



Go Forward...

Interim Report 2006

**CSI**

**Capital Strategic Investment Limited**

資本策略投資有限公司

Stock code : 497

## CORPORATE INFORMATION

### Board of directors

*Non-Executive Director:*

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

*Executive Directors:*

Ma Wai Man, Catherine  
(*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

### Registered office

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Head office and principal place of business

3609-11  
Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

### Principal bankers

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China (Asia) Limited  
The Bank of East Asia Limited  
UBS AG  
Goldman Sachs & Co.  
Deutsche Bank AG

### 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

The directors of Capital Strategic Investment Limited (the “Company”) announce that the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2006 together with comparative figures are as follows. The consolidated interim financial statements of the Group have not been audited, but have been reviewed by the Company’s auditors, Deloitte Touche Tohmatsu, in accordance with the Hong Kong Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” and by the Company’s Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

	NOTES	Six months ended 30th September,	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Revenue			
— Rental income		23,603	16,713
— Sale of properties		17,580	162,427
— Sale of securities		251,677	108,241
Income from sale of prepaid lease payments		90,320	—
Other income		16,041	6,566
Increase in fair value investments held for trading		21,551	4,461
Cost of properties and securities sold		(261,901)	(268,596)
Depreciation of property, plant and equipment		(1,910)	(1,620)
Amortisation of prepaid lease payment		(236)	(327)
Administrative expenses		(17,812)	(13,152)
Finance costs	4	(15,545)	(7,576)
Share of results of jointly controlled entities		(291)	—
Gain on disposal of interest in an associate		—	11,648
Share of results of associates		—	362
Profit before taxation	5	123,077	19,147
Taxation	6	(13,852)	(7,438)
Profit for the period		109,225	11,709
Attributable to:			
Equity holders of the parent		107,256	10,107
Minority interests		1,969	1,602
Profit for the period		109,225	11,709
Earnings per share	7		
— Basic		13.9 cents	2.2 cents
— Diluted		12.9 cents	2.0 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH SEPTEMBER, 2006

	NOTES	30th September, 2006 HK\$'000 (unaudited)	31st March, 2006 HK\$'000 (audited)
<b>Non-Current Assets</b>			
Investment properties	8	779,555	658,555
Property, plant and equipment		12,959	15,059
Prepaid lease payments	9	15,048	254,690
Available-for-sale investments		7,786	8,815
Club debentures		6,860	6,860
Interests in associates		96	96
Interests in jointly controlled entities		—	291
Deferred tax asset		1,270	1,470
		<b>823,574</b>	<b>945,836</b>
<b>Current Assets</b>			
Trade and other receivables	10	5,160	4,881
Prepaid lease payments	9	381	655
Deposit paid for acquisition of properties held for sales		28,130	27,730
Investments held for trading	11	168,747	104,155
Properties held for sale	12	1,241,668	104,928
Amount due from an investee	13	—	11,069
Amount due from jointly controlled entities		31,838	31,836
Amounts due from associates	14	51,875	8,102
Taxation recoverable		987	1,250
Pledged bank deposits		165,366	165,366
Bank balances and cash		441,284	215,218
		<b>2,135,436</b>	<b>675,190</b>

	NOTES	30th September, 2006 HK\$'000 (unaudited)	31st March, 2006 HK\$'000 (audited)
<b>Current Liabilities</b>			
Accruals and other payables		28,455	15,231
Taxation payable		20,333	4,222
Amounts due to minority shareholders		6,576	3,875
Bank borrowings — due within one year	15	182,289	158,805
		<b>237,653</b>	182,133
<b>Net Current Assets</b>			
		<b>1,897,783</b>	493,057
		<b>2,721,357</b>	1,438,893
<b>Capital and Reserves</b>			
Share capital	16	35,976	23,391
Reserves		1,772,229	1,187,697
Equity attributable to equity holders of the parent		1,808,205	1,211,088
Minority interests		—	1,056
Total Equity		<b>1,808,205</b>	1,212,144
<b>Non-Current Liabilities</b>			
Bank borrowings — due after one year	15	715,630	155,243
Convertible notes	17	114,602	—
Deferred tax liability		82,920	71,506
		<b>913,152</b>	226,749
		<b>2,721,357</b>	1,438,893

