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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Capital Estate Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CAPITAL ESTATE LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

PROPOSED PLACING OF CONVERTIBLE NOTES REFRESHMENT OF GENERAL MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Placing Agent



KINGSTON SECURITIES LIMITED

**Independent Financial Adviser to the Independent Board Committee
and the Shareholders**



AMS Corporate Finance Limited

A notice convening the Extraordinary General Meeting of Capital Estate Limited (the “Company”) to be held at Board Room, 7/F, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 17 February 2005 at 9:30 a.m. is set out on pages 25 to 28 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

The CB Placing is subject to termination on the occurrence of, amongst other things, any event of force majeure at or before 12:00 p.m. on the completion date of the CB Placing.

The CB Placing may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

24 January 2005

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“AMS”	AMS Corporate Finance Limited, a corporation licensed under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the refreshment of the General Mandate
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Capital Strategic”	Capital Strategic Investment Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“CB Placing”	the conditional placing of the Convertible Notes pursuant to the CB Placing Agreement
“CB Placing Agreement”	the conditional placing agreement dated 5 January 2005 entered into between the Company and the Placing Agent in relation to the CB Placing
“Code”	Code on Takeovers and Mergers
“Company”	Capital Estate Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange
“Conversion Shares”	the new Shares to be issued by the Company upon the exercise of the conversion rights attaching to the Convertible Notes by the holders thereof
“Convertible Notes”	the convertible notes to be issued by the Company in the aggregate principal amount of HK\$36.4 million and each being a “Convertible Note”
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Placing Shares to the Placees under the Placing

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be convened at Board Room, 7/F, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, on Thursday, 17 February 2005 to approve the CB Placing and the refreshment of the General Mandate
“General Mandate”	the general mandate to be granted, if thought fit, by the Shareholders to the Directors to exercise the power of the Company to issue securities up to 20% of the Company’s issued share capital in the EGM
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising Mr. Miu Frank H. and Mr. Sin Chi Fai, the independent non-executive Directors, formed for the purpose of advising the Shareholders in relation to refreshment of the General Mandate
“Joint Announcement”	the announcement dated 5 January 2005 made by the Company, Capital Strategic and the Offeror in relation to, amongst other things, the Placing, Top-Up Subscription, the proposed CB Placing and the proposed refreshment of the General Mandate
“Last Trading Date”	30 December 2004, being the last full trading day for the Shares before the Joint Announcement
“Latest Practicable Date”	20 January 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offeror”	Earnest Equity Limited, a company incorporated under the laws of the British Virgin Islands, which is wholly owned by Digisino Assets Limited in its capacity as the sole trustee and for the benefit of a discretionary trust founded and established by Mr. Mico Chung. Digisino Assets Limited, a company incorporated under the laws of the British Virgin Islands, is wholly owned by Mr. Mico Chung who is the sole director of each of Earnest Equity Limited and Digisino Assets Limited

DEFINITIONS

“Offers”	the share offer and the option offer which have been announced on 15 November, 3 December, 21 December, 22 December and 30 December 2004 jointly by the Offeror and Capital Strategic
“Placee(s)”	any individual, institutional or other professional investor(s) procured by the Placing Agent to purchase any of the 650,000,000 existing Shares under the Placing Agreement
“Placing”	the placing of 650,000,000 existing Shares beneficially owned by the Vendor pursuant to the terms of the Placing Agreement
“Placing Agent”	Kingston Securities Limited, a deemed licensed corporation to carry on business in types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities and corporate finance, and asset management) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement between the Vendor and the Placing Agent dated 5 January 2005 in relation to the Placing
“Placing Price”	HK\$0.0265 per Share
“Placing Shares”	an aggregate of 650,000,000 existing Shares beneficially owned by the Vendor and to be placed pursuant to the Placing Agreement
“Share(s)”	ordinary share(s) of HK\$0.01 in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Top-Up Subscription”	the subscription of the Top-Up Subscription Shares pursuant to the terms of the Top-Up Subscription Agreement
“Top-Up Subscription Agreement”	the subscription agreement entered into between the Vendor and the Company dated 5 January 2005 in relation to the Top-Up Subscription

