

## 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 2004.

### Review of the results

The Group reported a turnover of approximately HK\$22.6 million for the year ended 31st July, 2004, representing a decrease of 45.3% from approximately HK\$41.3 million recorded in the last year. Compared with last year, the turnover generated from property sales decreased by approximately HK\$15.5 million, and the turnover generated from sale of silk products decreased by approximately HK\$11.1 million, while the turnover generated from financial investment was increased by approximately HK\$7.7 million.

During the year, the net loss of the Group decreased to approximately HK\$2.86 million for the year ended 31st July, 2004, representing a decrease of 93.5% from the net loss of approximately HK\$44 million in the last year. The improvement of results was mainly due to the decrease in deficit from revaluation of investment properties, decrease in allowance for loan receivables and decrease in administration expenses as a result of disposal of business in sale of silk products.

### Liquidity and financial resources

The cash balance of the Group increased by 15.2% from approximately HK\$21.1 million at 31st July, 2003 to approximately HK\$24.3 million at 31st July, 2004, and the total bank borrowings of the Group decreased by 34.5% from approximately HK\$14.5 million at 31st July, 2003 to approximately HK\$9.5 million at 31st July, 2004, while the gearing ratio of the Group, expressed as the percentage of the Group's total liabilities over the shareholders' fund of approximately HK\$100.3 million was decreased from 25.9% to 19.6%. All bank borrowings were denominated in HK dollars and were on a floating rate basis at bank prime lending rates. The maturity profile spreads over a period of 9 years with approximately HK\$1.3 million repayable within one year, HK\$4.2 million repayable within two to five years, and HK\$4 million over five years.

### 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

During the year under review, the local economy gradually recovered following the various measures taken by the government to revive the local property market and the granting of individual travel permits to Hong Kong by The PRC provinces. Aided by such economic recovery, the Group has managed to continue to improve its financial performance, and the net loss of the Group decreased to approximately HK\$2.86 million compared to that of HK\$44 million recorded in last year.

### Property investment and development

As previously announced, the Group's corporate strategy is to focus primarily on its core business of property investment, development and related undertakings. Towards this end, in January 2004 the Group has successfully completed its acquisition of 66% indirect interests in Century 21 Hong Kong Limited ("Century 21"), whose principal activities include the business of franchising estate agency work, real estate project management and related undertakings.

In relation to property investment, following the revival in the local property market, the Group has successfully managed to dispose of, as part of the Group's continuing effort in maximizing return on investment, certain property investments yielding less than satisfactory returns. Further, the Group has also successfully managed to acquire two prime commercial units for investment purposes, both of which was subsequently disposed of shortly following their acquisitions and each at a profit.

### Other businesses

Operated by the Group's subsidiary, Marcello Asia Limited, focus was maintained via its retail shop in selling mainly silk and clothing products and targeting foreign tourists visiting Hong Kong. Whilst operating results had improved compared to those recorded during period of the outbreak of SARS, a loss of HK\$0.5 million was recorded by this division during the period under review, notwithstanding the government's effort in promoting the local tourism industry and the granting of individual travel permits to Hong Kong by The PRC cities. In towards minimizing further losses which the Group may continue to suffer, Marcello Asia Limited was disposed of on 30th March, 2004.

The Group also has investments in the equity and bond markets which mainly comprised of debt security instruments with high credit ratings yielding stable interest return.

### Prospects

Aided by the recent recovery in investors' confidence in the local equity market, the Group has successfully managed to raise approximately HK\$25.9 million via the issuance and placement of redeemable convertible notes and new shares during the year under review.

In light of the recent recovery in the local property market, the Group intends to make good use of its strengthened financial resources in continuing to focus on its core business of property investment, development and related undertakings. Further, the Group believes that the newly acquired businesses operated by Century 21, together with its brand name, franchise network and management's experience in the property market, would greatly enhance business opportunities available to the Group and in furtherance of its development in property related undertakings and thus in strengthening the Group's revenue and income base.

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### 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, 16th November, 2004