

CSI

Capital Strategic Investment Limited

Capital Strategic Investment Limited

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

The directors of Capital Strategic Investment Limited (the “Company”) are pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2002 together with comparative figures for the same period in 2001 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2002

	<i>Notes</i>	Six months ended 30th September, 2002 <i>HK\$'000</i> <i>(unaudited)</i>	2001 <i>HK\$'000</i> <i>(unaudited)</i>
Turnover	2	173,127	21,323
Cost of sales		(153,733)	(19,352)
Gross profit		19,394	1,971
Other operating income	3	4,366	9,150
Administrative expenses		(13,340)	(14,230)
Other expenses	4	(32,349)	(14,271)
Loss from operations	5	(21,929)	(17,380)
Finance costs		(333)	(355)
Share of results of associates		—	(8,801)
Net gain on disposal of interests in subsidiaries	6	2,150	7,098
Loss on disposal/dilution of interests in associates		—	(10,654)
Gain on disposal of investment securities		47,746	—
Profit (loss) before taxation		27,634	(30,092)
Taxation	7	—	(360)
Profit (loss) before minority interests		27,634	(30,452)
Minority interests		(95)	387
Net profit (loss) for the period		27,539	(30,065)
Earnings (loss) per share	8		
— Basic		2.1cents	(3.6)cents
— Diluted		2.1cents	(3.6)cents

Notes:

1. 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 annual financial statements for the year ended 31st March, 2002, 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, which has resulted in the adoption of the following new and revised accounting policies.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. SEGMENTAL INFORMATION

Business segments

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

	Property holding and estate agency HK\$'000	Securities trading HK\$'000 (Note c)	Consolidation HK\$'000
For the six months ended 30th September, 2002			
TURNOVER			
External sales	<u>1,682</u>	<u>171,445</u>	<u>173,127</u>
RESULT			
Segment result	<u>664</u>	<u>(9,567)</u>	(8,903)
Unallocated corporate expenses			(974)
Impairment loss recognized in respect of investment securities			(7,678)
Impairment loss recognized in respect of goodwill			(8,491)
Interest income			3,839
Dividend income			<u>278</u>
Loss from operations			<u>(21,929)</u>

	Property holding and estate agency HK\$'000	Discontinued Online and offline advertising services HK\$'000 (Note b)	Computer and related products HK\$'000 (Note a)	Consolidation HK\$'000
For the six months ended 30th September, 2001				
TURNOVER				
External sales	<u>553</u>	<u>247</u>	<u>20,523</u>	<u>21,323</u>
RESULT				
Segment result	<u>(726)</u>	<u>(3,823)</u>	<u>1,075</u>	<u>(3,474)</u>
Unallocated corporate expenses				(5,402)
Loss on disposal of investment securities				(6,604)
Impairment loss recognized in respect of investment securities				(6,157)
Interest income				4,065
Dividend income				<u>192</u>
Loss from operations				<u>(17,380)</u>

Notes:

- (a) In July 2001, the Group disposed of its entire interest in Denco International Limited, Ocean Office Automation Limited and other subsidiaries, which were mainly engaged in the manufacturing and marketing of computers and related products. Upon the completion of the disposal, the business segment of manufacturing and marketing of computers and related products was regarded as discontinued operation during the period ended 30th September, 2001.
- (b) In October 2001, the Group disposed of its entire interest in Admomentum Limited, which is mainly engaged in the provision of online and offline advertising services. Upon the completion of the disposal, the business segment of provision of online and offline advertising was regarded as discontinued operation during the year ended 31st March, 2002.
- (c) In November 2001, the Group commenced its securities trading business and accordingly a business segment of securities trading was regarded as a new operation for the year ended 31st March, 2002.

3. OTHER OPERATING INCOME

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Interest income	3,839	4,065
Dividend income from listed investments	278	192
Others	249	4,893
	<u>4,366</u>	<u>9,150</u>

4. OTHER EXPENSES

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Unrealized holding loss on other investments	15,993	—
Impairment loss recognized in respect of goodwill	8,491	—
Impairment loss recognized in respect of investment securities	7,678	6,157
Amortization of goodwill	187	1,012
Loss on disposal of investment securities	—	6,604
Loss on disposal of property, plant and equipment	—	393
Others	—	105
	<u>32,349</u>	<u>14,271</u>

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	477	778
Amortization of goodwill included in other expenses	187	1,012
Total depreciation and amortisation	<u>664</u>	<u>1,790</u>

6. NET GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Net gain on disposal of interests in subsidiaries	2,150	5,983
Add: Negative goodwill previously credited to reserve	—	1,195
Less: Exchange reserve realized	—	(80)
	<u>2,150</u>	<u>7,098</u>

7. TAXATION

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period	—	360
	<u>—</u>	<u>360</u>

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Earnings (loss) for the purpose of calculating basic and diluted earnings (loss) per share:		
Net profit (loss) for the period	<u>27,539</u>	<u>(30,065)</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share (in thousands)	1,283,792	835,589
Effect of dilutive potential ordinary shares (in thousands):		
Share options	<u>13,812</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings (loss) per share (in thousands)	<u>1,297,604</u>	<u>835,589</u>

The weighted average number of shares for the purpose of basic loss per share for the six months ended 30th September, 2001 has been adjusted for the effect of the Company's rights issue carried out on 4th October, 2001. Details of these are set out in the Company's circular dated 11th September, 2001.