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

	Attributable to equity holders of the parent							Minority interest	Total
	Share capital	Share premium	Convertible note equity reserve	Contributed surplus	Accumulated profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st April, 2005	15,382	23,915	—	276,058	550,365	865,720	—	865,720	
Profit for the period and total recognised income	—	—	—	—	10,107	10,107	1,602	11,709	
Issue of shares	4,000	104,000	—	—	—	108,000	—	108,000	
Expenses related to issue of shares	—	(1,431)	—	—	—	(1,431)	—	(1,431)	
Dividend paid	—	—	—	—	(16,959)	(16,959)	—	(16,959)	
	4,000	102,569	—	—	(16,959)	89,610	—	89,610	
At 30th September, 2005	19,382	126,484	—	276,058	543,513	965,437	1,602	967,039	
Profit for the period and total recognised income (expenses)	—	—	—	—	130,176	130,176	(546)	129,630	
Issue of shares	3,800	110,150	—	—	—	113,950	—	113,950	
Expenses related to issue of shares	—	(1,992)	—	—	—	(1,992)	—	(1,992)	
Exercise of share options	209	3,308	—	—	—	3,517	—	3,517	
	4,009	111,466	—	—	—	115,475	—	115,475	

	Attributable to equity holders of the parent								
	Share capital	Share premium	Convertible		Contributed surplus	Accumulated profits	Total	Minority interest	Total
			note equity reserve	HK\$'000					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31st March, 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	1,969	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	
Dividend paid	—	—	—	—	(15,290)	(15,290)	(3,025)	(18,315)	
	12,585	474,168	18,398	—	(15,290)	489,861	(3,025)	486,836	
At 30th September, 2006	35,976	712,118	18,398	276,058	765,655	1,808,205	—	1,808,205	

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

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

	Six months ended 30th September,	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Net cash (used in) from operating activities	<b>(1,152,738)</b>	42,833
Net cash (used in) from investing activities:		
Proceeds from disposal of property, plant and equipment	<b>1,760</b>	440
Proceeds from disposal of prepaid lease payments	<b>330,000</b>	—
Proceeds from disposal of investment properties	<b>42,300</b>	296,000
Purchase of investment properties	—	(35,000)
Acquisition of investment properties	<b>(163,000)</b>	(205,000)
Increase in amounts due from association	<b>(43,773)</b>	—
Cash inflows from other investing activities	<b>23,506</b>	33,861
	<b>190,793</b>	90,301
Net cash from (used in) financing activities:		
Proceeds of issue of shares and exercise of share options, net of issue costs	<b>486,753</b>	106,569
Repayment of borrowings	<b>(826,379)</b>	(355,890)
Dividend paid	<b>(18,314)</b>	—
New borrowings raised	<b>1,410,250</b>	213,800
Proceed from issue of convertible notes	<b>133,000</b>	—
Cash inflows/(outflows) from other financing activities	<b>2,701</b>	(26,581)
	<b>1,188,011</b>	(62,102)
Net increase in cash and cash equivalents	<b>226,066</b>	71,032
Cash and cash equivalents at beginning of the period	<b>215,218</b>	211,069
Cash and cash equivalents at end of the period	<b>441,284</b>	282,101
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>441,284</b>	282,101



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

## 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 (the "Listing Rules") 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.

During the period, the Group changed the presentation format of the consolidated income statement from presenting an analysis of expenses using a classification based on the function within the Group to the nature of the expenses. In the opinion of the directors, this presentation format provides relevant and more reliable information of the Group's nature of operations to the shareholders.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2006, except as described below.

### Convertible notes

Convertible notes issued by the Company that contains both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the note into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised (in which case the balance stated in convertible note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

### **Adoption of new Hong Kong Financial Report Standards**

In the current interim period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), amendments to Hong Kong Accounting Standards (“HKAS (Amendments)”) and Interpretations (“HK(IFRIC) — INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006 or 1st March, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment are required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st June, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st November, 2006

