

CSI

Capital Strategic Investment Limited

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(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

The directors of Capital Strategic Investment Limited (the “Company”) are pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months period ended 30th September, 2003 together with comparative figures for the same period in 2002 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2003

	Notes	Six months ended 30th September, 2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited) (as restated)
Turnover		238,124	259,101
Cost of sales		(203,526)	(215,632)
Gross profit		34,598	43,469
Other operating income	4	4,770	4,366
Administrative expenses		(6,915)	(13,340)
Other expenses	5	(5,000)	(8,678)
Profit from operations	6	27,453	25,817
Finance costs		(953)	(333)
Share of results of associates		(9,134)	—
Net gain on disposal of interests in subsidiaries		—	2,150
Profit before taxation		17,366	27,634
Taxation	7	(685)	—
Profit before minority interests		16,681	27,634
Minority interests		(159)	(95)
Net profit for the period		16,522	27,539
Earnings per share	8		
— Basic		1.1 cents	2.1 cents
— Diluted		N/A	2.1 cents

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

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 Society of 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, 2003, except for the adoption of Statement of Standard Accounting Practice 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing difference arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As at 1st April 2002, deficit have been reduced and deferred tax assets have been increased by HK\$5,036,000, which are the cumulative effect of the change in policy on the results for the periods prior to 2002. No effect of this change to income taxes in the six months ended 30th September 2002 (31st March 2003: Increased charge to income tax of HK\$2,927,000).

3. SEGMENTAL INFORMATION

By business segments

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

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

	Estate agency <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the period ended 30th September, 2002				
TURNOVER				
External Sales	<u>428</u>	<u>1,254</u>	<u>257,419</u>	<u>259,101</u>
RESULT				
Segment result	<u>236</u>	<u>428</u>	<u>30,501</u>	31,165
Unallocated corporate expenses				(974)
Impairment loss recognized in respect of goodwill of subsidiaries				(8,491)
Interest income				3,839
Dividend income				<u>278</u>
Profit from operations				<u>25,817</u>

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

4. OTHER OPERATING INCOME

	Six months ended 30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	2,728	3,839
Dividend income	952	278
Gain on disposal of property held for development	530	—
Others	560	249
	<u>4,770</u>	<u>4,366</u>

5. OTHER EXPENSES

	Six months ended 30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortization of goodwill	—	187
Impairment loss recognized in respect of goodwill	—	8,491
Impairment loss of investment in securities	3,000	—
Revaluation decrease of investment properties	2,000	—
	<u>5,000</u>	<u>8,678</u>

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended 30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	<u>1,068</u>	<u>477</u>

7. TAXATION

	Six months ended 30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	<u>(685)</u>	<u>—</u>

Hong Kong Profits Tax was calculated at 17.5% (30th September 2002: 16%) on the estimated assessable profit for the period.

8. EARNINGS PER SHARE

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

	Six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share:		
Net profit for the period	<u>16,522</u>	<u>27,539</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	<u>1,533,792</u>	1,283,792
Effect of dilutive potential ordinary shares (in thousands):		
Share options	<u>N/A</u>	<u>13,812</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share (in thousands)	<u>N/A</u>	<u>1,297,604</u>

No diluted earnings per share for the period ended 30th September, 2003 has been 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. POST BALANCE SHEET EVENTS

- (a) Capital Strategic Investment (B.V.I.) Limited, a wholly-owned subsidiary of the Company, entered into an agreement to dispose of its wholly-owned subsidiary, Charm Management Limited ("Charm") to an independent third party, at a consideration of HK\$61,000,000. The sole asset of Charm is holding of 201,000,000 shares of Capital Prosper Limited ("Capital Prosper"), representing approximately 28.22% of the issued share capital of Capital Prosper. Capital Prosper is a company whose shares are listed on The Stock Exchange of Hong Kong Limited. Details of this are set out in the announcement dated 11th November, 2003 issued jointly by the Company and Capital Prosper. The gain on disposal of Charm was approximately HK\$5,900,000 and accordingly, the net tangible asset value of the Group was adjusted by approximately HK\$48.8 million to HK\$486.5 million from HK\$437.7 million as at 30th September 2003.
- (b) The Group entered into agreements to dispose of the investment properties with carrying value of HK\$3,900,000 for a total consideration of approximately HK\$2,451,000. The loss on disposal of these investment properties was approximately HK\$1,449,000.
- (c) On 5th September, 2003, On Glory Holdings Limited, a wholly-owned subsidiary of the Company entered into agreement with High Cheong Developments Limited ("High Cheong"), a wholly-owned subsidiary of Capital Estate Limited ("Capital Estate") to dispose of its entire 80% interest in the issued share capital of Consecutive Profits Limited ("CPL") to High Cheong for a consideration of HK\$6,000,000, subject to adjustment. The sole asset of CPL is 82.5% interest in Century 21 Hong Kong Limited. Capital Estate is an associate of the Group and whose shares are listed on The Stock Exchange of Hong Kong Limited. Mr Ng Kai Man, Luke, an executive director and the Deputy Chairman of Capital Estate, is also a substantial shareholder of CPL. The transaction constituted a connected transaction of Capital Estate under the Listing Rules.

INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2003. (2002: Nil)

REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$238.1 million for the six months ended 30th September, 2003, representing a decrease of 8.1% from approximately HK\$259.1 million for the corresponding period in the last year. The decrease of revenue generated from securities trading by approximately HK\$25.9 million was partly offset by the increase in revenue generated from property investment by approximately HK\$4.9 million. The Group recorded a net profit of approximately HK\$16.5 million for the six months ended 30th September, 2003 compared to a net profit of approximately HK\$27.5 million in last period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquid position which included highly liquid investment in securities of approximately HK\$134.6 million and cash of approximately HK\$113.9 million. The investment in securities mainly comprised of debt security instruments with high credit ratings. 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 increased from approximately HK\$5.2 million as at 31st March, 2003 to approximately HK\$7.4 million as at 30th September, 2003, and long-term bank borrowing has been increased from approximately HK\$25.9 million as at 31st March, 2003 to approximately HK\$135.4 million as at 30th September, 2003. All the bank borrowings were utilized in financing the Group's investment properties in generating recurring rental income. As a result, the Group's total bank borrowings have been increased from approximately HK\$31.1 million as at 31st March, 2003 to approximately HK\$142.8 million as at 30th September, 2003, and the total debt-to-equity ratio was increased to 31.6% (At 31st March, 2003: 7.7%). All bank borrowings were denominated in HK dollars and were on a floating rate basis at either bank prime lending rates or short-term inter-bank offer rates. The maturity profile spread over a period of 10 years with approximately HK\$7.5 million repayable within one year, HK\$46.3 million repayable between one to five years, and HK\$89 million over five years.

The Group has little foreign exchange exposure as the Group's assets and liabilities were all denominated in Hong Kong dollars and US dollars.

BUSINESS REVIEW

The six months under review have seen some of the most difficult business operating environments in recent years. In addition to the adverse effects on the global economy as a result of the war against Iraq, the devastating effects on the local economy caused by the outbreak of SARS were more than apparent. Nevertheless, the Group has successfully continued to generate healthy returns from its investments, and a net profit of approximately HK\$16.5 million was recorded.

The Group's focus 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, continued to result in significant contribution towards the Group's revenue and profit from operations. Moreover, a significant portion of the Group's net profit for the period under review was mainly attributable to the returns generated from these investments.

As for the making of other strategic investments, besides that of financial instruments, the Group has been continuing to seek 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, several potential investment projects, primarily in the prime real estate sector, were looked into during the period under review, and as previously announced, the Group has successfully completed its acquisition of a prime 23-storey commercial building at No. 88 Gloucester Road, Hong Kong (together with certain car parking spaces) in July 2003. In line with the Group's strategy, rental returns generated as a result of this acquisition is expected to further broaden the Group's recurring income and revenue base.

In relation to the Group's other prime residential property investments, notwithstanding the adverse impact of SARS on the property rental market in general, these prime properties of the Group remained fully let and continued to generate stable return on investment during the period under review. Following the control of the outbreak of SARS, the local property rental market appeared to have stabilized and showed cautious signs of improvement, and 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.

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 as a result of SARS throughout the period under review. Following the end of the period under review, the Group has, as previously announced, conditionally agreed to dispose of its interests in Century 21 Hong Kong Limited to the Group's associated company, Capital Estate Limited (HKSE Code: 193), with a view to streamline the Group's own operation as well as to strengthen the core businesses of, and thus to enhance the value of the Group's investment in, Capital Estate Limited.

Following the end of the period under review, and in capturing the opportunities afforded by the improved sentiment in the regional local equity markets, the Group has successfully disposed and realized its entire investment in Capital Prosper Limited (HKSE Code: 1003) for HK\$61 million as previously announced. 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.

CONTINGENT LIABILITIES

As 30th September, 2003, (31st March, 2003: Nil) the Group had no material contingent liability.

PLEDGE OF ASSETS

At 30th September 2003, the following assets were pledged to secure general banking facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$261,013,445 (31st March, 2003: HK\$56,500,000).
- (b) Bank deposit of approximately HK\$5,204,000 (31st March, 2003: HK\$5,178,000).

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.

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, 2003.

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 2003, 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 year.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A results announcement containing the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules 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, 18th December, 2003

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