

CHAIRMAN'S STATEMENT

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

Review of the results

The Group reported a turnover of approximately HK\$41.3 million for the year ended 31st July, 2003, representing an increase of 9.8% from approximately HK\$37.6 million recorded in the last year. Compared with last year, the turnover generated from financial investments decreased by approximately HK\$36.2 million, while the turnover from sale of properties and sale of silk products increased by approximately HK\$19.9 million and HK\$18.9 million respectively.

In view of the operation, the administrative expenses of the Group increased by approximately HK\$22.8 million from HK\$4.5 million recorded in the last year. The increase was mainly due to the consolidation of the administrative expenses for the business of sale of silk products in this year.

During the year, although the outbreak of the Iraq War and Severe Acute Respiratory Syndrome ("SARS") made the overall business environment and investments difficult, the net loss of the Group decreased to approximately HK\$44 million for the year ended 31st July, 2003, representing a decrease of 55.5% from the net loss of approximately HK\$98.8 million in the last year. The decrease in net loss was mainly due to the decrease in impairment loss on goodwill arising on acquisition of subsidiaries and impairment loss on other securities.

Liquidity and financial resources

The cash balance of the Group increased by 113% from approximately HK\$9.9 million at 31st July, 2002 to approximately HK\$21.1 million at 31st July, 2003, and the total bank borrowings of the Group increased by 458% from approximately HK\$2.6 million at 31st July, 2002 to approximately HK\$14.5 million at 31st July, 2003, while the gearing ratio of the Group, expressed as the percentage of the Group's total borrowings over the shareholders' fund of approximately HK\$79.9 million was decreased from 37.3% to 25.9%. All bank borrowings were denominated in HK dollars and were on a floating rate basis at bank prime lending rates. The maturity profile spread over a period of 10 years with approximately HK\$1.6 million repayable within one year, HK\$5.7 million repayable within two to five years, and HK\$7.2 million over five years.

During the year, the Company has successfully raised approximately HK\$22 million additional capital via placements and rights issue of new shares.

Exchange rate exposure

Except for certain properties held for sale in Japan, all assets, liabilities and transactions of the Group are denominated in Hong Kong dollars. The fluctuation of foreign currencies did not have a significant impact on the performance of the Group.

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Business review

Global business operating environments remained most difficult throughout the year under review. In particular, the adverse effects on the local economy as a result of the war against Iraq and the outbreak of SARS are more than apparent, especially for those sectors which the Group primarily focuses on, namely the retail and property sectors. Nevertheless, the Group has successfully managed to improve its financial performance, and the net loss of the Group decreased to approximately HK\$44 million from that of HK\$98.8 million recorded in last year.

Property investment and development

Property investment and development remained the principal businesses of the Group. However, due to the continued down-turn in the local property market during the period under review, the occupancy rate and the average rental return generated by the Group's investment properties were less than satisfactory.

Further, the Group had disposed of certain properties in the People's Republic of China ("PRC") and Hong Kong at a total consideration of approximately HK\$19.9 million. All proceeds of sale were utilized to reduce the liabilities of the Group and as a primary result the Group's gearing ratio decreased to 25.9% as at 31st July, 2003, compared to 37.3% as at 31st July, 2002.

In January 2003, the Group entered into an agreement with an independent third party to dispose a wholly owned subsidiary, which solely held a 10% equity interest in Focus Venue Sdn Bhd, at a consideration of HK\$2.5 million. The Group recorded a resulting loss on disposal of this investment of approximately HK\$1,482,000 for the period under review.

On the other hand, the Group is continuing to explore various suitable investment opportunities in possible acquisitions of real properties and property linked investments and had reviewed several real properties and property development projects. Out of these real properties, several of them are classified as Grade A office properties located in Hong Kong, whilst others are commercial properties and residential developments projects in Hong Kong. The Group will conduct periodic review of its existing properties portfolio and may further dispose of properties with less satisfactory return in the forthcoming years.

Sale of silk products

This division of the Group continued to be another core business of the Group, accounting for 45.8% of the Group's total turnover during the period under review. The business is operated by the Group's subsidiary, Marcello Asia Limited which focuses on selling silk and clothing products and targeting tourists visiting Hong Kong. Despite the Hong Kong Government has paid effort in promoting the local tourism industry and the corresponding measures implemented by the PRC Government in the second half of 2002, the later outbreak of the SARS severely affected this division's performance and the Group recorded a loss of approximately HK\$6.2 million from this division for the period under review.

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Other Business

In January 2003, the Group entered into an agreement with an independent third party to dispose of two wholly owned subsidiaries, which solely held a 20% equity interest in Vistanet (M) Sdn Bhd and 100% equity interest in Finacorp Resources (M) Sdn Bhd, at a consideration of HK\$1.5 million and HK\$4 million respectively. Prior to their disposals, these companies were mainly responsible for the Group's business of construction and interior design works in Malaysia. However, due to the regional wide sluggishness in the economy during the period under review, the performance of these companies did not achieve that as expected. In order to reduce any further losses on the Group, these companies were disposed of and a loss on disposal of these investments of approximately HK\$2,037,000 was recorded.

Prospects

Despite the poor performance and investor's confidence in the local equity market throughout the period under review, the Group has maintained its access to equity financing and has successfully raised approximately HK\$22 million additional capital via placements and rights issue of new shares. In light of the recent signs of economic recovery following the successful control of the SARS, the various further measures taken by the government aiming to revive the local property market, and the granting of individual travel permits to Hong Kong by certain PRC cities, the Group intends to make good use of its strengthened financial resources in its core business of property investment, development and related undertakings. Towards this end, the Group believes that the proposed acquisition of a controlling interest in Century 21 Hong Kong Limited (whose businesses comprise principally that of franchising estate agency work, real estate project management and related undertakings) as announced in September 2003, when successfully completed, will greatly enhance the Group's ability in identifying and making strategic investments in property related projects having promising potentials. Moreover, in order to conserve resources for future development, non-core businesses and investment or assets with little strategic value may be further disposed of by the Group in the forthcoming years should opportunities arise.

Reward for employees

The Group offers its employees competitive remuneration packages.

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.

By order of the Board

Choo Yeow Ming

Executive Chairman

Hong Kong, 19th November, 2003