### 3. SEGMENT INFORMATION

#### Business segments

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

	Property rental HK\$'000	Property investment and trading HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
<b>For the six months ended 30th September, 2006</b>				
Revenue	23,603	17,580	251,677	292,860
Income from sale of prepaid lease payments	—	90,320	—	90,320
<b>RESULT</b>				
Segment result	11,944	88,660	28,548	129,152
Unallocated corporate expenses				(4,248)
Interest income				14,009
Finance cost				(15,545)
Share of results of jointly controlled entities				(291)
<b>Profit before taxation</b>				<b>123,077</b>
Taxation				(13,852)
<b>Profit for the period</b>				<b>109,225</b>
<b>For the six months ended 30th September, 2005</b>				
Revenue	16,713	162,427	108,241	287,381
<b>RESULT</b>				
Segment result	2,596	6,216	3,696	12,508
Unallocated corporate expenses				(2,931)
Interest income				4,898
Dividend income				238
Finance costs				(7,576)
Gain on disposal of interests in an associate				11,648
Share of results of associates				362
<b>Profit before taxation</b>				<b>19,147</b>
Taxation				(7,438)
<b>Profit for the period</b>				<b>11,709</b>

#### 4. FINANCE COSTS

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,192	3,510
Bank borrowings with installments repayable over five years	10,770	4,066
Convertible notes	3,583	—
	<b>15,545</b>	<b>7,576</b>

#### 5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Staff costs	8,637	5,905
Allowance on properties held for sale (included in cost of properties and securities sold)	1,700	10,000
Dividend income	—	(238)
Interest income	(14,009)	(4,898)
Gain on disposal of property, plant and equipment	—	(440)
Proceeds on sale of investments held for trading (included in revenue)	(251,677)	(108,241)
Less: Cost of sales (included in cost of properties and securities sold)	239,100	109,184
Net realised (gain) loss on investment held-for-trading	(12,577)	943

## 6. TAXATION

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	16,190	13,000
Deferred tax	(2,338)	(5,562)
Attributable to the Company and its subsidiaries	<b>13,852</b>	7,438

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.

## 7. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share:		
Profit for the period attributable to equity holders of the parent	107,256	10,107
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	3,583	—
	<b>110,839</b>	10,107
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	773,606,393	463,775,000
Effect of dilutive potential ordinary shares:		
Share options	30,605,292	32,414,000
Convertible notes	53,140,608	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>857,352,293</b>	496,189,000

## 8. MOVEMENTS IN INVESTMENT PROPERTIES

During the period, the Group acquired an investment property at a consideration of approximately HK\$163,000,000 (30.9.2005: HK\$205,000,000) and disposed of investment property with a carrying amount of approximately HK\$42,000,000 for a consideration of HK\$42,300,000.

The directors considered that there was no material change in the market values of the investment properties since 31st March, 2006.

## 9. MOVEMENTS IN PREPAID LEASE PAYMENTS

During the six month ended 30th September, 2006, the Group disposed of a right to a parcel of land located in Hong Kong with a carrying amount of approximately HK\$239,680,000 for a consideration of HK\$330,000,000.

## 10. 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 the reporting date is as follows:

	30th September, 2006 HK\$'000	31st March, 2006 HK\$'000
0 – 30 days	1,630	535
31 to 60 days	156	—
61 to 90 days	31	—
Over 90 days	2	—
	1,819	535
Other receivables	3,341	4,346
	5,160	4,881

## **11. MOVEMENTS IN INVESTMENTS HELD FOR TRADING**

During the period, the Group acquired investments held for trading at consideration of approximately HK\$251,677,000 (30.9.2005: HK\$83,112,000) and disposed of investments held for trading with the carrying value of approximately HK\$239,100,000 (30.9.2005: HK\$109,184,000).

In addition, an unrealised gain on fair value changes on investments held for trading of approximately HK\$21,551,000 has been credited to the condensed consolidated income statement during the period.

## **12. MOVEMENTS IN PROPERTIES HELD FOR SALE**

During the period, the Group acquired properties held for sale with carrying value of HK\$1,138,440,000 including HK\$778,900,000 (30.9.2005: HK\$129,998,000) was acquired through acquisition of subsidiaries.

## **13. AMOUNT DUE FROM AN INVESTEE**

The amount was unsecured, bears interest at Hong Kong Prime Rate plus 2% per annum and was fully settled during the period.

## **14. AMOUNTS DUE FROM ASSOCIATES**

The amount was unsecured, non-interest bearing and repayable on demand. The carrying amount of the Group's amounts due from associates at balance sheet dates approximates to the corresponding fair value.

## **15. BANK BORROWINGS**

During the period, the Group obtained new bank borrowings of approximately HK\$1,410,250,000 (30.9.2005: HK\$213,800,000) and repaid approximately HK\$826,379,000 (30.9.2005: HK\$355,890,000). The bank loans bear interest ranging from 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 sales.

