing were utilized in financing the Group's investment properties in generating recurring rental income. As a result, the Group's total bank borrowing has been increased from approximately HK\$179.1 million as at 31st March, 2004 to approximately HK\$267.9 million as at 30th September, 2004, and the total debt-to-equity ratio was increased to 38.5% (At 31st March, 2004: 27%). All bank borrowings were denominated in HK dollars and were on a floating rate basis at either bank prime rate lending rates or short-term



inter-bank offer rates. The maturity profile spread over a period of 10 years with approximately HK\$24.6 million repayable within one year, HK\$88 million repayable between one to five years, and HK\$155.3 million over five years.

The majority of the Group's assets and liabilities were denominated in Hong Kong dollars and US dollars. As such, the fluctuation of foreign currencies did not have a significant impact on the performance, result and operation of the Group.

BUSINESS REVIEW

The period under review has seen the strongest improvement in the local economy, business operating environment and market sentiment in recent years. In focusing on the Group's primary activity of making strategic investments, the Group has continued to actively seek out investment opportunities afforded by such improvement.

In particular, amongst other investment opportunities, the local property market had shown conclusive signs of recovery from recent years low, and in towards capturing investment opportunities in such market, as well as in broadening the Group's recurring income and revenue base, the Group has been actively making property investments in addition to those made since the fourth quarter of 2003. All of these property investments were prime commercial units, and in realizing the capital gains resulting from the appreciation in value of these investment properties, most of these properties have either been successfully disposed of or agreed to be disposed of by the Group during the period under review, and thereby contributing approximately HK\$104 million towards the Group's turnover for the period under review, with a resulting net profit of approximately HK\$12.8 million.



In addition to the abovementioned investment properties, following the approval by the shareholders of the Company obtained on 14th July, 2004, the Group has successfully completed its purchase of a 19-storey prime commercial building known as Fullcorp Centre located at Nos. 53-55 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong for HK\$223 million, with a view to both capturing capital gains as well as to further broaden the Group's recurring income and revenue base.

As for another of the Group's strategic investment focus, namely in various financial instruments such as debt securities with high credit ratings and other convertible debt securities in various locally listed companies, these investments have continued to result in significant contribution towards the Group's revenue and profit from operations. Nevertheless, following the third quarter of 2003 and in light of the apparent signs of the possible commencement in the cycle of interest rate increases, the Group has since reduced its investments in financial instruments, resulting in a decrease in the Group's turnover generated from these investments.

With a view to stream-lining the Group's operations, re-allocating resources to better enhance investment returns, and strengthening the core businesses of the Group, the Group's entire investment in Capital Prosper Limited (HKSE Code: 1003) was successfully disposed of for HK\$61 million in November 2003 as previously announced. Furthermore, the Group's long-term investment in an associate company having a sizeable interest in a potential local hotel project was also successfully disposed of at a gain during the period under review.

Thus, going forward, with a strengthened recurring income base and solid internal financial resources, the Group intends to continue to make good use of its strengths to capture those opportunities in making strategic investment as and when they arise, and to expand the Group's income and revenue base as considered appropriate. In particular, in view of the Group's belief in the long-term prospect of the real estate market, both locally and throughout Asia, the Group will continue to seek out opportunities in this sector, particularly with the view to capture capital growth potential as well as a stable return on investment.

EMPLOYEE

The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. In addition to salaries and sales commission, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee. Share options may be granted as a recognition of their contribution and an incentive to motivate them.

DIRECTORS' INTERESTS IN SHARES OR SHARE OPTIONS

Directors' interests in shares

Long position

Name	Capacity	Number of shares	Approximate Shareholding
Chung Cho Yee, Mico	Beneficial owner and Interest of controlled corporation	113,007,250 (<i>Note 1</i>)	29.47%
		112,587,250 (<i>Note 2</i>)	29.36%

Note:

1. Being the aggregate of personal interest of 420,000 shares held by Mr. Chung Cho Yee, Mico ("Mr. Chung") and the corporate interest of 112,587,250 shares held by Earnest Equity Limited ("Earnest Equity"). Mr. Chung and Earnest Equity are substantial shareholders of the Company.
2. Earnest Equity, the entire issued share capital of which is held by Digisino Assets Limited ("Digisino") as trustee of a discretionary trust founded by Mr. Chung who together with his spouse and children are the current discretionary beneficiaries. Further, the entire issued share capital of Digisino is held by Mr. Chung and that both Digisino and Earnest Equity are corporations controlled by him.


Share option schemes and directors' rights to acquire shares or debentures

The following table discloses movements in the Company's share options held by a director during the period:

Director	Option scheme type	Exercise price HK\$	Outstanding at 1st April 2004	Adjustment for the Share Consolidation	Granted during the period	Exercised during the period	Outstanding at 30th September, 2004
Ma Wai Man, Catherine	2001 (Note 1)	0.168	31,500,000	(31,500,000)	—	—	—
		0.672	—	7,875,000	—	—	7,875,000
	2002 (Note 2)	0.140	12,500,000	(12,500,000)	—	—	—
		0.560	—	3,125,000	—	—	3,125,000
Total			<u>44,000,000</u>	<u>(33,000,000)</u>	<u>—</u>	<u>—</u>	<u>11,000,000</u>

Notes:

- There is a limit on the number of share options under the 2001 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 30th August, 2001 (until 29th August, 2005), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the executive chairman of the Company to the exercise of share options exceeding such limit.
- There is a limit on the number of share options under the 2002 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 23rd September, 2002 (until 22nd September, 2006), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the executive chairman of the Company to the exercise of share options exceeding such limit.



Save as disclosed above, as at 30th September, 2004, none of the Company's directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of the Securities and Futures Ordinance (SFO) as recorded in the register kept by the Company under Section 352 of the Securities Future Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDER

Save as disclosed in Directors' interests in shares above, the Company did not aware of any shareholder had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of SFO.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th September, 2004.

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 September 2004, in compliance with the Code of Best Practice stipulated in Appendix 14 to the Listing Rules, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with Bye-law 99(A), 102(B) and 182 of the Company's Bye-laws.



PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of shares of the Company by the Company or its subsidiaries during the six months ended 30th September, 2004.

By order of the Board
Choo Yeow Ming
Executive Chairman

Hong Kong, 16th December, 2004