DEFINITIONS

“Top-Up Subscription Price”	HK\$0.0265 per Share
“Top-Up Subscription Shares”	a total of 650,000,000 new Shares to be subscribed by the Vendor pursuant to the Top-Up Subscription Agreement
“Vendor”	Success Field Group Limited, a wholly-owned subsidiary of Super Master Group Limited, which in turn is a wholly-owned subsidiary of Capital Strategic
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



CAPITAL ESTATE LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

Directors:

Mr. Choo Yeow Ming (*Executive Chairman*)

Mr. Ng Kai Man, Luke (*Deputy Chairman*)

Ms. Ma Wai Man, Catherine

Mr. Chow Hou Man

Registered Office:

Room 902,

88 Gloucester Road,

Wanchai,

Hong Kong

Independent non-executive Directors:

Mr. Miu, Frank H.

Mr. Sin Chi Fai

24 January 2005

To the Shareholders,

Dear Sir or Madam,

**PROPOSED PLACING OF CONVERTIBLE NOTES,
REFRESHMENT OF GENERAL MANDATE TO ISSUE SECURITIES
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

On 5 January 2005, the Board announced that the Company has entered into the Top-Up Subscription Agreement and the CB Placing Agreement with the Vendor and the Placing Agent respectively. On the same day, the Board also announced that the Vendor had also entered into the Placing Agreement with the Placing Agent. The Placing was completed on 10 January 2005 and the Top-Up Subscription was completed on 19 January 2005.

The purpose of this circular is (i) to provide you with information on the CB Placing Agreement and the refreshment of the General Mandate; (ii) to set out the recommendation of the Independent Board Committee and the advice of AMS in relation to the refreshment of the General Mandate; and (iii) to give you a notice of the EGM at which resolutions will be proposed and, if thought fit, approve in respect of the CB Placing and the refreshment of the General Mandate.

LETTER FROM THE BOARD

CB PLACING AGREEMENT

Date

5 January 2005

Parties involved

The Placing Agent and the Company

Placing Agent

The Placing Agent has conditionally agreed with the Company to place, on a fully underwritten basis, to not fewer than six independent professional, corporate or individual investors the Convertible Notes which are proposed to be issued in an aggregate principal amount of HK\$36.4 million. The Placing Agent will receive a placing commission of 2% on the gross proceeds of the placing of the Convertible Notes in accordance with the aggregate amount underwritten by it, which was arrived at after arm's length negotiations between the Company and the Placing Agent.

The Placing Agent is independent of and not connected with the Company nor with the Directors, chief executive or substantial Shareholders of the Company, and any of their subsidiaries or any of their respective associates.

Placees

The Placing Agent will place the Convertible Notes to not fewer than six Placees, each of whom (i) will be an independent third party not connected with the Directors, chief executive and substantial Shareholders of the Company and any of its subsidiaries or any of their respective associates; and (ii) is not connected with the other Placees. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the EGM. No Placees will become substantial Shareholders upon the convertible rights attaching to the Convertible Notes fully exercised.

Conditions

The placing of the Convertible Notes is conditional upon, amongst other things, the Listing Committee of the Stock Exchange having granted (either unconditionally or subject to conditions to which neither the Company nor the subscribers shall unreasonably object) the listing of and permission to deal in the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Notes and the passing of the relevant resolution for the approval of the issue of the Convertible Notes at the EGM.

If the condition is not fulfilled on or before 18 March 2005 or such later date as may be agreed between the Placing Agent and the Company, the CB Placing Agreement will lapse and become null and void.

LETTER FROM THE BOARD

Termination and force majeure

The CB Placing Agreement may be terminated by the Placing Agent, if, at any time prior to 12:00 noon on the date for completion of the CB Placing Agreement, in the reasonable opinion of the Placing Agent, the success of the Placing or the business or financial prospects of the Group taken as a whole would be adversely and materially affected by:

- (a) any material breach of any of the representations and warranties set out in the CB Placing Agreement; or
- (b) any suspension in dealings in or the listing of the Shares on the Stock Exchange for a period of 5 or more business days (as defined in the Listing Rules) (other than in connection with the Placing); or
- (c) any of the following events:
 - (i) the introduction of any new law or regulation or any change in existing laws or regulations or change in the interpretation or application thereof; or
 - (ii) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not sui generis with any of the foregoing, resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic or stock market conditions; or
 - (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
 - (iv) a change or development involving a prospective change in taxation or the implementation of exchange controls which shall materially and adversely affect the Group taken as a whole; or
 - (v) any change or deterioration in the conditions of local, national or international securities markets occurs,

then and in any such case, the Placing Agent may terminate the CB Placing Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to 10:00 a.m. on the date for completion of the CB Placing Agreement.

