
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 shares in Capital Estate Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with an extraordinary general meeting of the Company to be held on Thursday, 29th September, 2005. This circular is not an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.



CAPITAL ESTATE LIMITED

冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

PROPOSED CAPITAL REORGANISATION AND PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD

Joint Financial Advisers

ALTUS CAPITAL LIMITED



結好融資有限公司
GET NICE CAPITAL LIMITED

Underwriter of the Rights Issue



結好投資有限公司
GET NICE INVESTMENT LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders



It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain force majeure events. The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the second Business Day following the Acceptance Date if there occurs:

1. (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;
and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or
2. if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
 - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
 - (b) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
 - (c) the Prospectus Documents when published, contains information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of this circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees as may then be agreed by the relevant parties. If the Underwriter exercises such right, the Rights Issue will not proceed.

It should be noted that the Shares will be dealt in on an ex-rights basis from Thursday, 22nd September, 2005. Dealings in the Rights Shares in nil-paid form will take place from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any dealing in the Shares or nil-paid Rights Shares during the period from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

A notice convening the EGM of the Shareholders of Capital Estate Limited to be held at Board Room 1, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 9:00 a.m. on Thursday, 29th September, 2005 is set out on pages 115 to 117 of this circular. Whether or not Shareholders are able to attend the meeting in person, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting should they wish.

A letter of advice from Access Capital Limited, the independent financial adviser to the Independent Board Committee of Capital Estate Limited, is set out on pages 29 to 46 of this circular.

12th September, 2005

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DEFINITIONS

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

“Acceptance Date”	Monday, 17th October, 2005 (or such other date as the Underwriter may agree in writing with the Company as the latest date for acceptance of, and payment for, Rights Shares)
“Access Capital”	Access Capital Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Altus Capital”	Altus Capital Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company and is one of the Joint Financial Advisers
“Announcement”	the announcement of the Company dated 11th August, 2005 relating to the proposed Capital Reorganisation and the Rights Issue
“associate(s)”	the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business for more than five hours in Hong Kong
“Capital Reorganisation”	the Share Consolidation and the increase of the authorised share capital of the Company to HK\$2,000,000,000 by the creation of 1,877,500,000 Consolidated Shares
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“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

DEFINITIONS

“Consolidated Share(s)”	share(s) of HK\$1.00 each in the share capital of the Company after the Share Consolidation becomes effective
“Convertible Notes”	the convertible notes issued by the Company in the aggregate principal amount of HK\$36.4 million pursuant to the conditional placing agreement entered into by the Company dated 5th January, 2005, details of which are set out in the announcement and circular of the Company dated 5th January, 2005 and 24th January, 2005 respectively
“Director(s)”	director(s) of the Company
“EAF(s)”	the excess application form(s) to be issued in connection with the Rights Issue
“EGM”	the extraordinary general meeting of the Company to be held on Thursday, 29th September, 2005 at which resolutions will be proposed to consider and, if thought fit, approve the Capital Reorganisation and the Rights Issue
“Get Nice Capital”	Get Nice Capital Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company, and one of the Joint Financial Advisers
“Group”	the Company and its subsidiaries
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising the independent non-executive Directors, namely, Mr. Li Sze Kuen, Billy, Mr. Wong Kwong Fat and Mr. Leung Kam Fai
“Independent Shareholders”	Shareholders other than Mr. Chu, Supervalve and their respective associates
“Independent Third Party(ies)”	independent third party(ies) not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Joint Financial Advisers”	Altus Capital and Get Nice Capital
“Last Trading Day”	5th August, 2005, being the last trading day before the suspension of trading in the Shares, pending the release of the Announcement