## 16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.04 each at 31st March, 2006 and 30th September, 2006	4,500,000,000	180,000
Ordinary shares of HK\$0.04 each at 31st March, 2006	584,775,450	23,391
Issue of shares (Note 1)	313,500,000	12,540
Exercise of share options (Note 2)	1,131,250	45
Ordinary shares of HK\$0.04 each at 30th September, 2006	899,406,700	35,976

### Notes:

- (1) Pursuant to a resolution passed at a special general meeting held on 12th June, 2006, the Company entered into subscription agreement with Earnest Equity Limited ("Earnest Equity") in which Earnest Equity subscribed for an aggregate of 102,000,000 new ordinary shares of HK\$0.04 each at the subscription price of HK\$1.59 per share. On the same date, the Company entered into the placing agreement with placing agent in which the placing agent procured to subscribe for 211,500,000 new ordinary shares of HK\$ 0.04 each at the subscription price of HK\$1.59 per share. All the ordinary shares issued during the period rank pari passu with the then existing ordinary shares in all respects.
- (2) During the period, ordinary shares of HK\$0.04 each were issued as a result of exercise of share options.

## 17. CONVERTIBLE NOTES

On 17th May, 2006, the Company entered into subscription agreements with independent third parties, and Earnest Equity Limited ("Earnest Equity", a substantial shareholder of the Company), whereby the independent third parties and Earnest Equity agreed to subscribe for the Hong Kong dollar denominated 1.5% convertible notes due 2011 ("2011 Notes") issued at par by the Company in an aggregate principal amount of HK\$133,000,000.



The issue date of 2011 Notes was 13th June, 2006.

The 2011 Notes bear interest from 13th June, 2006 at the rate of 1.5% per annum of the principal amount of the 2011 Note. Interest is payable annually in arrears on 12th June, in each year commencing on 13th June, 2006. The initial conversion price is HK\$1.86 per share, subject to adjustment.

The holders of 2011 Notes have the right to convert their 2011 Notes into ordinary shares of HK\$0.04 each of the Company on any business day commencing from the 7th day after 13th June, 2006 up to, and including the close of business of a business day which is 7 days prior to 12th June, 2011.

Unless previously converted in full, the Company will redeem each of the 2011 Notes at 110% of its respective outstanding principal amount on 12th June, 2011. No conversion was made during the period.

The convertible notes contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation", the convertible notes were split between the liability and equity elements. The equity element is presented in equity heading "Convertible note equity reserve". The effective interest rate of the liability element is 6.59% per annum.

## 18. PLEDGE OF ASSETS

At 30th September, 2006, the following assets were pledged to banks to secure banking facilities granted to the Group:

- (a) Investment properties with a carrying value of approximately HK\$743,000,000 (31.3.2006: HK\$622,000,000).
- (b) Properties held for sale with a carrying value of approximately HK\$1,231,629,000 (31.3.2006: HK\$92,890,000).
- (c) Bank deposits of approximately HK\$165,366,000 (31.3.2006: HK\$165,366,000).

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

As at 31st March, 2006, property, plant and equipment with carrying amount of the HK\$1,760,000 and prepaid lease payment with carrying value of HK\$239,726,000 were also pledged to banks to secure banking facilities granted to the Group.

## 19. CAPITAL COMMITMENTS

	<b>30th September, 2006 HK\$'000</b>	31st March, 2006 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>1,561</b>	1,527
	<b>1,561</b>	1,527

## 20. ACQUISITION OF ASSETS

On 13th June, 2006, 8th August, 2006 and 15th August, 2006, the Group mainly acquired properties for sale and investment properties by purchase of 100% of the issued share capital of Sky Dragon Limited, Hoxberry Limited and King's Land Limited (formerly known as "AXA Centre (H.K.) Limited") for cash consideration of HK\$69 million, HK\$300 million and HK\$478 million respectively. This transaction has been accounted for as an acquisition of assets.

## 21. CONTINGENT LIABILITIES

	<b>30th September, 2006 HK\$'000</b>	31st March, 2006 HK\$'000
Corporate guarantee given by the Company for banking facilities granted to associates	<b>71,800</b>	36,176



## INDEPENDENT INTERIM REVIEW REPORT

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

### Introduction

We have been instructed by Capital Strategic Investment Limited (the "Company") to review the interim financial report of the Company and its subsidiaries (the "Group") set out on pages 2 to 17.