LETTER FROM THE BOARD

Completion

Completion of the CB Placing Agreement shall take place on the tenth business day following the date on which the conditions thereto are fulfilled (or such other date as the Company and the Placing Agent shall agree).

The Convertible Notes

The terms of the Convertible Notes have been negotiated on an arm's length basis and the principal terms of which are summarized below:

Principal amount

An aggregate of HK\$36.4 million.

Interest

At the rate of 2% per annum on the outstanding principal amount, which is determined after arm's length negotiation between the Company and the Placing Agent, with reference to, among other things, the prime rate and the interest rates of convertible notes issued by other listed companies.

Maturity

18 months from the date of the issue.

Denomination

In multiple of HK\$100,000

Conversion Price

HK\$0.028 per Share which is subject to adjustment for the dilutive events including, amongst other matters, sub-division or consolidation of Shares, bonus issues and rights issues.

The Conversion Price of HK\$0.028 represents (i) a discount of about 9.68% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a premium of about 10.24% over the average closing price per Share of about HK\$0.0254 as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date; and (iii) a premium of about 17.65% over the average closing price per Share of HK\$0.0238 as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date; and (iv) a premium of about 7.7% to the closing price of HK\$0.026 per Share as at the Latest Practicable Date.

LETTER FROM THE BOARD

Conversion

Each holder may convert the whole or part of the principal amount of the relevant Convertible Note (in multiple of HK\$100,000) into new Shares as determined by dividing the principal amount of the relevant Convertible Note outstanding at the time of conversion by the conversion price.

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes at the conversion price by all holders of the Convertible Notes, the Company will issue an aggregate of 1,300,000,000 new Shares, representing approximately 38.02% of the existing issued share capital of the Company, and approximately 24.21% of the enlarged issued share capital of the Company by the Conversion Shares. The Conversion Shares will be issued pursuant to the passing of the relevant resolution at the EGM.

The market value of the total Conversion Shares will be in aggregate of HK\$40.3 million based on the closing price of HK\$0.031 per Share on 30 December 2004, being the Last Trading Day, and in aggregate of HK\$33.8 million based on the closing price of HK\$0.026 per Share as at the Latest Practicable Date.

Conversion period

Each of the holders of the Convertible Notes shall have the right at any time after the date of issue of the relevant Convertible Note to convert all or part of the principal amount of the relevant Convertible Note outstanding at any time into new Shares at the conversion price of HK\$0.028 per Share provided that an integral multiple of HK\$100,000 be converted at any time and save that if the outstanding principal amount of the relevant Convertible Notes is less than HK\$100,000, the whole (but not part only) of the outstanding principal amount of the relevant Convertible Notes must be converted.

Ranking

The Conversion Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Redemption by the Company

The Company shall be entitled at any time to redeem the whole or any part of the outstanding principal amount of the relevant Convertible Notes at 5% premium over the outstanding principal amount and interest accrued thereon with the consent of the holder(s).

Status of the Convertible Notes

The Convertible Notes constitute general and unsecured obligations of the Company and shall rank equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

LETTER FROM THE BOARD

No application will be made for the listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares falling to be issued upon exercise of the Convertible Notes.

Transferability

The Convertible Notes are freely transferable, provided that the holders of the Convertible Notes must inform the Company of each transfer or assignment made by them. The Company will notify the Stock Exchange if any of the Convertible Notes is transferred to a connected person (as defined in the Listing Rules).

