

Growth...



Interim Report 2007



Capital Strategic
Investment Limited

Corporate Information

Board of Directors

Non-Executive Director:

Chung Cho Yee, Mico
(*Non-Executive Chairman*)

Executive Directors:

Hubert Chak
Kan Sze Man (*Company Secretary*)
Chow Hou Man (*Qualified Accountant*)

Independent Non-Executive Directors:

Lam Lee G.
Wong Sin Just
Cheng Yuk Wo

Audit Committee

Lam Lee G.
Wong Sin Just
Cheng Yuk Wo

Remuneration Committee

Chung Cho Yee, Mico
Lam Lee G.
Cheng Yuk Wo

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
The Bank of East Asia Limited
Industrial and Commercial Bank of China (Asia) Limited
Bank of China (Hong Kong) Limited
Dah Sing Bank, Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Head Office and Principal Place of Business

3203
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Shanghai Office

Suites 901B-902A
9/F., CITIC Square
1168, Nanjing Road West
Shanghai, 200041, China

Auditors

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway
Hong Kong

Principal Registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong Branch Share Registrars

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Stock Code

497

Company Website

www.csigroup.hk

The board of directors (the “Board”) of Capital Strategic Investment Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September, 2007. The consolidated interim financial statements of the Group have not been audited, but have been reviewed by the Company’s auditors, Deloitte Touche Tohmatsu and the Company’s Audit Committee.

Condensed Consolidated Income Statement

For the six months ended 30 September, 2007

		Six months ended 30 September,	
NOTES		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Sales of properties and rental income		57,493	41,183
Cost of sales		(10,379)	(22,247)
Gross profit		47,114	18,936
Net increase in fair value of investments held for trading		9,210	33,574
Gain on disposal of prepaid lease payments		—	90,320
Other income		37,691	16,041
Administrative expenses		(41,419)	(19,958)
Finance costs	4	(67,167)	(15,545)
Increase in fair value of investment properties		63,137	—
Share of results of jointly-controlled entities		87,993	(291)
Share of results of associates		7,009	—
Gain on disposal/partial disposal of interest in subsidiaries	21	81,491	—
Profit before taxation		225,059	123,077
Taxation	5	(16,095)	(13,852)
Profit for the period	6	208,964	109,225

Condensed Consolidated Income Statement *(Continued)*

For the six months ended 30 September, 2007

		Six months ended 30 September,	
NOTES		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Attributable to:			
Equity holders of the parent		217,438	107,256
Minority interests		(8,474)	1,969
		208,964	109,225
Dividends paid	7	39,734	15,290
Earnings per share			
— Basic	8	4.4 cents	2.8 cents
— Diluted		3.9 cents	2.6 cents

Condensed Consolidated Balance Sheet

At 30 September, 2007

	NOTES	30 September, 2007 HK\$'000 (unaudited)	31 March, 2007 HK\$'000 (audited)
Non-Current Assets			
Investment properties	9	36,000	736,000
Property, plant and equipment	10	63,807	10,131
Prepaid lease payments		14,667	14,857
Available-for-sale investments		7,786	7,786
Club debentures		6,860	6,860
Interests in jointly-controlled entities		13,011	13,268
Interests in associates		8,252	7,868
Amount due from an associate	11	33,653	34,120
Amount due from a jointly-controlled entity	12	40,997	—
Deferred tax asset	13	1,467	1,467
		226,500	832,357
Current Assets			
Trade and other receivables	14	26,921	15,198
Prepaid lease payments		381	381
Deposit paid for acquisition of properties held for sales		130,659	185,256
Investments held for trading		83,848	118,797
Financial assets at fair value through profit or loss	15	11,682	—
Properties held for sale	17	2,968,565	1,789,030
Amounts due from jointly-controlled entities	12	13,084	44,917
Amount due from an associate	11	—	5,023
Taxation recoverable		669	1,376
Pledged bank deposits		567,456	272,396
Bank balances and cash		687,271	336,093
		4,490,536	2,768,467

Condensed Consolidated Balance Sheet (Continued)

At 30 September, 2007

	NOTES	30 September, 2007 HK\$'000 (unaudited)	31 March, 2007 HK\$'000 (audited)
Current Liabilities			
Trade and other payables		61,232	39,566
Convertible notes — due within one year	16	2,332	1,596
Taxation payable		23,806	22,286
Amount due to an associate	11	4,000	—
Amounts due to minority shareholders	18	81,711	7,604
Bank borrowings — due within one year	19	69,727	290,280
		242,808	361,332
Net Current Assets			
		4,247,728	2,407,135
		4,474,228	3,239,492
Capital and Reserves			
Share capital	20	39,592	39,413
Reserves		2,291,396	2,062,609
Equity attributable to equity holders of the parent		2,330,988	2,102,022
Minority interests		37,594	—
Total Equity		2,368,582	2,102,022
Non-Current Liabilities			
Bank borrowings — due after one year	19	1,645,205	928,118
Convertible notes — due after one year	16	458,124	119,606
Deferred tax liabilities	13	2,317	89,746
		2,105,646	1,137,470
		4,474,228	3,239,492

