

# 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, 2005.

## REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$25.7 million for the year ended 31st July, 2005, representing an increase of approximately 13.7% from HK\$22.6 million recorded in the last year. The increase in turnover was mainly due to the increase in sales generated from financial investment of approximately HK\$2.6 million, property sale of approximately HK\$5.6 million and estate agency of approximately HK\$2.9 million. The increase in turnover, however, was partly offset by the decrease in revenue of approximately HK\$7.8 million from sale of silk products, which was discontinued and disposed of in March 2004.

Net profit after tax for the year ended 31st July, 2005 amounted to HK\$5.9 million (2004: loss of HK\$2.86 million). The improvement of results was mainly due to the upward revaluation of investment properties and the unrealised holding gain on investment in securities.

## DIVIDEND

The Directors do not recommend the payment of any dividends for the year ended 31st July, 2005.

## LIQUIDITY AND FINANCIAL RESOURCES

The cash balance of the Group increased by 190.5% from approximately HK\$24.3 million at 31st July, 2004 to approximately HK\$70.6 million at 31st July, 2005, and the total bank borrowings of the Group decreased by 13.7% from approximately HK\$9.5 million at 31st July, 2004 to approximately HK\$8.2 million at 31st July, 2005. The gearing ratio of the Group, expressed as the percentage of the Group's total liabilities over the shareholders' fund of approximately HK\$159.2 million was decreased from 19.6% to 14.2%. All bank borrowings were denominated in HK dollars and were on a floating rate basis at Hong Kong best lending rates. The maturity profile spreads over a period of 8 years with approximately HK\$1.4 million repayable within one year, HK\$4.1 million repayable within two to five years, and HK\$2.7 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.

## BUSINESS REVIEW

The year under review saw the continuing improvement in the local economy, surges in local property prices and transaction volume, and the continuing benefit to the retail sectors brought about by expanded tourism from Mainland China. Accompanied by such economic recovery and improved market sentiment, the Group has managed to turnaround its loss into a profit, achieving a net profit after tax of HK\$5.9 million for the year (2004: loss of HK\$2.86 million).

The principal activities of the Group remain to be financial investment, property investment, development, estate agency and related activities.

## CHAIRMAN'S STATEMENT

During the year under review, the Group disposed of a prime commercial unit held for sale and realised a profit of approximately HK\$1.36 million. The Group also sold a commercial unit held for investment and generated a profit of approximately HK\$1.38 million.

The Group had looked into several potential property investments, but none of them met the Group's investment criteria in terms of risks and return. The Group will continue to seek appropriate investment opportunities that may arise from these areas.

As for the businesses carried on by the Group's subsidiary, Century 21 Hong Kong Limited, namely those of franchising estate agency work, real estate project management and related undertakings, they have remained stable during the year under review, with the number of franchisees of the "Century 21" name growing from 70 as at 1st August, 2004 to 120 currently with 4 franchisee shops in Macau.

### PROSPECTS

The management will continue to look for genuine investment opportunities which will provide growth, capital appreciation, stable revenue and profits to the Group. Mindful of its corporate goals, the Group is determined to grow and expand, and increase its presence in the property sector.

Looking ahead, Hong Kong is facing uncertainties and challenges such as rising oil prices and higher interest rates, but overall, the management is confident and positive with the economic outlook and business prospects in Hong Kong and Macau.

Since its gaming industry opened up, Macau has achieved a rapid growth and a bloom in its property sector. Its hospitality industry and show business flourish, accompanied by an ever increasing demand of new hotels and amusement centres, transportation facilities, infrastructure development and amenities.

In view of the promising economy in Macau, the Group is prepared to explore actively investment opportunities in Macau, including property, hotel operations and related businesses.

The Group has recently raised approximately HK\$210.2 million through a rights issue successfully completed in October 2005. The rights issue has significantly strengthened the Group's financial resources and enables the Group to participate in larger scale projects with greater flexibility in its investment decision making. The Group is now in a better position to realize its vision and accomplish its goals, maximizing the investment return for the Group and for its shareholders.

### REWARD FOR EMPLOYEES

The Group offers its employees competitive remuneration packages.

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## APPRECIATION

I would like to extend my heart felt appreciation to my fellow directors and staff for their dedication and contribution during the year.

By order of the Board  
**Chu Nin Yiu, Stephen**  
*Executive Chairman*

18th November, 2005