

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, 2006.

Review of the Results

The Group reported an increased turnover of approximately HK\$408.9 million for the year ended 31st July, 2006, compared to that of approximately HK\$25.7 million recorded last year. The increase in revenue was mainly due to the increase in sales from financial investment of approximately HK\$392.6 million, which was partly offset by the decrease in revenue of approximately HK\$10 million from property sale.

Net profit after tax attributable to equity holders of the Company for the year ended 31st July, 2006 amounted to HK\$28.9 million. (2005: HK\$6.4 million). The improvement of results was mainly attributable to the increase in interest and dividend income and unrealized holding gain on investments held for trading, which was partly offset by the downward revaluation of investment properties and increase in administration costs.

Dividend

The Directors do not recommend the payment of any dividends for the year ended 31st July, 2006.

Liquidity and Financial Resources

The Group maintains a liquid position. Its cash balance, all in Hong Kong dollars, increased from approximately HK\$70.6 million at 31st July, 2005 to HK\$237.3 million at 31st July, 2006, whereas total bank borrowings reduced from approximately HK\$7.7 million at 31st July, 2005 to HK\$6.8 million at 31st July, 2006. The gearing ratio of the Group, expressed as the percentage of the Group's total liabilities over the shareholders' fund improved significantly from 14.1% to 6.6%. All bank borrowings were denominated in HK dollars and were on a floating rate basis at Hong Kong best lending rates less 1%. The maturity profile spreads over a period of 7 years with approximately HK\$0.9 million repayable within one year, HK\$4.3 million repayable within 2-5 years, and HK\$1.6 million over five years.

Exchange Rate Exposure

Most assets, liabilities and transaction of the Group are denominated in Hong Kong dollars, except for the Group's investment properties in Japan and certain foreign currency derivatives held for trading. The fluctuations of foreign currencies did not have a significant impact on the performance of the Group. Accordingly, the Group did not employ any financial instruments for hedging.

Business Review

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

Riding on the robust economic development in Hong Kong and Macau, the Group captured various opportunities and increased its presence in the property and hotel sectors through active investment and acquisitions.

On 3rd January, 2006, the Group acquired a 10% equity interest in Tin Fok Holdings Company Limited ("Tin Fok") in Macau for a total consideration of HK\$60.0 million. Tin Fok holds a 100% interest in Hotel Fortuna, a popular 20-storey three-star hotel at the heart of the San Hau Ngor district within walking distance from the business and shopping centre.



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According to the data from the Statistics and Census Service of Macau, visitor arrivals totaled 1.8 million in July 2006, representing a year-on-year increase of 8.2%. In the first seven months of 2006, visitor arrivals reached 12.2 million, a 15.4 % growth over the same period of last year. Hotel Fortuna, being newly renovated, has become increasingly popular among tourists. Its turnover was in excess of HK\$ 115 million for the year ended 31st December, 2005 (2004: HK\$58 million), and continued to improve and reached HK\$100 million for the ensuing six months.

On 3rd April, 2006, the Group acquired further a 5% interest in Sociedade de Investimento Imobiliário Pun Keng Wan, SARL (the "Macau Company") in Macau for a consideration of HK\$56.25 million. The Macau Company owns 100% interest in a piece of land located at Avenida Commercial de Macau — Baía de Praia Grande, Zona A "Lote 9", a prestige site for the proposed development of a 57-storey luxurious residential building. The total gross floor area of the proposed development including the car parking basements and club house is approximately 78,400 sq.m.. The site is currently vacant and there is no concrete plan yet as to the exact timing of the commencement of the proposed development.

The Group's subsidiary, Century 21 Hong Kong Limited, continued to expand steadily in its business of franchising estate agency works, real estate project management and related undertakings, and endeavored to enhance its overall operational efficiency and profitability. The number of franchisees of "Century 21" has increased from 120 at 31st July, 2005 to 130 currently, with 4 franchisee shops in Macau.

During the year, the Group has strengthened its financial resources through various fund raising exercises, which facilitates the anticipated expansion of its property portfolio. In October 2005, the Group raised approximately HK\$206.0 million after expenses through rights issue, followed by HK\$51.8 million raised through the placing of new shares in July 2006.

The Group also received net proceeds of approximately HK\$12.8 million from the placing of unlisted warrants in May 2006 with a term of one year. The warrants, if fully exercised, would bring in additional capital of approximately HK\$53.0 million from the consequential allotments of new shares. To date, new shares in the aggregate amount of HK\$ 21.0 million have been issued upon the partial exercise of these warrants.

Prospects

In Macau, the flourishing gaming and tourism industries, accompanied by the growing GDP and influx of workers and professionals, continues to drive demand of hotel and resorts facilities, and high-end residential properties.

In view of the robust economy and supportive developments, the investments in Macau recently acquired by the Group are expected to yield a satisfactory return in the foreseeable future. The Group will continue to explore opportunities to enhance shareholder value and expand its business horizon.

To realize its goals, the Group has been constantly carrying out researches, assessments and studies of investment projects or proposals that may arise from time to time. The Group focuses on opportunities in Macau and the neighbouring Guangdong Province, which include development projects of hotels and resorts, and luxury residential properties.

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Reward for Employees

The Group offers its employees competitive remuneration packages which commensurate with their performance, experience and job nature.

Appreciation

I would like to thank my fellow directors and staff for their whole-hearted dedication and contribution during the year.

By order of the Board

Chu Nin Yiu, Stephen

Executive Chairman

21st November, 2006