### 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 Hong Kong Accounting Standard 34 "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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report 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.

## 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, 2006.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
29th December, 2006

## INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2006 (2005: Nil).

## REVIEW OF THE RESULTS

The Group reported a total revenue of approximately HK\$383.2 million for the six months ended 30th September, 2006, which was mainly generated from rental income of approximately HK\$23.6 million, property investment and trading of approximately HK\$107.9 million and securities investment of approximately HK\$251.7 million, representing an increase of 33.3% from approximately HK\$287.4 million recorded in the corresponding period in the last year.

The Group achieved a profit of approximately HK\$109.2 million for the six months ended 30th September, 2006 representing an increase of approximately 833.3% from approximately HK\$11.7 million recorded in the corresponding period in the last year.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquid position which included highly liquid investment in securities of approximately HK\$168.7 million and cash of approximately HK\$606.7 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 increased from approximately HK\$158.8 million as at 31st March, 2006 to approximately HK\$182.3 million as at 30th September, 2006, and long-term bank borrowing has been increased from approximately HK\$155.2 million as at 31st March, 2006 to approximately HK\$715.6 million as at 30th September, 2006. All the bank borrowings were utilized in financing the Group's properties investment. As a result, the Group's total bank borrowing has been increased from approximately HK\$314 million as at 31st March, 2006 to approximately HK\$897.9 million as at 30th September, 2006, and the Group's gearing was increased to 22.5%, expressed as a percentage of bank and other borrowings net of cash and bank balances over shareholders' equity. 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\$182.3 million repayable within one year, HK\$222.3 million repayable between one to five years, and HK\$493.3 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 & OUTLOOK

We are pleased to report another set of excellent results. For the six months ended 30th September, 2006, we have achieved an increase in net profit of approximately 833.3% compared to the same period last year, being an increase from approximately HK\$11.7 million to HK\$109.2 million.

During this period, we have continued to benefit from the favorable local property market. In particular, we have fully realized our investment in the prime development site in Yiu Wa Street, Causeway Bay, Hong Kong, thereby successfully unlocking its appreciation in capital of over HK\$90.3 million.

We have also completed our purchase of approximately 150,000 square feet of prime retail and commercial spaces representing the majority stake in AXA Centre, Gloucester Road, Hong Kong, as well as the three en-bloc prime retail hub properties in Tsimshatsui, Kowloon, namely Nos. 23-25 Ashley Road, No. 27 Ashley Road and No. 8 Hau Fook Street.

For the two Ashley Road properties, we have already completed our conceptual design, planning and regulatory approval stages, and efforts such as major building exterior facade and utility services upgrades, lobby and common area renovation and refurbishment, and selective repositioning of tenant mix, all targeted to reposition these properties into “Ginza-style” vertical retail, food and beverages centers will soon begin. As regards No. 8 Hau Fook Street, we are proud to have Mr. Ng Chun For, Henry, the seasoned local property investor having substantial experience in developing “Ginza-style” vertical retail centers (including, amongst various others, Henry House in Yun Ping Road, Causeway Bay), acquiring into 50% of this redevelopment project at a premium to our acquisition costs. With Mr. Ng’s expertise and support, we are confident that this property will be redeveloped into one of our flagship vertical retail centers located in heart of the shopping hub of Tsimshatsui, Kowloon.

In addition to Hong Kong, we have been actively seeking out and evaluating numerous other potential prime real estate and strategic investment opportunities in the PRC, as well as throughout other parts of the South-East Asia region. However, during the period under review no such potential investments have met our stringent investment criteria. Nonetheless, we continue to believe in the regional growth potential and intend to actively seek out and expand our property portfolio to include prime urban real estates in major PRC cities such as Beijing and Shanghai where we believe we could successfully repeat our repositioning model and improve rental returns. To this end, we have recently established a Shanghai office and have recruited a local staff with solid Shanghai property experience to head up a new team of professionals.

Going forward, with strengthened internal financials from on-going realization of value in our investments as well as the proceeds under the recent HK\$630 million fund raising exercise, we intend to capitalize our experiences and expertise gained in Hong Kong and become a more active player in the PRC property market so to create further value and higher growth for our 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. Share options may be granted as a recognition of their contribution and an incentive to motivate them.