DEFINITIONS

“Latest Practicable Date”	9th September, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chu”	Mr. Chu Nin Yiu, Stephen, an executive Director
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Shareholders on account either of restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are in a place(s) outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) to be issued in connection with the Rights Issue
“PRC”	The People’s Republic of China
“Prospectus”	a prospectus to be issued containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, PAL and EAF
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear on the register of members of the Company at the close of business on the Record Date
“Record Date”	Thursday, 29th September, 2005 or such other date as the Underwriter may agree in writing with the Company as the date by reference to which entitlements to the Rights Issue are to be determined
“Registrar”	the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the issue by way of rights of four Rights Shares for every one Consolidated Share held on the Record Date at a price of HK\$1.00 per Rights Share

DEFINITIONS

“Rights Share(s)”	new Consolidated Share(s) to be issued and allotted under the Rights Issue, being not less than 210,175,944 Consolidated Shares and not more than 219,743,944 Consolidated Shares
“Settlement Date”	the second Business Day following the Acceptance Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company before the Share Consolidation becoming effective
“Share Consolidation”	the consolidation of every 100 Shares into one Consolidated Share
“Shareholder(s)”	holder(s) of Share(s) or Consolidated Share(s) (as the case may be)
“Share Option(s)”	the outstanding share option(s) granted by the Company pursuant to the share option scheme of the Company adopted on 30th December, 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervalue”	Supervalue Holdings Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Chu, the principal business of which is the holding of the shares in the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter” or “Get Nice Investment”	Get Nice Investment Limited, a corporation deemed licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO, which is not a connected person (as defined in the Listing Rules) of the Company
“Underwriting Agreement”	the underwriting agreement dated 8th August, 2005 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the second Business Day following the Acceptance Date if there occurs:

1. (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
 - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
 - (b) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (c) the Prospectus Documents when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of this circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees as may then be agreed by the relevant parties. If the Underwriter exercises such right, the Rights Issue will not proceed.

EXPECTED TIMETABLE

2005

Last day of dealings in Shares on a cum-rights basis	Wednesday, 21st September
First day of dealings in Shares on an ex-rights basis	Thursday, 22nd September
Latest time for lodging transfers of Shares in order to qualify for Rights Issue	4:00 p.m., Friday, 23rd September
Register of members closes	Monday, 26th September to Thursday, 29th September (both dates inclusive)
Latest time for return of proxy form	9:00 a.m., Tuesday, 27th September
EGM	9:00 a.m., Thursday, 29th September
Record Date	Thursday, 29th September
Effective date of the Capital Reorganisation	after 4:00 p.m., Thursday, 29th September
Register of members re-opens	Friday, 30th September
Despatch of Prospectus Documents	Friday, 30th September
Commencement of dealings in Consolidated Shares	Friday, 30th September
Original counter for trading in Shares (in board lots of 2,000 Shares) closes	9:30 a.m., Friday, 30th September
Temporary counter for trading in Consolidated Shares in board lots of 20 Consolidated Shares (in form of existing share certificates) opens	9:30 a.m., Friday, 30th September
Free exchange of existing share certificates for new share certificates commences	Friday, 30th September
First day of dealings in nil-paid Rights Shares	Tuesday, 4th October
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Thursday, 6th October
Last day of dealings in nil-paid Rights Shares	Wednesday, 12th October

EXPECTED TIMETABLE

2005

Latest time for payment for and acceptance of Rights Shares	4:00 p.m., Monday, 17th October
Original counter for trading in Consolidated Shares (in board lots of 2,000 Shares) re-opens	9:30 a.m., Monday, 17th October
Parallel trading in Consolidated Shares (in form of new and existing certificates) begins	9:30 a.m., Monday, 17th October
Designated broker starts to stand in the market to provide matching service	Monday, 17th October
Rights Issue becomes unconditional	after 4:00 p.m., Wednesday, 19th October
Announcement of results of acceptances and excess applications in the Rights Issue	Thursday, 20th October
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Thursday, 20th October
Despatch of certificates for fully-paid Rights Shares	Thursday, 20th October
First day of dealings in fully-paid Rights Shares	Monday, 24th October
Temporary counter for trading in Consolidated Shares in board lots of 20 Consolidated Shares (in form of existing share certificates) closes	4:00 p.m., Monday, 7th November
Parallel trading in Consolidated Shares (in form of new and existing certificates) ends	4:00 p.m., Monday, 7th November
Designated broker ceases to stand in the market to provide matching service	4:00 p.m., Monday, 7th November
Free exchange of existing share certificates for new share certificates ends	Thursday, 10th November

