



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, 2004.

Review of the results

The Group reported a turnover of approximately HK\$415.3 million for the year ended 31st March, 2004, representing a decrease of 38.2 % from approximately HK\$672.2 million recorded in the last year. Compared with last year, the turnover generated from securities investment decreased by approximately HK\$295 million, while the turnover generated from the investment properties and sale of properties increased by approximately HK\$36.7 million.

The Group achieved a profit from operations and a net profit of approximately HK\$40.3 million and HK\$30.6 million for the year ended 31st March, 2004, representing the increases of 140.2% and 327% from approximately HK\$16.8 million and HK\$7.2 million (as restated) recorded in the last year. The increases in profit from operations and net profit were mainly due to the increase in contributions resulting from the investment properties and sale of properties.

Liquidity and financial resources

The Group maintained a healthy cash balance of HK\$138.5 million at the end of the year, most of the Group's surplus funds have been placed in time deposits with reputable financial institutions. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

The Group's short-term and long-term bank borrowings have been increased from approximately HK\$5.2 million and HK\$25.9 millions as at 31st March, 2003 to approximately HK\$47.6 million and HK\$131.5 million as at 31st March, 2004. 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 borrowings has been increased from approximately HK\$31.1 million as at 31st March, 2003 to approximately HK\$179.1 million as at 31st March, 2004. The total debt-to-equity ratio was maintained at a low level of 27% (At 31st March, 2003: 7.7%). All bank borrowings of the Group were denominated in HK dollars and were on a floating rate basis at either bank prime rate or other short-term inter-bank offer rates. The maturity profile spread over a period of 10 years with approximately HK\$47.6 million repayable within one year, HK\$49.7 million repayable in two to five years and HK\$81.8 million over five years.



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Foreign currency exposure

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, results and operation of the Group.

Corporate review and prospect

Whilst the local economy and business operating environments have gradually improved since the second half of 2003, the year under review as a whole has nevertheless been a very difficult one for local enterprises. In addition to the adverse impact on the global economy as a result of the war against Iraq, the devastating effects on the local economy caused by the outbreak of SARS were more than apparent. Despite these difficulties, the Group has successfully managed to improve on its financial performances compared to those last year, and a net profit of approximately HK\$30.6 million was recorded, representing an increase of 327% from that of last year.

In focusing on the Group's primary activity of making strategic investments, the Group has continued to actively seek out investment opportunities throughout the period under review. In particular, amongst other investment opportunities, the local property market had shown cautious signs of improvement from previous weaknesses following the initial outbreak of SARS. In towards capturing investment opportunities afforded by such improvement, as well as in broadening the Group's recurring income and revenue base, the Group has successfully acquired a prime 23-storey commercial building at No. 88 Gloucester Road, Hong Kong (together with certain car parking spaces) in July 2003.

Following the successful control of the outbreak of SARS, signs of recovery, and later, strength in the local property market had become more than apparent, particularly since the beginning of the fourth quarter of 2003. Again, in towards capturing investment opportunities afforded by such recovery and strength, the Group has, in addition to its acquisition of No. 88 Gloucester Road, been actively making other property investments during the second half of the year under review. All of these other property investments were prime commercial units, the costs of acquisition of which amounted to approximately HK\$103 million (within which approximately HK\$46 million of such acquisitions are scheduled for completion following the end of the period under review). In realizing the capital gains resulting from the appreciation in value of these investment properties, all of these properties have either been successfully disposed of or agreed to be disposed of each at profit by the Group towards, or shortly following, the end of the period under review. In addition, following the end of the period under review, the Group has agreed, with shareholders' approval, to further acquire a 19-storey prime commercial building known as Fullcorp Centre located at Nos. 53-55 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong for HK\$223 million, with a view to both capturing capital gains as well as to further broaden the Group's recurring income and revenue base.



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As for another of the Group's strategic investment focus, namely in various financial instruments such as debt securities with high credit ratings and other convertible debt securities in various locally listed companies, these investments have continued to result in significant contribution towards the Group's revenue and profit from operations. Nevertheless, following the third quarter of 2003 and in light of the apparent signs of the possible commencement in the cycle of interest rate increases, the Group has since reduced its investments in financial instruments, resulting in a decrease in the Group's turnover generated from these investments.

With a view to stream-lining the Group's operations, re-allocating resources to better enhance investment returns, and strengthening the core businesses of the Group, interests in Century 21 Hong Kong Limited, whose operations comprise principally of franchising estate agency work, real estate project management and related undertakings, were disposed of to the Group's associated company, Capital Estate Limited (HKSE Code: 193) as previously announced. Further, the Group's entire investment in Capital Prosper Limited (HKSE Code: 1003) was also successfully disposed of for HK\$61 million in November 2003 as previously announced.

Thus, going forward, with a strengthened recurring income base and solid internal financial resources, the Group intends to continue to make good use of its strengths to capture those opportunities in making strategic investment as and when they arise, and to expand the Group's income and revenue base as considered appropriate. In particular, 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.

Reward for employees

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 contribution and an incentive to motivate employees.

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, 14th July, 2004