The computation of diluted loss per share for the period ended 30th September, 2001 does not assume the exercise of the share options as the exercise of such would result in an decrease in loss per share.

CAPITAL STRATEGIC INVESTMENT LIMITED Interim Results (*continued*)

INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2002. (2001: Nil)

REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$173 million for the six months ended 30th September, 2002, representing an increase of 723% from approximately HK\$21 million for the corresponding period in the last year. The increase was primarily due to the opportunity increase in financial investments during the period.

The Group recorded a profit of approximately HK\$27.5 million for the six months ended 30th September, 2002 compared to a net loss of approximately HK\$30.1 million in last period. This was mainly attributable to the realization of the profit from the long-term strategic investments and property investment.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be healthy. At the period end, the cash balance of the Group decreased by 19.7% from approximately HK\$157 million in 2001 to approximately HK\$126 million in 2002, while the total bank borrowings of the Group decreased by 1.7% from approximately HK\$29.6 million in 2001 to approximately HK\$29.1 million in 2002 and the total debt-to-equity ratio reduced from 7.9% in 2001 to 7.6% in 2002.

The Group has little foreign exchange exposure and the Group's borrowings were all denominated in Hong Kong dollars.

CORPORATE REVIEW AND PROSPECT

Notwithstanding the continued difficult business operating environments throughout the six months under review, the Group has succeeded in maintaining the generation of returns from its investments, and a profit of approximately HK\$27.5 million was recorded, compared to a loss of approximately HK\$30.1 million for the corresponding period in the previous year.

As previously announced, in towards broadening of the Group's revenue base, the Group began last year to concentrate in making strategic investments in various financial instruments, comprising mostly of debt securities with high credit ratings and other convertible debt securities in various locally listed companies. For the six months period under review, these investments have contributed significantly towards the Group's revenue and profit from operations. And whilst the Group's investment strategy has defined short, medium and long-term horizons, gains in certain longer-term investments have nevertheless been timely realized in light of the ever-rapid changes in surrounding factors. As a result, substantial other operating income was also achieved for the period under review.

In focusing on one of the Group's primary activities, namely that of making strategic investments, the Group has, besides investments in financial instruments, also been actively seeking to capture investment opportunities afforded by China's entry into the W.T.O., and generally those opportunities arising during periods of economic turmoil. To this end, numerous potential investment projects, ranging from prime real estate, hotel and travel operators, natural gas distributors, to securities house and providers of investment related services, etc., were looked into during the past six months. Whilst most of these projects have fallen short of the Group's stringent requirements in terms of strategic values, outlook and aggressive return on investment, the Group has nevertheless successfully taken up a strategic stake in one of the largest local private distributor of mobile phones and related products. The Group will continue to seek out other suitable investment candidates, particularly those with synergistic values with other undertakings of the Group.

As for one of the Group's other operation, namely those carried on by Century 21 Hong Kong Limited and comprising principally that of franchising estate agency work, real estate project management and related undertakings, its businesses remained stable and with operating losses kept under control at a relatively minimal level, despite the local property market remaining depressed throughout the period under review.

Near the end of the last financial year, the Group has, as previously announced, acquired certain prime local properties, with the view to collect rental returns so as to further broaden the Group's income and revenue base. Notwithstanding the worsening of the property rental market, these prime properties of the Group remain fully let and continue to generate stable return on investment during the period under review. 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.

Following the completion of the reorganization of the share capital of the Company in August, whereby the par value of shares in the Company was reduced, the flexibility in future pricing of any new issue of shares in the Company has been greatly improved. Thus, going forward, with an improved ability to access equity financing, a strengthened 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 well they arise, and to expand the Group's income and revenue base as considered appropriate.

CONTINGENT LIABILITIES

At 30th September, 2002 (31st March, 2002: Nil), the Group had no material contingent liability.

PLEDGE OF ASSETS

At 30th September, 2002, a bank deposit of HK\$5,000,000 (31st March, 2002: HK\$5,000,000) and the investment properties with carrying value of HK\$58,500,000 (31st March, 2002: HK\$58,500,000) were pledged to secure the banking facilities granted to the Group.

REWARD FOR EMPLOYEES

The Group offers its employees competitive remuneration packages. During the period, share options were granted to various directors and employees on a performance related basis.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CODE OF BEST PRACTICE

Throughout the period, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited except that independent non-executive directors are not appointed for a specific term as they are subject to rotation at annual general meetings in accordance with Bye-law 99(A), 102(B) and 182 of the Company's Bye-laws.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A results announcement containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
Choo Yeow Ming
Executive Chairman

Hong Kong, 20th December, 2002

Please also refer to the published version of this announcement in The Standard.