Note: All times refer to Hong Kong local time in this circular

LETTER FROM THE BOARD



CAPITAL ESTATE LIMITED 冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

Executive Directors:

Chu Nin Yiu, Stephen
(Executive Chairman)
Chu Nin Wai, David
(Deputy Chairman)
Lau Chi Kan, Michael

Independent Non-Executive Directors:

Li Sze Kuen, Billy
Wong Kwong Fat
Leung Kam Fai

*Principal place of business
in Hong Kong:*

Unit 1901
19th Floor Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong

12th September, 2005

*To the Shareholders and, for information only,
holders of the Share Options and Convertible Notes*

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION
AND
PROPOSED RIGHTS ISSUE ON THE BASIS OF
FOUR RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD**

INTRODUCTION

On 11th August, 2005, the Company announced the proposed Capital Reorganisation and the proposed Rights Issue.

Subject to the approval of the Capital Reorganisation by Shareholders at the EGM and the Capital Reorganisation becoming effective and the fulfillment of the relevant conditions, the Company proposes to raise approximately HK\$210.2 million before expenses (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) or approximately HK\$219.7 million before expenses (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) by way of the Rights Issue of not less than

LETTER FROM THE BOARD

210,175,944 Rights Shares and not more than 219,743,944 Rights Shares at a price of HK\$1.00 per Rights Share. The Company will provisionally allot four Rights Shares in nil-paid form for every Consolidated Share held by the Qualifying Shareholders on the Record Date. The Rights Issue will not be available to the Non-Qualifying Shareholders.

The Company has outstanding Convertible Notes convertible into 115,000,000 Shares and Share Options convertible into 124,200,000 Shares in issue as at the Latest Practicable Date. Upon full conversion of the rights attaching to the outstanding Convertible Notes and Share Options, 239,200,000 Shares are to be issued (equivalent to 2,392,000 Consolidated Shares upon completion of the Capital Reorganisation).

Supervalue, which is wholly-owned by Mr. Chu, owned approximately 16.36% of the issued share capital of the Company as at the Latest Practicable Date. Supervalue has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of such undertaking to the close of business on the Record Date and that it will take up its entitlement under the Rights Issue in full. Pursuant to the Underwriting Agreement, the Rights Shares (other than the Rights Shares to be issued to and accepted by Supervalue) have been fully underwritten by the Underwriter.

In accordance with Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional upon approval by the Shareholders at the EGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour at the EGM. The Company did not have any controlling Shareholder as at the Latest Practicable Date and save for Mr. Chu, none of the Directors and chief executive of the Company holds any Shares. Accordingly, Mr. Chu, being an executive Director, Supervalue and their respective associates will abstain from voting on the resolution to approve the Rights Issue at the EGM. An independent board committee of the Company comprising the independent non-executive Directors was appointed to make recommendations to the Independent Shareholders in respect of voting on the resolution to approve the Rights Issue at the EGM by way of poll.

Altus Capital and Get Nice Capital have been appointed as the joint financial advisers to the Company. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Rights Issue.

The purpose of this circular is to provide you with further details of the Capital Reorganisation and the Rights Issue and to give you notice of the EGM at which resolutions will be proposed to consider and, if thought fit, approve these matters.