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September, 2007

	Attributable to equity holders of the parents										
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Convertible note equity reserve HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interest HK\$'000	Total equity HK\$'000
At 1 April, 2007	39,413	836,213	163	1,910	18,398	276,058	–	929,867	2,102,022	–	2,102,022
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	3,776	–	3,776	2,517	6,293
Share of changes in equity of an associate	–	–	–	(356)	–	–	–	–	(356)	–	(356)
Income and expenses recognised directly in equity	–	–	–	(356)	–	–	3,776	–	3,420	2,517	5,937
Profit for the period	–	–	–	–	–	–	–	217,438	217,438	(8,474)	208,964
Total recognised income and expenses	–	–	–	(356)	–	–	3,776	217,438	220,858	(5,957)	214,901
Recognition of equity components of convertible notes	–	–	–	–	49,252	–	–	–	49,252	–	49,252
Exercise of share options	320	5,056	–	–	–	–	–	–	5,376	–	5,376
Shares repurchased and cancelled	(141)	–	141	–	–	–	–	(6,762)	(6,762)	–	(6,762)
Expenses related to shares repurchased and cancelled	–	–	–	–	–	–	–	(24)	(24)	–	(24)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	43,551	43,551
Dividends paid	–	–	–	–	–	–	–	(39,734)	(39,734)	–	(39,734)
At 30 September, 2007	39,592	841,269	304	1,554	67,650	276,058	3,776	1,100,785	2,330,988	37,594	2,368,582
At 1 April, 2006	23,391	237,950	–	–	–	276,058	–	673,689	1,211,088	1,056	1,212,144
Profit for the period and total recognised income	–	–	–	–	–	–	–	107,256	107,256	1,989	109,225
Issue of shares	12,540	485,925	–	–	–	–	–	–	498,465	–	498,465
Expenses related to issue of shares	–	(12,360)	–	–	–	–	–	–	(12,360)	–	(12,360)
Recognition of equity components of convertible notes	–	–	–	–	18,398	–	–	–	18,398	–	18,398
Exercise of share options	45	603	–	–	–	–	–	–	648	–	648
Dividends paid	–	–	–	–	–	–	–	(15,290)	(15,290)	(3,025)	(18,315)
	12,585	474,168	–	–	18,398	–	–	(15,290)	488,861	(3,025)	486,836
At 30 September, 2006	35,976	712,118	–	–	18,398	276,058	–	765,655	1,808,205	–	1,808,205

The capital reserve represents the Group's share of the deemed capital contribution arising from interest free amounts granted to the associate by its shareholders.

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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September, 2007

		Six months ended 30 September,	
NOTES		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net cash used in operating activities:			
Increase in properties held for sales		(726,795)	(1,139)
Cash inflows (outflows) from other operating activities		122,340	(1,151,599)
		(604,455)	(1,152,738)
Net cash from investing activities:			
Dividend received from a jointly-controlled entity		88,250	—
Proceeds from disposal of property, plant and equipment		844	1,760
Proceeds from disposal of prepaid lease payments		—	330,000
Proceeds from disposal of investment properties		—	42,300
Proceeds from disposal/partial disposal of subsidiaries		822,139	—
Expenditure incurred for investment properties		(26,863)	—
Purchase of investments properties		—	(163,000)
Decrease in amount due from an associate		(1,080)	(43,773)
Deposit paid for acquisition of a jointly-controlled entity		(40,997)	—
Purchase of properties, plant and equipment		(56,314)	(1,570)
Increase in pledged bank deposits		(295,060)	—
Acquisition of subsidiaries		23,516	—
Cash inflows from other investing activities		21,686	25,076
		536,121	190,793

Condensed Consolidated Cash Flow Statement *(Continued)*

For the six months ended 30 September, 2007

	Six months ended 30 September,	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net cash from financing activities:		
Proceeds from issue of shares and exercise of share options, net of issue costs	5,376	486,753
Repurchase of shares	(6,786)	—
Repayment of borrowings	(320,353)	(826,379)
Dividends paid	(39,734)	(18,315)
New borrowings raised	386,887	1,410,250
Proceeds from issue of convertible notes, net of issue costs	380,640	133,000
Cash inflows from other financing activities	7,189	2,702
	413,219	1,188,011
Net increase in cash and cash equivalents	344,885	226,066
Cash and cash equivalents at beginning of the period	336,093	215,218
Effect of foreign exchange rate changes	6,293	—
Cash and cash equivalents at end of the period	687,271	441,284
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	687,271	441,284

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 September, 2007

1. Basis of Preparation

The condensed consolidated 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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March, 2007.