Events of default

All Convertible Notes contain an event of default provision which provides that on the occurrence of certain events of default specified in the Convertible Notes (e.g. liquidation), each of the holders of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Note.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE

Assuming the conversion rights attaching to the Convertible Notes are exercised in full, the shareholding structure of the Company immediately before the exercise of the conversion rights on the Convertible Notes, and immediately after the exercise of the conversion rights on the Convertible Notes in full, are as follows:

	Issued share capital (As at the Last Trading Date)	%	Issued share capital (after completion of Placing)	%	Existing issued share capital (after completion of Top-Up Subscription)	%	Issued share capital assuming conversion rights attached on the Convertible Notes are exercised in full	%
Vendor	859,864,000	25.15	209,864,000	6.14	859,864,000	21.13	859,864,000	16.01
Holders of Convertible Notes	—	0	—	0	—	0	1,300,000,000	24.21
Holders of 2% redeemable convertible notes with aggregate principal amount of HK\$400,000	—	0	—	0	—	0	—	0
Public:								
Placees	—	0	650,000,000	19.01	650,000,000	15.97	650,000,000	12.11
Others	2,559,534,668	74.85	2,559,534,668	74.85	2,559,534,668	62.90	2,559,534,668	47.67
Subtotal	<u>2,559,534,668</u>	<u>74.85</u>	<u>3,209,534,668</u>	<u>93.86</u>	<u>3,209,534,668</u>	<u>78.87</u>	<u>3,209,534,668</u>	<u>59.78</u>
Total	<u>3,419,398,668</u>	<u>100.00</u>	<u>3,419,398,668</u>	<u>100.00</u>	<u>4,069,398,668</u>	<u>100.00</u>	<u>5,369,398,668</u>	<u>100.00</u>

USE OF PROCEEDS

The principal activities of the Company are property rental, financial investment, property sale, franchising estate agency work, real estate project management and related undertakings.

The net proceeds from the Top-Up Subscription will be about HK\$16.8 million. The net proceeds raised per Top-Up Subscription Share will be HK\$0.0258 per Share.

The net proceeds from the CB Placing will be about HK\$35.6 million.

The aggregate net proceeds from the Top-Up Subscription and the CB Placing, of about HK\$52.4 million will be used for property development and investment in Macau including retail shops and commercial buildings.

LETTER FROM THE BOARD

The Board considers that the Top-Up Subscription and the CB Placing are in the interest of the Company and the Shareholders as a whole. All the expense of the CB Placing will be borne by the Company.

REASONS FOR THE CB PLACING

The Directors consider that the CB Placing represents an opportunity to raise capital for the Company under the current positive market condition while broadening the shareholder base and the capital base of the Company.

Fund raising in the 12 months immediately preceding the date of the Joint Announcement

Description	Announcement date	Net proceeds	Date of general mandates granted	Intended use of proceeds as announced	Actual use of proceeds
Placing of 400,000,000 Shares and subscription of 400,000,000 new Shares at HK\$0.02 per Share	9.2.2004	About HK\$7.8 million	18.12.2003	General working capital for operating activities	HK\$1 million used for repayment of bank mortgage loan, HK\$2 million used for general working capital; the remaining proceeds of HK\$4.8 remained unused
Placing of 538,000,000 new Shares at HK\$0.02 per Share	25.3.2004	About HK\$10.30 million	22.4.2004	Financing the Company's purchase of properties and other investment-related projects	same as intended but not yet utilized

Shareholders should note that completion of the CB Placing Agreement is conditional. Shareholders and potential investors should exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

HISTORY OF REFRESHMENT OF THE GENERAL MANDATE

At the last annual general meeting of the Company held on 16 December 2004, the Board was granted the general mandate on the basis of the issued share capital of the Company comprising 3,269,398,668 Shares on that date to allot, issue and deal with new Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of the relevant ordinary resolution. As at the date of the Joint Announcement, the said general mandate had not been utilized and based on the number of Shares in issue as at 16 December 2004, 653,879,733 new Shares can be issued under the said general mandate.

Therefore, the said general mandate had been utilized by the Top-Up Subscription and then the Top-Up Subscription Shares had been allotted and issued pursuant to the general mandate to allot, issue and deal with Shares granted to the Directors at the annual general meeting of the Company held on 16 December 2004. As such, the Board proposes to refresh the General Mandate. The refreshment of the General Mandate is subject to the Shareholders' approval at the EGM.

The Directors believe that it is in the interest of the Company and its Shareholders as a whole if the General Mandate was refreshed at the EGM. The need for an issue of securities under the General Mandate could, for example, arise in the context of an acquisition by the Group where securities are to be issued as consideration. The Directors currently have no intention of any acquisition by the Company nor any plan for raising capital by issuing new securities. In this respect, the Company will comply with the relevant requirements of the Listing Rules.