## DIRECTORS' INTERESTS

### Interests and short positions of the Directors in the Company and its associated corporations

As at 30th September, 2006, 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 associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed 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 shares of the Company (the "Shares"):

Name of Director	Nature of interests	Company/name of associated corporation	Number of Shares held	Derivative interests (Number of Shares to be issued upon conversion of the Convertible Notes (Note 1))	Approximate shareholding percentage (%)
Chung Cho Yee, Mico ("Mr. Chung") (Note 2)	Beneficial owner and interest of controlled corporation	The Company	299,787,250	8,064,516	33.33 0.90
Earnest Equity Limited ("Earnest Equity") (Note 3)	Interest of controlled corporation	The Company	299,367,250	8,064,516	33.28 0.90

Notes:

- (1) The Company issued notes with aggregate principal amount of HK\$133.0 million on 13th June, 2006, which will entitle the holders thereof to convert outstanding principal amount into Shares at the initial conversion price of HK\$1.86 per Share (subject to adjustment) on or before the fifth anniversary from the date of issue ("Convertible Note(s)").
- (2) Being the aggregate of personal interest of Mr. Chung of 420,000 Shares and the corporate interest held by Earnest Equity of 299,367,250 Shares and derivative interests in 8,064,516 Shares.
- (3) 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 are the current discretionary beneficiaries.

Further, the entire issued share capital of Digisino is held by Mr. Chung and 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	Company/name of associated corporation	Option scheme type	Capacity	Number of Shares held	Approximate shareholding percentage (%)
Ma Wai Man, Catherine	The Company	2001 (Note 1)	Beneficial owner	7,075,000	0.79
		2002 (Note 2)	Beneficial owner	3,125,000	0.35
Chow Hou Man	The Company	2001 (Note 1)	Beneficial owner	837,500	0.09
		2002 (Note 2)	Beneficial owner	3,125,000	0.35

Notes:

- (1) The share option scheme was adopted by the Company on 13th June, 2001 and is exercisable at the subscription price of HK\$0.672 per Share during the period from 30th August, 2001 to 12th June, 2011.
- (2) The share option scheme was adopted by the Company on 26th August, 2002 and is exercisable at the subscription price of HK\$0.56 per Share during the period from 23th September, 2002 to 25th August, 2012.

Save as disclosed above, 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 30th September, 2006, according to the register kept by the Company pursuant to Section 336 of SFO, and so far as is known to any Directors or chief executive or the Company, the following persons, in addition to those interests disclosed above in respect of the Directors, had an interest in the following long positions in the Shares and underlying Shares of equity derivatives 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 interest	Company/name of associated company	Number of Shares held (Note 1)	Derivative interests	Approximate shareholding percentage (%)
				(Number of Shares to be issued upon conversion of the Convertible Notes)	
Li Tzar Kai, Richard ("Mr. Li") (Note 2)	Interest of controlled corporation	The Company	45,000,000(L)	—	5.00
Eisner Investments Limited (Note 2)	Beneficial owner	The Company	45,000,000(L)	—	5.00
Stark Investments (Hong Kong) Limited	Investment manager	The Company	111,160,000(L)		12.36
				24,193,547(L)	2.69
Stark Master Fund, Ltd.	Beneficial owner	The Company	79,088,000(L)		8.79
				19,354,838(L)	2.15

Name of Shareholder	Nature of interest	Company/name of associated company	Number of Shares held (Note 1)	Derivative interests (Number of Shares to be issued upon conversion of the Convertible Notes)	Approximate shareholding percentage (%)
PMA Capital Management Limited	Investment manager	The Company	79,664,000(L)	—	8.86
Deutsche Bank Aktiengesellschaft	Security interest	The Company	69,256,000(L)	—	7.70
Lehman Brothers Holdings Inc.	Interest of controlled corporation	The Company	79,840,000(L)	22,043,010(L)	8.88 2.45

Notes:

- (1) The letter "L" denotes a person's long position in such securities.
- (2) Eisner Investments Limited, a company that holds 45,000,000 Shares, is wholly and beneficially owned by Mr. Li. Mr. Li was deemed to be interested in the said 45,000,000 Shares.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons who has an interest or short position in the Shares, or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## AUDIT COMMITTEE

The financial statements for the six months ended 30th September, 2006 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 in the year under review, except that (i) the Company does not have the position of chief executive officer, and (ii) the non-executive directors of the Company have not been appointed for a specific term, but subject to retirement by rotation and re-election only.

## 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, 2006.

## 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, 29th December, 2006