In the current interim period, the Group has applied, for the first time, the new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 April, 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) — INT 12	Service Concession Arrangements ²
HK(IFRIC) — INT 13	Customer Loyalty Programmes ³
HK(IFRIC) — INT 14	HKAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1 January, 2009

² Effective for annual periods beginning on or after 1 January, 2008

³ Effective for annual periods beginning on or after 1 July, 2008

The directors of the Company anticipate that the application of these new or revised standards or interpretations will have no material impact on the results and financial position of the Group.

3. Segment Information

Business segments

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

	Property rental HK\$'000	Property trading HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
For the six months ended 30 September, 2007				
GROSS PROCEEDS	16,202	41,291	160,982	218,475
REVENUE				
Rental income	16,202	41,291	—	57,493
Net increase in fair value of investments held for trading	—	—	9,210	9,210
	16,202	41,291	9,210	66,703
RESULT				
Segment result	68,202	30,788	3,198	102,188
Unallocated corporate expenses				(325)
Interest income				13,870
Finance cost				(67,167)
Share of results of jointly-controlled entities				87,993
Share of results of associates				7,009
Gain on disposal/partial disposal of interest in subsidiaries				81,491
Profit before taxation				225,059
Taxation				(16,095)
Profit for the period				208,964

3. Segment Information (Continued)

Business segments (Continued)

	Property rental HK\$'000	Property trading HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
For the six months ended 30 September, 2006				
GROSS PROCEEDS	14,925	26,258	251,677	292,860
REVENUE				
Income from sale of properties and rental income	14,925	26,258	—	41,183
Net increase in fair value of investments held for trading	—	—	33,574	33,574
	14,925	26,258	33,574	74,757
RESULT				
Segment result	5,440	4,844	28,548	38,832
Gain on disposal of prepaid lease payments				90,320
Unallocated corporate expenses				(4,248)
Interest income				14,009
Finance cost				(15,545)
Share of results of jointly-controlled entities				(291)
Profit before taxation				123,077
Taxation				(13,852)
Profit for the period				109,225

4. Finance Costs

	Six months ended 30 September,	
	2007 HK\$'000	2006 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	6,293	1,192
Bank borrowings with installments repayable over five years	51,383	10,770
Convertible notes	9,491	3,583
	67,167	15,545

5. Taxation

	Six months ended 30 September,	
	2007 HK\$'000	2006 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	5,046	16,190
Deferred tax (Note 13)	11,049	(2,338)
Attributable to the Company and its subsidiaries	16,095	13,852

Hong Kong Profits Tax was provided at the rate of 17.5% on the estimated assessable profit of the Company and its subsidiaries for both periods.

6. Profit for the Period

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 September,	
	2007 HK\$'000	2006 HK\$'000
Depreciation of property, plant and equipment	1,803	1,910
Release of prepaid lease payments	190	236
Allowance on properties held for sale (included in cost of sales)	—	1,700
Impairment loss on investments held for trading (included in net increase in fair value of investments held for trading)	16,172	—
Interest income	(13,870)	(14,009)

7. Dividends Paid

	Six months ended 30 September,	
	2007 HK\$'000	2006 HK\$'000
Final dividend of HK0.8 cents and HK1.7 cents per share recognised as distribution and paid during the respective period	39,734	15,290

8. Earnings per Share

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

	Six months ended 30 September,	
	2007 HK\$'000	2006 HK\$'000
Earnings for the purpose of calculating basic earnings per share – Profit for the period attributable to equity holders of the parent	217,438	107,256
Effect of dilutive potential ordinary shares: Interest on convertible notes	9,491	3,583
Earnings for the purpose of calculating diluted earnings per share	226,929	110,839
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	4,956,246,178	3,868,031,966
Effect of dilutive potential ordinary shares: Share options	153,019,408	153,026,460
Convertible notes	696,003,256	265,703,040
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	5,805,268,842	4,286,761,466

The weighted average number of shares for both periods for the purpose of calculating the basic and diluted earnings per share have been adjusted to reflect the effect of share sub-division as set out in note 20(i).

9. Movements in Investment Properties

During the period, the Group disposed of investment properties with a carrying amount of approximately HK\$790,000,000 (six months ended 30 September, 2006: HK\$42,000,000) through disposal of subsidiaries as set out in note 21(a) (six months ended 30 September, 2006: for a consideration of HK\$42,300,000).

During the six months ended 30 September, 2006, the Group acquired an investment property at a consideration of approximately HK\$163,000,000.

The Group's investment properties were fair valued by the directors as at 30 September, 2007. The increase in fair value of the investment properties of HK\$63,137,000 has been recognised directly in the condensed consolidated income statement.