LETTER FROM THE BOARD

CAPITAL REORGANISATION

The Company proposes to put forward the Capital Reorganisation on the terms expressed below, for approval by the Shareholders:

- (a) the Share Consolidation in which every 100 issued and unissued Shares will be consolidated into one Consolidated Share. As at the Latest Practicable Date, the authorised share capital of the Company was HK\$122,500,000 comprising 12,250,000,000 Shares of HK\$0.01 each, of which approximately HK\$52,543,986 comprising 5,254,398,668 Shares have been issued and fully paid. On this basis, immediately after the completion of the Share Consolidation, the authorised share capital of the Company will comprise 52,543,986 issued Consolidated Shares and 69,956,014 unissued Consolidated Shares of HK\$1.00 each; and
- (b) immediately after the Share Consolidation, there will be an increase in the authorised share capital of the Company to HK\$2,000,000,000 divided into 2,000,000,000 Consolidated Shares of HK\$1.00 each, in which 1,877,500,000 Consolidated Shares will be created.

The Consolidated Shares will rank *pari passu* in all respects with each other and the Share Consolidation will not result in any change in the relative rights or proportionate interests of the Shareholders, except that any fractional Consolidated Shares arising as a result of the Share Consolidation will be aggregated and sold, if possible, and the proceeds will be retained for the benefit of the Company. The Capital Reorganisation is conditional upon, *inter alia*, the approval of the Shareholders at the EGM.

Financial effects of the Capital Reorganisation

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders (save that the Shareholders who are holding odd lots of Shares will not have any entitlement to fractions of the Consolidated Shares) as a whole. The Directors believe that the Capital Reorganisation will not have any material adverse effect on the financial position of the Group.

Reasons for the Capital Reorganisation

The Board believes that the Capital Reorganisation will be beneficial to the Company and the Shareholders as a whole in terms of transaction cost per dollar value of each board lot. The Share Consolidation will reduce the number of board lots in the market and increase the nominal value of the Shares. The existing Shares are presently traded in board lots of 2,000. It is proposed that the Consolidated Shares will also be traded in board lots of 2,000. Accordingly, the market price of the Shares will theoretically increase by 100 times upon the Share Consolidation becoming effective. The Company will ensure the trading limits requirements under Rule 13.64 of the Listing Rules are complied with. Based on the closing price quoted on the Stock Exchange on the Last Trading Day of HK\$0.025 per Share, the value per board lot of 2,000 Shares and 2,000 Consolidated Shares is and will be HK\$50 and HK\$5,000 respectively. The transaction cost per dollar value of each board lot will therefore be lower. While beneficial to the Company and the Shareholders in general, the Board however wishes to point out that the Share Consolidation may result in certain Shareholders having odd lots. The trading price of the Consolidated Shares odd lots may not be identical to the market price of Consolidated Shares in integral broad lots, and they may be traded at a discount or premium to the market price. The increase in authorised share capital of the Company will facilitate the proposed Rights Issue and provide the Company with the flexibility to issue new Consolidated Shares in the future.

LETTER FROM THE BOARD

After the completion of the Capital Reorganisation and the Rights Issue (based on the theoretical ex-rights price of approximately HK\$1.3 per Consolidated Share), the market value of the Consolidated Shares will be above the nominal value of the Consolidated Shares of HK\$1.00 each. The Board is of the opinion that the proposed nominal value of the Consolidated Shares of HK\$1.00 each will provide the Company with greater flexibility for the issue of new Consolidated Shares in the future and is thus in the best interests of the Company and Shareholders as a whole. However, the Board has no present intention to issue further new Consolidated Shares except in the proposed Rights Issue.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon the following:

- (a) the passing by the Shareholders of the necessary resolutions at the EGM to approve the Capital Reorganisation; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares.

The Capital Reorganisation is not conditional upon the Rights Issue being approved by the Independent Shareholders at the EGM.

Expected effective date of the Capital Reorganisation

Subject to the above conditions being fulfilled, the Capital Reorganisation is expected to become effective after 4:00 p.m. on Thursday, 29th September, 2005.

Fractional entitlement of the Consolidated Shares

Where the Share Consolidation will result in fractions of Consolidated Shares, such fractional Consolidated Shares will not be issued but will be aggregated, and sold if possible and any proceeds will be retained for the benefit of the Company.

