



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, 2006.

BUSINESS REVIEW AND OUTLOOK

We are pleased to report another year of value creation and growth for our fellow shareholders. Building on our management's strengths in making timely strategic investments, unlocking their hidden potentials, and realizing their resulting gains, we have, for the third consecutive year, achieved an increase in net profit. For the period under review, the Group's net profit increased by approximately 67% compared to the same period last year, being an increase from approximately HK\$71.4 million to HK\$119.2 million when applying the same accounting policies and standards before the adoption of the new HKFRSs.

During this period, we have continued to benefit from the favorable local property market, and amongst other successful dealings, we have disposed of Fullcorp Centre, Tsimshatsui, Hong Kong, the entire 31st Floor of Bank of America Tower, Central, Hong Kong, and the prime development site in Yiu Wa Street, Causeway Bay, Hong Kong, as well as various other strategic investments in securities and financial instruments, including our entire investment in Capital Estate Limited (HKSE Code: 193), in each case so as to timely unlock the resulting capital gains and to better concentrate our internal resources for future growth.

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We continue to believe that, with the growing influx of tourists from the mainland PRC and the increase in spending powers of the younger and middle class sectors of the local population, demand for prime spaces in urban retail hubs form businesses tailored to the life-style of these customers, ranging from health and beauty services, food and beverages, to bars and karaokes, will continue to grow. We also believe that, with the growing influx of overseas capital, primarily from real estate funds led by world-class investment banks, targeting high-value en-bloc local landmark properties, the growth in both market liquidity and value of these landmarks will continue to out-perform the already highly competitive mid-value property sectors.

As such, in capturing opportunities from these growing demands for both "life-style" and high-value landmark properties, we intend to continue our focus on renovation, refurbishment and selective re-positioning of tenant mix of the various urban hub en-bloc properties within the Group's existing portfolio (including the 3 en-bloc properties situated in the center of the retail hub of Tsimshatsui, Kowloon which the Group has recently agreed to acquire, namely Nos. 23-25 Ashley Road, No. 27 Ashley Road, and No. 8 Hau Fook Street), so as to reposition them into urban "life-style" centers and to un-lock their rental improvement potentials. We also intend to appropriately expand, when the opportunities arise, the Group's existing property investment portfolio to include further urban en-bloc properties, as well as high-value local landmark buildings in addition to the recently acquired majority position of the entire AXA Centre, Gloucester Road, Hong Kong.

In addition to local property investments, we have also been actively seeking out and evaluating numerous potential prime real estate and other 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 strategic investments have met the Group's stringent investment criteria. Nonetheless, we continue to believe in the regional growth potential and intend to 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 in light of the similar growth in businesses tailored to the latest life-style of the local PRC customers.

In May 2005, our solid track record, as well as our investment and asset management skills, received recognitions from some of the most reputable deal-makers in the region, namely Mr. Richard Li Tzar Kai (the Chairman of PCCW Limited (amongst other offices)) and ITC Corporation Limited, who collectively subscribed for approximately HK\$106.5 million new shares in the Company and became our strategic shareholders. In December 2005, we were also proudly entrusted by the world-class investment bank, Lehman Brothers, as our partner in the joint acquisition of Paul Y. Center in Kwun Tong, Kowloon, with the task of managing this joint venture. Since then, we have been honoured to receive yet further recognitions from other world-class financial institutions who have participated in the Company's three separate fund raising exercises, together which a total of HK\$743.25 million was raised by the Company, and we are now proud to have the Stark Investments group, Lehman Brothers Commercial Corporation Asia Limited, JP Morgan Securities Limited and PMA Capital Management Limited as our strategic shareholders, in addition to Mr. Richard Li and ITC Corporation Limited.

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Looking back on this year, we have again achieved considerable progress in laying yet more solid foundation for future growth. As a niche player focused on improving property rental returns, repositioning urban en-bloc properties into "life-style" centers, and acquiring high-value local landmark buildings, we are very well positioned to benefit from the growing opportunities in these sectors. We are also optimistic that, with the recognitions and backings from our world-class strategic shareholders and partners, future ventures with other world-class leading institutions in larger scale strategic investments, where competition is less fierce and potential returns more lucrative, will follow in due course. As such, and against the backbone of steady growth in the regional economy, our future prospects are very encouraging, and we will continue to use our strengths in creating further value and higher growth for our shareholders.

APPRECIATION

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

Chung Cho Yee, Mico
NON-EXECUTIVE CHAIRMAN

Hong Kong, 29th July, 2006