THE EGM

Set out on pages 25 to 28 is the notice dated 24 January 2005 for convening the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person if you so wish.

RECOMMENDATION

Approval from the Shareholders will be sought at the EGM for the approval of the CB Placing and the refreshment of the General Mandate to allot and issue securities not exceeding the aggregate of 20% of the issued share capital of the Company as at the date of the EGM being 4,069,398,668 Shares after the Completion of the Top-Up Subscription assuming no further Shares would be issued until the conclusion of the relevant resolution at the EGM. Pursuant to the Listing Rules, any refreshment of the general mandate before the next annual general meeting requires any controlling shareholders and their associates or, where are no controlling shareholders, directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates to abstain from voting in favour of the resolution to be proposed at the EGM to approve the refreshment of the General Mandate. Since the Company did not have any controlling shareholders and no Directors nor chief executive of the Company held any Shares as at the Latest Practicable Date, no Shareholders are required to abstain from voting in favour of the proposed resolution to refresh the General Mandate.

LETTER FROM THE BOARD

at the EGM. In the event that, during the period from the date of this circular to the date of EGM, there is any controlling Shareholder, or Directors or the chief executive of the Company holding any Shares, such controlling Shareholder or directors or the chief executive of the Company (as the case may be) shall abstain from voting in favour of the proposed resolution to refresh the General Mandate at the EGM. No Shareholders have any material interest in the CB Placing and refreshment of the General Mandate and therefore no Shareholders are required to abstain from voting in favour of the CB Placing and refreshment of the General Mandate at the EGM.

An Independent Board Committee has been formed to advise the Shareholders in connection with the refreshment of the General Mandate and AMS has been appointed as the independent financial adviser to advise the Independent Board Committee on the same. AMS considers the terms of the refreshment of the General Mandate fair and reasonable so far as the Shareholders are concerned and is in the interest of the Company and the Shareholders. The text of the letter of the advice from AMS containing its recommendation in respect of the refreshment of the General Mandate is set out on pages 16 to 21 of this circular.

The Independent Board Committee, having taken into account the advice of AMS, considers the refreshment of the General Mandate fair and reasonable and is in the interest of the Company and the Shareholders. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the refreshment of the General Mandate. The full text of the letter from the Independent Board Committee is set out on page 15 of this circular.

The Directors are of the opinion that the proposals regarding the CB Placing and the refreshment of the General Mandate are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM.

By Order of the Board
Choo Yeow Ming
Executive Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CAPITAL ESTATE LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

24 January 2005

To the Shareholders

Dear Sir or Madam,

REFRESHMENT OF THE GENERAL MANDATE

We have been appointed as the Independent Board Committee to advise you in connection with the refreshment of the General Mandate, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 24 January 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the reasons for the refreshment of the General Mandate and the advice of AMS in relation thereto as set out on pages 16 to 21 of the Circular, we are of the view that the refreshment of the General Mandate is in the interests of the Company and the Shareholders as a whole and the terms of the General Mandate are fair and reasonable so far as the Shareholders are concerned.

Accordingly, we recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the refreshment of the General Mandate.

Yours faithfully,

For and on behalf of the Independent Board Committee

Miu Frank H.

Independent

non-executive Director

Sin Chi Fai

Independent

non-executive Director

LETTER FROM AMS

The following is the full text of the letter of advice from AMS in respect of the refreshment of the General Mandate, and is prepared for the purpose of inclusion in this circular.



博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central
Hong Kong

24 January 2005

*To the Independent Board Committee and
the Shareholders of Capital Estate Limited*

Dear Sirs,

REFRESHMENT OF GENERAL MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders of Capital Estate Limited (the “Company”) in respect of the refreshment of the General Mandate, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 24 January 2005 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Pursuant to the Listing Rules, any refreshment of the general mandate before the next annual general meeting requires that any controlling shareholders and their associates or, where there are no controlling shareholders, the directors (excluding independent non-executive directors) and the chief executive of the issuer and their respective associates shall abstain from voting in favour of the relevant resolution at the general meeting. Since the Company did not have any controlling shareholders and the Directors and the Company’s chief executive did not hold any Shares as at the Latest Practicable Date, no Shareholders are required to abstain from voting in favour of the resolution proposed at the EGM to refresh the General Mandate. In the event that, during the period from the Latest Practicable Date to the date of the EGM, there is any controlling Shareholder, or Director or chief executive of the Company holding any Shares, such controlling Shareholder or Director or chief executive of the Company (as the case may be) shall abstain from voting in favour of the relevant resolution to refresh the General Mandate at the EGM. The voting of the Shareholders shall be taken by poll.