10. Movements in Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment at cost of approximately HK\$56,314,000.

11. Amounts due from (to) Associate(s)

The amounts due from (to) associates were unsecured, non-interest bearing and repayable on demand.

In the opinion of the directors, the amount due from an associate of HK\$33,653,000 (31 March, 2007: HK\$34,120,000) will not be repayable within one year. Accordingly, the amount was classified as non-current. In addition, the amount included a loss of HK\$3,648,000 (31 March, 2007: HK\$2,101,000) allocated in excess of cost of investment.

12. Amounts due from Jointly-Controlled Entities

	30 September, 2007 HK\$'000	31 March, 2007 HK\$'000
Amounts due from jointly-controlled entities;		
Non-current (note (i))	40,997	—
Current (note (ii))	13,084	44,917
	54,081	44,917

Notes:

- (i) During the period, the Group advanced HK\$40,997,000 to a jointly-controlled entity to enable it to acquire Bracewood Developments Limited, which indirectly holds the Novel Plaza located at No. 128 Nanjing West Road, Shanghai, the People's Republic of China.
- The amount was unsecured, non-interest bearing and repayable on demand.
- (ii) The amounts were unsecured, non-interest bearing and repayable on demand.

13. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised and movements during the current and prior accounting periods:

	Revaluation of investment properties	Accelerated tax depreciation	Subtotal	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March, 2007	85,928	5,227	91,155	(2,876)	88,279
Charge to income for the year	11,049	—	11,049	—	11,049
Disposal of subsidiaries	(96,977)	(1,501)	(98,478)	—	(98,478)
At 30 September, 2007	—	3,726	3,726	(2,876)	850

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 September, 2007	31 March, 2007
	HK\$'000	HK\$'000
Deferred tax asset	1,467	1,467
Deferred tax liabilities	(2,317)	(89,746)
	(850)	(88,279)

14. Trade and Other Receivables

Trade receivables represent mainly rental receivables from tenants of the Group's properties. The Group maintains a defined policy in respect of rent collection. For Hong Kong properties, first and second reminders are issued when rents are overdue for 7 and 30 days respectively, and legal actions will be taken when rentals are overdue for one and a half months. For China properties, reminders are issued when rents are overdue for 30 days, and legal actions will be taken when rents are overdue for two months. The aged analysis of the trade receivables at the reporting date is as follows:

	30 September, 2007	31 March, 2007
	HK\$'000	HK\$'000
0 - 30 days	2,522	3,984
Other receivables and prepayments	24,399	11,214
	26,921	15,198

15. Financial Assets at Fair Value Through Profit or Loss

During the period, the Group subscribed for equity linked structured notes with a principal amount of US\$1,500,000 (approximately HK\$11,700,000) issued by Lehman Brothers Treasury Co BV ("the Note"). The Group had designated these notes as financial assets at fair value through profit or loss.

16. Convertible Notes

Pursuant to the announcement dated 7 June, 2007 and the circular dated 22 June, 2007 (the "Circular"), on 7 June, 2007, the Company entered into seven subscription agreements of which five were with independent third parties, one was with Lehman Brothers Commercial Corporation Asia Limited ("Lehman") and one was with Centar Investments (Asia) Limited ("Centar"), whereby they agreed to subscribe for HK\$390,000,000 unsecured 2% convertible notes due 2012 (the "2012 Convertible Notes") issued by the Company with an aggregate principal amount of HK\$390,000,000.

Lehman was a substantial shareholder of one of the Company's non-wholly owned subsidiaries. As at the latest practicable date of the Circular, Lehman and Stark Investments (Hong Kong) Limited ("Stark Investments") held 464,200,000 and 511,060,000 ordinary shares of HK\$0.008 each in the share capital of the Company, representing approximately 9.35% and 10.29% of the total issued share capital of the Company, respectively. Centar is a fund managed by Stark Investments. Lehman and Centar subscribed for the 2012 Convertible Notes with principal amounts of HK\$78,000,000 and HK\$54,600,000, respectively.

The 2012 Convertible Notes bear interest at 2% per annum and will mature on 12 July, 2012. The holders of the 2012 Convertible Notes have the right to convert their 2012 Convertible Notes into shares of HK\$0.008 each of the Company at any time during the period from the 7th day after the date of the issue of the 2012 Convertible Notes ("Issue Date") up to and including the date which is 7 days prior to 12 July, 2012.

At anytime after 3 years from the Issue Date, the Company may redeem unexercised 2012 Convertible Notes at an amount equal to outstanding principal amount of the 2012 Convertible Notes plus a premium calculated to provide a yield of 5.5% per annum (inclusive of interest of 2% per annum) from the Issue Date to the date of redemption if the spot price was at least 140% of the conversion price of each convertible note for any 15 trading days out of the 20 consecutive trading days prior to the date of redemption notice.

