



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, 2005.

REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$368.9 million for the year ended 31st March, 2005, representing a decrease of 11.2% from approximately HK\$415.3 million recorded in the last year. Compared with last year, the turnover generated from securities investment decreased by approximately HK\$151 million, while the turnover generated from the property investment, including sale and leasing of properties, increased by approximately HK\$107.3 million and become the main source of revenue for the Group. The Group achieved a net profit of approximately HK\$71.8 million for the year ended 31st March, 2005, representing an increase of approximately 134% from HK\$30.6 million recorded in the last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy cash balance of HK\$211.2 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\$47.6 million and HK\$131.5 million at 31st March, 2004 to approximately HK\$158.6 million and HK\$376.4 million as at 31st March, 2005. All the long-term bank borrowings were utilized in financing the Group's properties in generating recurring rental income. As a result, the Group's total bank borrowing has been increased from approximately HK\$179.1 million as at 31st March, 2004 to approximately HK\$535 million as at 31st March, 2005. The Group's gearing ratio at the end of the year was approximately 39.3% (At 31st March, 2004: 21.2%). The Group's gearing ratio is calculated by dividing total liabilities by total asset value. All bank borrowings 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\$158.6 million repayable within one year, HK\$146 million repayable in two to five years, and HK\$230.4 million over five years.

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.



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CORPORATE REVIEW AND PROSPECT

It is my greatest pleasure in reporting that 2004-2005 was another successful year of creating value and growth for our shareholders. As a result of our keen sense of identifying strategic investment opportunities, and of determining the best timing to make and unlock gains from such investments, we have achieved a net profit of approximately HK\$71.8 million, representing an increase of approximately 134% from that of last year, and extending our track record of another year of over 100% growth in net profit.

In particular, in capturing investment opportunities under the continuing surges in the local property prices, we have been actively making strategic property investments throughout this financial year in addition to those made since the fourth quarter of 2003. All of these property investments were prime commercial units, and in timely unlocking the capital gains resulting from appreciation in their values, most of these properties have either been successfully disposed of or agreed to be disposed of by us in our normal course of property trading business.

As for our other strategic investment focus, namely in various financial instruments and other debt securities, these investments have continued to result in significant contribution towards our revenue and profit from operations. Nevertheless, following the commencement in the cycle of interest rate hikes at the end of 2003, we have since reduced our investments in financial instruments, resulting in a decrease in our turnover generated from these investments.

Apart from investments in financial instruments, we have recently fully realized our investment in one of our listed associated company, Capital Estate Limited (HKSE Code: 193), so as better concentrate our internal resources for future growth. In addition, we have also been actively seeking out and evaluating numerous other potential strategic investment opportunities in the PRC and throughout other parts of the South-East Asia region, however, no such potential strategic investments were selected this year under our stringent investment criteria.

In March 2005 our investment making skills and solid track record have received recognition from some of the most notorious deal-makers in the region, namely Mr. Richard Li Tzar Kai, Mr. Francis Yuen Tin Fan (the Chairman and Deputy Chairman (amongst other offices) of PCCW Limited respectively) and ITC Corporation Limited, who collectively have subscribed for most of the HK\$108 million new shares placement by the Company, with completion of such placing having taken place in May 2005. In addition to enlarging our shareholders' base and strengthening our financial flexibility for capturing future opportunities in making larger scale strategic investments, both property and non-property related in Hong Kong and within South East Asia, we would also stand to further benefit from any future business developments and new investment opportunities that these notorious deal-makers, now as our strategic shareholders, may come across or be involved in from time to time.



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Prospects for 2005 are encouraging, both for us and for the local economy against the backbone of steady strong growths in the PRC as well as other South East Asia regions. Thus, with solid internal financial resources, enlarged shareholders' as well as recurring income base, and a much strengthened foundation for growth, we will continue to use our strengths to capture strategic investment opportunities, especially larger scale strategic investments where competition is less fierce and with more lucrative potential returns, so as to create further value and higher growth for our shareholders.

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.

APPRECIATION

On behalf of the Board, I would like to express my greatest 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 shareholders, business associates and bankers for their continued support over the years.

Chung Cho Yee, Mico

NON-EXECUTIVE CHAIRMAN

Hong Kong, 21st July, 2005