LETTER FROM AMS

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Shareholders as to whether the refreshment of the General Mandate is in the interests of the Company and the Shareholders as a whole and whether the refreshment of the General Mandate is fair and reasonable so far as the Shareholders are concerned. As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to whether or not the refreshment of the General Mandate is in the interests of the Company and the Shareholders as a whole and whether it is fair and reasonable so far as the Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Company and the Directors, for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so at the date hereof. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company and the Directors. We consider that we have reviewed sufficient information to reach an informed view. We have not, however, conducted an independent verification of the information provided, nor have we carried out any form of in-depth investigation into the business and affairs of the Group or the prospects of the market in which it operates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the refreshment of the General Mandate, we have taken into consideration the following principal factors and reasons:

I. Background

On 5 January 2005, the Board announced, among other things, that the Top-Up Subscription Agreement was entered into between the Company and the Vendor pursuant to which the Vendor had conditionally agreed to subscribe for an aggregate of 650,000,000 Shares, representing approximately 19.88% of the existing issued share capital of the Company and approximately 16.58% of the issued share capital of the Company as enlarged by the Top-up Subscription Shares, at the price of HK\$0.0265 per Share. Pursuant to the general mandate to allot, issue and deal with Shares granted to the Directors by a resolution passed at the Company's last annual general meeting held on 16 December 2004 and on the basis of the Company's issued share capital of 3,269,398,668 Shares on that date, 653,879,733 new Shares can be issued under the existing general mandate. As at the Latest Practicable Date, the Top-up Subscription Shares had been allotted and issued pursuant to the existing general mandate.

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Following completion of the Top-Up Subscription Agreement pursuant to which 650,000,000 new Shares had been allotted and issued, the number of new Shares available for further issue under the existing general mandate was reduced from the original 653,879,733 Shares to 3,879,733 Shares. Accordingly, the Board proposes to seek for the approval of the Shareholders at the EGM for the refreshment of the General Mandate to allot, issue and deal with Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company as at the date of passing the relevant resolution in the EGM.

II. Latest business development of the Group

The Company is an investment holding company and the principal activities of the Group are property rental, financial investment, property sale, franchising estate agency work, real estate project management and related undertakings. As noted from the Company's latest annual report for year ended 31 July 2004 (the "Annual Report"), the Group recorded a net loss of approximately HK\$2.9 million for the year, which represented a significant improvement from the net loss of approximately HK\$44.0 million for the previous year. As stated in the Annual Report, such improvement was mainly due to the decrease in deficit from revaluation of investment properties, decrease in allowance for loan receivables and decrease in administrative expenses as a result of disposal of the business in sale of silk products.

As stated in the Annual Report, the Group, in view of the recent recovery in the local property market, will continue to focus on its core business of property investment, development and related undertakings. According to the Annual Report, the Group's cash and bank balances amounted to approximately HK\$24.3 million as at 31 July 2004. In addition, the Company had raised net proceeds of approximately HK\$16.8 million from the Top-Up Subscription completed on 19 January 2005. As stated in the Letter from the Board, the net proceeds from the CB Placing will be approximately HK\$35.6 million and the aggregate net proceeds from the Top-Up Subscription and the CB Placing of approximately HK\$52.4 million will be used for property development and investment in Macau including retail shops and commercial building.

Having considered the nature of the Group's principal business activities which include property investment and development, we consider that it is logical and reasonable for the Group from time to time to require additional funds to finance the expansion of its property portfolio as the capital requirements for property investment and development business are often intensive. We also consider that it is important for the Group to have accesses to financial resources to satisfy its needs which may arise from time to time alongside investment opportunities. In the event that the Group identifies a suitable investment opportunity but does not have sufficient financial resources on hand or is unable to obtain loan financing on acceptable terms or raise funds from the equity market in a timely manner, the Group may lose bid for a favourable investment opportunity.