Unless previously converted, purchased or redeemed, the Company will redeem the 2012 Convertible Notes on the maturity date at 119.38% of the principal amount of the 2012 Convertible Notes then outstanding.

Upon full conversion of the 2012 Convertible Notes at the initial conversion price of HK\$0.51 per share of HK\$0.008 each in the share capital of the Company, a total of 764,705,880 new shares would be issued by the Company.

16. Convertible Notes *(Continued)*

During the period ended 30 September, 2007, none of the 2012 Convertible Notes were converted.

The 2012 Convertible Notes contain two components, a liability component and equity component. The equity component is presented in equity under the heading of "convertible note equity reserve". The effective interest rate of the liability component of the 2012 Convertible Notes is 9.20% per annum.

The transaction costs of HK\$9,360,000 related to the issue of the convertible notes have been allocated to the two components in proportion to the allocation of the proceeds.

As at the date of issuance, the 2012 Convertible Notes contained:

	HK\$'000
Liability component	331,388
Equity component	49,252
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	380,640

As at 30 September, 2007, the liability components of Convertible Notes contained:

	HK\$'000
Non-current portion	458,124
Current portion	2,332
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	460,456

17. Movements in Properties Held for Sale

During the period, the Group acquired properties held for sale with a carrying value of HK\$1,179,535,000 (six months ended 30 September, 2006: HK\$1,138,440,000) including HK\$452,740,000 (six months ended 30 September, 2006: HK\$778,900,000) acquired through the acquisition of subsidiaries.

18. Amounts due to Minority Shareholders

The amount due to a minority shareholder of HK\$65,322,000 resulted from the disposal of a subsidiary as set out in note 21(b).

The amounts were unsecured, non-interest bearing and repayable on demand.

19. Bank Borrowings

During the period, the Group obtained new bank borrowings of approximately HK\$816,887,000 (six months ended 30 September, 2006: HK\$1,410,250,000) and repaid approximately HK\$320,353,000 (six months ended 30 September, 2006: HK\$826,379,000). The bank loans bear interest ranging from 4.2% to 10.8% (six months ended 30 September, 2006: 4.4% to 5.25%) per annum and are repayable ranging from 2007 to 2015. The proceeds were used to finance the acquisition of investment properties and properties held for sale.

20. Share Capital

	Number of shares	Amount HK\$'000
Authorised:		
Share of HK\$0.04 each at 31 March, 2007	4,500,000,000	180,000
Share subdivision (note (i))	18,000,000,000	—
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Share of HK\$0.008 each at 30 September, 2007	22,500,000,000	180,000
	<hr/>	
Issued and fully paid:		
Share of HK\$0.04 each at 1 April, 2007	985,338,700	39,413
Exercise of share options (note (ii))	8,000,000	320
Share subdivision (note (i))	3,973,354,800	—
Share repurchased and cancelled	(17,680,000)	(141)
	<hr/>	
Share of HK\$0.008 each at 30 September, 2007	4,949,013,500	39,592
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20. Share Capital (Continued)

Notes:

- (i) Pursuant to an announcement dated 20 April, 2007 and an ordinary resolution passed on 22 May, 2007, a share subdivision was approved with effect from 23 May, 2007 in which each of the existing issued and unissued shares of HK\$0.04 each in the share capital of the Company would be subdivided into five shares of HK\$0.008 each (the "Subdivided Shares"). As at 23 May, 2007, the authorised share capital of the Company was HK\$180,000,000 divided into 4,500,000,000 shares, of which 993,338,700 shares were issued and fully paid. On this basis, immediately after the share subdivision, the authorised share capital of the Company comprised 4,966,693,500 issued Subdivided Shares and 17,533,306,500 unissued Subdivided Shares of HK\$0.008 each.
- (ii) During the period, 8,000,000 shares of HK\$0.04 each of the Company were issued upon the exercise of 8,000,000 share options at an exercise price of HK\$0.672 per share. The shares issued during the period rank pari passu with the then existing shares in all respects.

During the period, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares HK\$0.008 each	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
September 2007	17,680,000	0.395	0.365	6,762

The above shares were cancelled upon repurchase.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

21. Disposal of Subsidiaries

- (a) On 5 September, 2007, the Group disposed of its subsidiaries, Global Equity Assets Limited and CSI Investment Limited, respectively, both of which were engaged in the sale and leasing of properties.

The net assets of disposed subsidiaries at the date of disposal were as follows:

	2007 HK\$'000
Net assets disposed of:	
Investment properties	790,000
Other receivables, deposits and prepayments	12,573
Bank balances and cash	22
Bank overdrafts	(79)
Other payables	(28,483)
Taxation payable	(286)
Deferred tax liabilities	(98,478)
	675,269
Gain on disposal of subsidiaries	79,775
	755,044
Satisfied by:	
Cash	755,044
	755,044
Net cash inflow arising on disposal:	
Cash consideration received	755,044
Bank balances and cash and bank overdrafts disposed of	57
	755,101

The subsidiaries disposed of during the period contributed approximately HK\$15,414,000 to the Group's turnover and contributed approximately HK\$64,906,000 to the Group's profit before taxation for the period from 1 April, 2007 to the date of disposal.

