



Chairman's Statement

On behalf of the Board of Directors (the “Board”), I am pleased to present the annual report of Capital Strategic Investment Limited (the “Company”) and its subsidiaries (together the “Group”) for the financial year ended 31st March, 2003.

Review of results

The Group reported a turnover of approximately HK\$672.2 million for the year ended 31st March, 2003, representing an increase of 125.6% from approximately HK\$297.9 million recorded in the last year. Compared with last year, the turnover generated from manufacturing of computer and related products decreased by approximately HK\$20.5 million due to the disposal of these businesses, while the turnover generated from the financial investments increased by approximately HK\$391.6 million.

The Group achieved a profit from operations of approximately HK\$16.8 million for the year ended 31st March, 2003, compared with the loss from operation of approximately HK\$23.5 million in the last year. The increase in profit from operations was mainly due to the increase in contribution resulting from the trading of financial investments. The Group recorded a net profit of approximately HK\$10.1 million for the year ended 31st March, 2003, representing a decrease of 27.4% from approximately HK\$13.9 million recorded in the last year. The decrease in net profit was mainly due to the increase in impairment loss on investment in securities, impairment loss of goodwill arising from acquisition of subsidiaries and net loss on dilution of interest in associated companies.

Liquidity and financial resources

The Group maintained a healthy liquid position which included short term investment in securities of approximately HK\$268.7 million and cash of approximately HK\$41.7 million. The short-term 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.

During the year, the Company successfully, completed a placement in January 2003 with net proceeds of approximately HK\$25.8 million to improve the liquidity of the Group.

The Group's short-term bank borrowing has been increased from approximately HK\$2.2 million as at 31st March, 2002 to approximately HK\$5.3 million as at 31st March, 2003. Long-term bank borrowing has been decreased from approximately HK\$27.4 million as at 31st March, 2002 to approximately HK\$25.9 million as at 31st March, 2003. All the long-term bank borrowings were utilized in financing the Group's investment properties in generating recurring rental income. As a result, the Group's total bank borrowing has been increased from approximately HK\$29.6 million as at 31st March, 2002 to approximately HK\$31.1 million as at 31st March, 2003. The total debt-to-equity ratio was maintained at a low level of 7.8% (At 31st March, 2002: 7.9%). 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 9 years with approximately HK\$5.2 million repayable within one year, HK\$9 million repayable within two to five years, and HK\$16.9 million over five years.



Chairman's Statement

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

Corporate review and prospect

Despite cautious signs of stabilization at the beginning of the financial year, local business operating environments continued to deteriorate throughout the year under review. Nevertheless, the Group has succeeded in maintaining to generate healthy returns from its investments, and a net profit of approximately HK\$10.1 million was recorded.

As previously announced, in towards broadening of the Group's revenue base, the Group began last year to concentrate in making strategic investments in various financial instruments, comprising mostly of debt securities with high credit ratings and other convertible debt securities in various locally listed companies. These investments have continued to contribute significantly towards the Group's revenue and profit from operations. Moreover, the Group's successful turn-around of its operating performances, from a loss from operations of approximately HK\$23.5 million as at the end of the last financial year to a profit from operations of approximately HK\$16.8 million as at the end of the year under review, was mainly attributable to the returns generated from these investments.

In focusing on one of the Group's primary activities, namely that of making strategic investments, the Group has, besides investments in financial instruments, also been actively seeking to capture investment opportunities afforded by China's entry into the W.T.O., and generally those opportunities arising during periods of economic turmoil. To this end, numerous potential investment projects, ranging from prime real estate, hotel and travel operators, distributors of natural gas, and other consumer goods including food and beverages, to securities house and providers of investment related services, etc., were looked into during the year under review. Whilst most of these projects have fallen short of the Group's stringent requirements in terms of strategic values, outlook and aggressive return on investment, the Group has nevertheless successfully taken up a strategic stake in one of the largest local private distributor of mobile phones and related products. In addition, during the last quarter of the financial year under review, the Group has successfully acquired strategic stakes in each of Yoshiya International Corporation, Limited (now known as Capital Estate Limited) and Rockapetta Holdings Limited (now known as Capital Prosper Limited), both of which are listed on the Hong Kong Stock Exchange (HKSE stock codes 193 and 1003 respectively), and became the single largest shareholder of each of these companies. The Group will continue to seek out other suitable investment candidates, particularly those with synergetic values with other undertakings of the Group.

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



Chairman's Statement

Near the end of the last financial year, the Group has, as previously announced, acquired certain prime local properties, with the view to collect rental returns so as to further broaden the Group's income and revenue base. Notwithstanding the worsening of the property rental market, these prime properties of the Group remained fully let and continued to generate stable return on investment during the period under review. In view of the Group's belief in the long-term prospect of the real estate market, both locally and throughout Asia, the Group will continue to seek out opportunities in this sector, particularly with the view to capture capital growth potential as well as a stable return on investment. Towards this end, following the end of the financial year under review and as previously announced, the Group has acquired a prime 23-storey commercial building at No. 88 Gloucester Road, Hong Kong (together with certain car parking spaces) at a total consideration of HK\$196 million.

Following the completion of the reorganization of the share capital of the Company in August 2002, whereby the par value of shares in the Company was reduced, the flexibility in future pricing of any new issue of shares in the Company have been greatly improved. Thus, going forward, with an improved ability to access equity financing, a strengthened income base, and solid internal financial resources, the Group intends to continue to make good use of its strengths to capture those opportunities in making strategic investment as and when they arise, and to expand the Group's income and revenue base as considered appropriate.

Reward for employees

The Group offers its employees competitive remuneration packages. During the year, share options were granted to various directors and employees to incentives and to recognize contribution to the development of the Group.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my most sincere appreciation for the valuable efforts of our Directors, our management and employees who have contributed to the performance of the Group for the year. Finally, I would also like to thank our business associates, investors and bankers for their continued support over the years.

Choo Yeow Ming
EXECUTIVE CHAIRMAN

Hong Kong, 23rd July, 2003