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III. Financial flexibility

As stated in the Letter from the Board, the Directors believe that it is in the interests of the Company and the Shareholders as a whole if the General Mandate is refreshed at the EGM. The Directors consider that the need for an issue of securities under the General Mandate could arise, for instance, in an acquisition by the Group where securities are to be issued as consideration. As at the Latest Practicable Date, the Directors confirmed that there was no proposal for any investment or acquisition of the Group and that there was no plan for raising capital by issuing any new securities other than the CB Placing.

We consider that the refreshment of the General Mandate could enhance the financial flexibility of the Company to raise capital and to strengthen the Group's capital base. In particular, given the Group's principal activities which include property investment and development and are in nature capital intensive, we consider it important for the Group to have sufficient financial resources available to meet its investment needs. If investment or acquisition opportunities arise, decisions may have to be made promptly. The General Mandate will provide the Group with the flexibility of issuing new Shares by way of placement of Shares to raise capital or as consideration, within a short period of time, for funding the potential investments and/or acquisitions as and when such opportunities arise. In addition, share placement exercises are dependent, to certain extent, on market conditions which are often volatile. In the event that attractive terms for investment in the Shares become available from the potential investors, we consider that the General Mandate will enable the Company to respond to such capital raising opportunities from the market in a timely manner.

Based on the financial flexibility brought by the General Mandate as discussed above, we are of the view that the refreshment of the General Mandate is in the interests of the Company and the Shareholders as a whole.

IV. Other financing alternatives

As advised by the Directors, other than raising fund by way of issuing equity capital, the Company may consider other financing alternatives such as bank borrowing or debt issuance in order to meet its financing requirements arising from investment or acquisition opportunities that may arise in the future. Nevertheless, these financing alternatives often result in growing indebtedness as well as additional financing costs for the Group. As the General Mandate will provide a means for the Company to finance the Group's businesses, we believe that the Group will take into consideration its then financial position, capital structure and cost of funding as well as the then market conditions in order to select the financing method which serves the best interests of the Group for its future development.

LETTER FROM AMS

V. Potential dilution to shareholdings of the Shareholders

Set out below is the dilution effect on the shareholding structure of the Company assuming that i) no Shares will be issued during the period from the Latest Practicable Date to the date of the EGM and ii) the General Mandate will be fully utilized:

	Issued share capital as at the Latest Practicable Date		Issued share capital upon the full utilization of the General Mandate	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Vendor	859,864,000	21.13	859,864,000	17.61
Public	3,209,534,668	78.87	3,209,534,668	65.72
Shares that may be issued under the General Mandate	—	—	813,879,733	16.67
Total	<u>4,069,398,668</u>	<u>100.00</u>	<u>4,883,278,401</u>	<u>100.00</u>

As shown in the above table, the aggregate shareholdings of the existing public Shareholders will decrease from approximately 78.87% to 65.72% upon the full utilization of the General Mandate. There will be a potential maximum dilution of approximately 16.67% upon the full utilization of the General Mandate. Given the fact that the shareholdings of all the Shareholders will be diluted proportionally to the same extent to their respective shareholdings upon any utilization of the General Mandate and the financial flexibility that the refreshment of the General Mandate will bring to the Company as discussed in the section headed “Financial flexibility” above, we consider such potential dilution to the shareholdings of the Shareholders to be fair and reasonable.

Shareholders should note that the existing general mandate will be revoked at the EGM upon the Shareholders’ approval of the refreshment of the General Mandate which will be and continue to be in force until the earlier of (i) the conclusion of the Company’s next annual general meeting, and (ii) the revocation or variation or renewal of the authority given under the relevant resolution to be proposed by ordinary resolution of the Shareholders in general meeting. Such duration is in compliance with Rule 13.36(3) of the Listing Rules.