The subsidiaries disposed of during the period, generated approximately HK\$29,643,000 in the Group's net operating cash flows, utilised approximately HK\$26,903,000 and HK\$4,900,000 in respect of investing activities and financing activities, respectively.

21. Disposal of Subsidiaries *(Continued)*

- (b) On 10 July, 2007, the Group disposed of a 49% interest in its subsidiary, Joyful Sonic Limited and its subsidiaries, which are engaged in leasing of properties and a loan due to the Company of HK\$65,322,000, at consideration of HK\$67,038,000. The gain on the partial disposal of the subsidiary of HK\$1,716,000 was recognised in the condensed consolidated income statement.

22. Acquisition of Subsidiaries

On 20 April, 2007, the Group acquired properties held for sale through the purchase of a 60% interest in the issued share capital of SH Fortress Ltd. and its subsidiaries, Lanrich International Limited and Lei Fu Real Estate (Shanghai) Company Ltd., for a cash consideration of US\$9,600,000 (equivalent to approximately HK\$74,880,000). This transaction has been accounted for as acquisition of assets as the acquisition does not meet the definition of a business combination.

The net assets acquired in the transaction are as follows:

	HK\$'000
Net assets acquired:	
Property, plant and equipment	9
Properties held for sale	452,740
Other receivables	499
Bank balances and cash	98,396
Other payable	(3,213)
Bank loans	(430,000)
	118,431
Minority interest	(43,551)
	74,880
Total consideration satisfied by:	
Cash	74,880
	74,880
Net cash inflow arising on acquisition:	
Cash consideration paid	(74,880)
Bank balances and cash acquired	98,396
	23,516

23. Pledge of Assets

At 30 September, 2007, the following assets were pledged to banks to secure banking facilities granted to the Group:

- (a) Properties held for sale with a carrying value of approximately HK\$2,952,925,000 (31 March, 2007: HK\$1,480,615,000).
- (b) Property, plant and equipment with carrying value of HK\$55,932,000 (31 March, 2007: nil).
- (c) Bank deposits of approximately HK\$567,456,000 (31 March, 2007: HK\$272,396,000).

The Group also executed the assignment of rental income over the investment properties and properties held for sale to banks to secure the banking facilities granted to the Group.

During the period, a pledge of investment properties with a carrying amount of HK\$790,000,000 was released upon the disposal of a subsidiary as set out in note 21(a).

24. Capital Commitments

	30 September, 2007 HK\$'000	31 March, 2007 HK\$'000
Capital expenditure in respect of		
– the acquisition of property, plant and equipment contracted for but not provided in the financial statements	41,627	5,321
– the establishment of a subsidiary in the People's Republic of China	9,783	13,082
	51,410	18,403

25. Contingent Liabilities

	30 September, 2007	31 March, 2007
	HK\$'000	HK\$'000
Corporate guarantee given by the Company for banking facilities granted to associates	71,800	107,976
Corporate guarantee given by the Group for banking facilities granted to a jointly-controlled entity	65,000	65,000
	136,800	172,976

26. Related Party Transactions

The Group entered into the following transactions with related parties:

- (a) During the period, the Group received an arrangement fee of HK\$15,870,000 from Gain Resources Limited, a jointly-controlled entity, for facilitating sale of properties.
- (b) The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September,	
	2007	2006
	HK\$'000	HK\$'000
Short-term benefits	5,058	3,278
Post-employment benefits	222	144
	5,280	3,422

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Deloitte.

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Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF CAPITAL STRATEGIC INVESTMENT LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 24, which comprises the condensed consolidated balance sheet of Capital Strategic Investment Limited as of 30 September, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

20 December, 2007

Interim Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September, 2007. (2006: Nil)

Review of the Results

The Group reported a total revenue for the six months ended 30 September, 2007 of approximately HK\$218.5 million (six months ended 30 September, 2006: HK\$292.9 million), which was mainly generated from rental income of approximately HK\$57.5 million, and securities investment of approximately HK\$161 million. The decrease was mainly due to a reduction in securities investment activities during the period.

The Group reported a consolidated profit attributable to the equity shareholders of the Company of approximately HK\$217.4 million for the six months ended 30 September, 2007 (six months ended 30 September, 2006: HK\$107.3 million) representing an increase of approximately 102.6%. The profit was mainly attributable to (i) share of gain on disposal of Paul Y. Centre, Kwun Tong, Hong Kong of approximately HK\$88 million, (ii) revaluation and gain on disposal of No. 88 Gloucester Road, Hong Kong of approximately HK\$142.9 million.