LETTER FROM AMS

RECOMMENDATION

Having considered the factors and reasons stated above, we are of the opinion that the refreshment of the General Mandate is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Shareholders are concerned. Therefore, we would recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution to approve the refreshment of the General Mandate at the EGM.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company since 31 July 2004 (being the end of the latest audited financial year of the Company) up to the Latest Practicable Date as if the Placing has been completed were summarised as follows:

HK\$

Authorised:

<u>12,250,000,000</u>	Shares of HK\$0.01 each	<u>122,500,000</u>
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Issued and fully paid, or credited as fully paid:

3,269,398,668	As at 31 July 2004	32,693,986.68
150,000,000	Shares allotted for the exercise of the conversion right, attached to the 2% redeemable convertible notes in the amounts of HK\$3,000,000 at conversion price of HK\$0.02 per Share	1,500,000
<u>650,000,000</u>	Shares allotted for the Top-Up Subscription	<u>6,500,000</u>
<u>4,069,398,668</u>	As at completion of the Placing	<u>40,693,986.68</u>

All Shares rank pari passu in all respects as regards to the rights to dividends, voting and return of capital.

The Shares are listed and traded on the Main Board of the Stock Exchange. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

3. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration on other proceedings of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened by or against any member of the Group.

4. EXPERT AND CONSENT

The following is the qualification of the expert who has given an opinion or advice, which is contained or referred to in this circular:

Name	Qualification
AMS	Licensed corporation to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

As at the Latest Practicable Date, AMS did not have any beneficial interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any interest, either directly or indirectly, in any assets which had been, since 31 July 2004, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

AMS has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its opinion or letter, as the case may be, and the references to its name, opinion or letter in the form and context in which they respectively appear.

5. MISCELLANEOUS

- (i) The secretary and the qualified accountant of the Company is Ms. Ma Wai Man, Catherine. Ms. Ma is a member of both Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is at Room 902, 88 Gloucester Road, Wanchai, Hong Kong.
- (iii) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English text of this circular shall prevail over the Chinese text.

PROCEDURES FOR DEMANDING A POLL

The following sets out the procedures by which the Shareholders may demand a poll at the EGM.

Pursuant to 74 of the Articles of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy or in the case of a member being a corporation by its duly authorised representative representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy or in the case of a member being a corporation by its duly authorised representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CAPITAL ESTATE LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of Capital Estate Limited (the “Company”) will be held at Board Room, 7/F, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 17 February 2005 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions as Ordinary Resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT** conditional upon: (a) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval for the listing of, and permission to deal in, the new Shares (as defined below) to be issued by the Company upon the exercise of the conversion rights attaching to the Convertible Notes (as defined below); (b) the Company obtaining all consents and approvals from the relevant authorities in relation to the CB Placing (as defined below), if applicable; (c) the obligation of Kingston Securities Limited (the “Placing Agent”) under the placing agreement entered into between the Company and the Placing Agent dated 5 January 2005 (the “CB Placing Agreement”) in relation to the CB Placing becoming unconditional; and (d) the CB Placing Agreement not being terminated in accordance with the terms thereof at any time prior to 12:00 p.m. on the date of completion of the CB Placing Agreement,
 - (i) the issue by way of placing of the convertible notes in the aggregate principal amount of HK\$36.4 million (the “Convertible Notes”) to not fewer than six placees through the Placing Agent pursuant to and in accordance with the terms and conditions set out in the circular of the Company dated 24 January 2005 (the “CB Placing”) (a copy of which had been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) be and is hereby approved and the directors of the Company (the “Directors”) be and are hereby authorized to allot and issue the Convertible Notes pursuant to or in connection with the CB Placing; and
 - (ii) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient in connection with the CB Placing.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the share capital of the Company (“Shares”) and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into Shares) which would or might require the exercise of such powers during or after the end of the Relevant Period, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into Shares) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights Issue (as hereinafter defined); or
 - (ii) an issue of Shares upon the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into Shares, the issue of which warrants and other securities has previously been approved by shareholders of the Company; or
 - (iii) an issue of Shares upon the exercise of any options granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of Shares or rights to acquire Shares; or
 - (iv) an issue of Shares as scrip dividends or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of the Company,

shall not in total exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) for the purpose of this resolution, “Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of the Company, the Companies Ordinance or any applicable laws in Hong Kong to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company under this resolution.

“Rights Issue” means an offer of Shares or an offer of warrants, options or other securities giving rights to subscribe for Shares, open for a period fixed by the directors of the Company to holders of Shares or any class thereof whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares or any class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

By Order of the Board
Choo Yeow Ming
Executive Chairman

Hong Kong, 24 January 2005

Registered Office:

Room 902,
88 Gloucester Road,
Wanchai,
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the above meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.