Liquidity and Financial Resources

The Group maintained a healthy liquid position which included bank balance and cash of approximately HK\$1,254.7 million (31 March, 2007: HK\$608.5 million) and securities investment held for trading of approximately HK\$83.8 million (31 March, 2007: HK\$118.8 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 decreased from approximately HK\$290.3 million as at 31 March, 2007 to approximately HK\$69.7 million as at 30 September, 2007, and long-term bank borrowing has increased from approximately HK\$928.1 million as at 31 March, 2007 to approximately HK\$1,645.2 million as at 30 September, 2007. All the bank borrowings were utilized in financing the Group's investment properties. As a result, the Group's total bank borrowing has increased from approximately HK\$1,218.4 million as at 31 March, 2007 to approximately HK\$1,714.9 million as at 30 September, 2007, and the Group's ratio of total debt to total assets was 49.8% (31 March, 2007: 41.6%). All bank borrowings were denominated in Hong Kong dollars and were on a floating rate basis at short-term inter-bank offer rates with maturity profile spreading over a period of up to 10 years with approximately HK\$69.7 million repayable within one year, HK\$973.5 million repayable between one to five years, and HK\$671.7 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 and Outlook

The Group again achieved another set of encouraging results for the six months ended 30 September 2007 and reported a consolidated profit attributable to the equity shareholders of the Company of approximately HK\$217.4 million, compared with approximately HK\$107.3 million reported in the same period last year. Turnover for the Group was approximately HK\$218.5 million, compared with approximately HK\$292.9 million for the same period last year.

Hong Kong

Hong Kong property market remained strong during the period under review and the Group has realized two major investments in the first half of the financial year to unlock capital gains for these projects as well as to create value for shareholders. The sale of Paul Y. Centre, Kwun Tong, Hong Kong, jointly owned by the Group and other strategic partners including Lehman Brothers, was completed during the period. The Group has also realized its wholly-owned investment in No. 88 Gloucester Road, Hong Kong, the capital value of which has increased by approximately four times during the Group's ownership period since 2003. These transactions demonstrated the Group's capability to enhance and realize the capital value of investments through providing active management, re-positioning and refurbishing of the properties.

The Group remains optimistic on the property market in the region and has continued to actively pursue appropriate investment opportunities to create further growth for shareholders. During the period under review, the Group has completed the purchase of an en-bloc property, Mohan's Building on Nos. 14-16 Hankow Road, adjacent to the previous Hyatt Hotel in the core shopping area of Tsimshatsui, Kowloon. The Group has also completed the acquisition of a group of adjacent buildings situated at Jervois Street, Sheung Wan, Hong Kong for redevelopment purposes. Subsequent to the end of the period under review, the Group has also acquired an approximate 53% interest in Eton Building, situated on No. 288 Des Voeux Road Central, Hong Kong. The Group is studying various repositioning and/or redevelopment options to enhance the value of these new investments.

China

For the China market, despite various macro measures introduced by the Central Government, market sentiment remains strong and the property market in major cities remains active.

Since the establishment of the Group's Shanghai office in September 2006, the Group has extended its investment portfolios to China and currently manages two prime commercial properties in Shanghai — International Capital Plaza and Novel Plaza.

The acquisition of the Group's first China property, the International Capital Plaza (formerly known as 'Fuhai Building') in Hongkou district of Shanghai which the Group co-invested with Lehman Brothers, has been completed during the period. The 600,000 square feet prime commercial complex is currently under renovation and is expected to complete in 2008. Upon completion, International Capital Plaza would become one of the landmark buildings in the district.

The Group also teamed up with Tian An China Investments Company Limited to acquire a 300,000 square feet prime commercial property — Novel Plaza — situated on No. 128 Nanjing West Road, opposite the People's Square in Huang Pu District, Shanghai. This acquisition was completed in October 2007 subsequent to the end of the period under review.

Given the rapid growth in China coupled with the Group's strong management team in Shanghai, the Group expects to further increase the proportion of its investment in China in the near future should appropriate investment opportunities arise and is confident to repeat its proven property repositioning business model in major cities in China.

Corporate Activities

In July 2007, the Group successfully raised a total of approximately HK\$390 million from the issuance of convertible notes to renowned international institutional investors. The positive feedback and support from institutional investors once again demonstrated their recognition of the Group's proven business model. The proceeds from the convertible bond issue and the cash realized from recent disposal of investments would allow the Group to continue to pursue sizable investment opportunities in Hong Kong and China.

In May 2007, the shareholders of the Company approved a "one for five" sub-division of shares of the Company to improve the liquidity of the trading of shares on the Stock Exchange.

Outlook

Following the new acquisitions in Hong Kong and Shanghai and the successful upgrade and realization of value of a number of its property investments in Hong Kong, the Group would continue to actively pursue new investment opportunities in Hong Kong and major cities in China. The Group is confident that it could successfully repeat its repositioning models to major cities in China so as to create higher growth and value for shareholders.

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, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee.

Directors' Interests

Interests and short positions of the directors in the Company and its associated corporations

As at 30 September 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any its associated corporations (within the meaning of part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or decided to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

(i) *Long positions in the shares:*

Name of Director	Nature of interests	Company/ name of associated corporation	Number of shares held (Note 1)	Derivative interests	Approximate percentage of total shareholding (%)
Chung Cho Yee, Mico ("Mr. Chung") (Note 2)	Interest in controlled corporation	The Company	1,600,596,250(L)		32.23
				40,322,580(L)	0.81
	Beneficial interest	The Company	2,100,000(L)		0.04

Notes:

- (1) The letter "L" denotes a person's long position in such securities.
- (2) Being the aggregate of personal interest of Mr. Chung of 2,100,000 shares in the Company and the corporate interest held by Earnest Equity Limited ("Earnest Equity") of 1,600,596,250 shares in the Company.

The entire issued share capital of Earnest Equity is held by Digisino Assets Limited ("Digisino") as trustee of a discretionary trust founded by Mr. Chung, who together with his spouse and children, is current discretionary beneficiary. Further, the entire issued share capital of Digisino is held by Mr. Chung and that both Digisino and Earnest Equity are corporations wholly-owned and controlled by him.

(ii) *Long positions in the underlying shares of equity derivatives:*

Name of Director	Option scheme type	Capacity	Number of class of securities (Note 1)	Approximate percentage of total shareholding (%)
Kan Sze Man	2001	Beneficial owner	19,375,000 shares (L)	0.39
	2002	Beneficial owner	15,625,000 shares (L)	0.31
Chow Hou Man	2001	Beneficial owner	4,187,500 shares (L)	0.08
	2002	Beneficial owner	15,625,000 shares (L)	0.31

Note:

- (1) The letter "L" denotes a person's long position in such securities.

Save as disclosed above, as at the 30 September, 2007, none of the directors and chief executive of the Company had any interest in any securities of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of listed companies as set out in the Listing Rules to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 30 September, 2007, according to the register kept by the Company pursuant to Section 336 of SFO, and so far as is known to any Directors or the Company, the following persons, in addition to those interests disclosed above in respect of the directors, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of part XV of the SFO:

Name of shareholder	Nature of interests	Company/ name of associated corporation	Number of shares held (Note 1)	Derivative interests	Approximate shareholding percentage (%)
Stark Investments (Hong Kong) Limited	Investment manager	The Company	511,060,000(L)		10.29
				255,186,558(L)	5.14
Stark Master Fund, Ltd.	Beneficial owner	The Company	448,470,000(L)		9.03
				118,494,190(L)	2.39
Lehman Brothers Holdings Inc.	Interest of controlled corporation	The Company	464,200,000(L)		9.35
				263,156,226(L)	5.30
Third Avenue Management LLC	Investment manager	The Company	250,000,000(L)	—	5.03
Value Partners Limited	Investment manager	The Company	248,870,000(L)	—	5.01
Cheah Cheng Hye	Interest of controlled corporation	The Company	248,870,000(L)	—	5.01

Note:

(1) The letter "L" denotes a person's long position in such securities.

Save as disclosed above, none of the Directors or proposed directors is a director or employee of a company which has an interest in the shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Audit Committee

The financial statements for the six months ended 30 September, 2007 have been reviewed by the Audit Committee of the Company.

The Model Code for Securities Transactions by Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) as its own code of conduct regarding directors’ securities transactions. Based on specific enquiry of all the directors of the Company, the directors complied throughout the period in review with the required standards as set out in the Model Code.

Code on Corporate Governance Practices

The Group is obliged to comply with the requirements for continue listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is committed to practice high standard of corporate governance in its daily management and operations. The Group follows and applies the principles of the Code on Corporate Governance Practices (the “Corporate Governance Code”) in Appendix 14 to the Listing Rule for the period under review, except that (i) the Company does not have the position of chief executive officer; and (ii) the non-executive directors have not been appointed for a specific term, but subject to re-election only.

Purchase, Sale or Redemption of the Company’s Listed Securities

During the period, the Company repurchased its listed securities through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.008 each	Price per share		Aggregate
		Highest	Lowest	consideration paid
		HK\$	HK\$	HK\$’000
September 2007	17,680,000	0.395	0.365	6,762

The above shares were cancelled upon repurchase.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

Publication of Further Information on the Stock Exchange's Website

A results announcement and an interim report containing the information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Chung Cho Yee, Mico
Non-Executive Chairman

Hong Kong, 20 December, 2007