Odd lots matching service

In order to alleviate Shareholders' difficulties in dealing in odd lots that may arise as a result of the Capital Reorganisation, the Company has appointed Get Nice Investment to stand in the market to provide matching service on a best effort basis for the odd lots of Consolidated Shares during the period from Monday, 17th October, 2005 to Monday, 7th November, 2005 (both dates inclusive). Shareholders who wish to take advantage of this matching facility either to dispose of odd lots of Consolidated Shares or to top up to a board lot to 2,000 Consolidated Shares, may contact Mr. Lau Shek Ki of Get Nice Investment at 10th Floor, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong at telephone number (852) 2526 7738.

LETTER FROM THE BOARD

Shareholders should note that the matching service is on a “best efforts” basis only and successful matching of the sale and purchase of odd lots of Consolidated Shares is not guaranteed and will depend on there being adequate amounts of odd lots of Consolidated Shares available for such matching.

Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are not sure about the matching service described above.

Free exchange of Consolidated Share certificates

The new share certificates for Consolidated Shares will be orange in colour in order to distinguish them from the existing share certificates which are blue in colour. Upon the Capital Reorganisation becoming effective which is expected to be after 4:00 p.m. on Thursday, 29th September, 2005, Shareholders may on or after Friday, 30th September, 2005 until Thursday, 10th November, 2005 (both dates inclusive) submit their share certificates for existing Shares to the Registrar for exchange, at the expense of the Company, for certificates for Consolidated Shares. Thereafter, certificates for existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for Consolidated Shares. Nevertheless, certificates for existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for Consolidated Shares at any time.

It is expected that the new share certificates for Consolidated Shares will be available for collection within a period of 10 Business Days after the submission of the existing share certificates to the Registrar for exchange.

Trading arrangements for Consolidated Shares

Subject to the Capital Reorganisation becoming effective, the arrangements for trading in Consolidated Shares will be as follows:

- (a) from 9:30 a.m. on Friday, 30th September, 2005, the original counter for trading in Shares in board lots of 2,000 Shares will be temporarily closed;
- (b) with effect from 9:30 a.m. on Friday, 30th September, 2005, a temporary counter for trading in Consolidated Shares in board lots of 20 Consolidated Shares, in the form of existing share certificates for the Shares, will be opened, and for the purposes of the settlement and delivery for trading at this temporary counter every 100 Shares will be deemed to represent one Consolidated Share. Only existing share certificates for existing Shares (blue in colour) can be traded in this temporary counter;
- (c) with effect from 9:30 a.m. on Monday, 17th October, 2005, the original counter will be re-opened for trading in Consolidated Shares in board lots of 2,000 Consolidated Shares. Only share certificates for Consolidated Shares (orange in colour) will be traded at this counter;

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- (d) during the period from 9:30 a.m. on Monday, 17th October, 2005 to 4:00 p.m. on Monday, 7th November, 2005 (both days inclusive), parallel trading will be permitted at the above two counters;
- (e) the temporary counter for trading in the existing share certificates in board lots of 20 Consolidated Shares will be removed after the close of trading at 4:00 p.m. on Monday, 7th November, 2005; and
- (f) with effect from 9:30 a.m. on Tuesday, 8th November, 2005, trading will be carried out only in Consolidated Shares in board lots of 2,000 Consolidated Shares (in the form of new share certificates that are orange in colour). Existing share certificates (blue in colour) will only be valid for delivery and settlement in respect of dealings for the period up to and including 4:00 p.m. on Monday, 7th November, 2005 and thereafter will not be acceptable for trading and settlement purposes. However, existing certificates for existing Shares (blue in colour) will continue to be good and valid evidence of legal title to Consolidated Shares on the basis of 100 Shares for one Consolidated Share and may be exchanged for share certificates for Consolidated Shares (orange in colour) at the Registrar at any time on payment of a prescribed fee.

PROPOSED RIGHTS ISSUE

The Rights Issue is proposed to take place after the Capital Reorganisation becomes effective.

Issue statistics

Basis of the Rights Issue	:	Four (4) Rights Shares for every Consolidated Share held on the Record Date
Number of Shares in issue	:	5,254,398,668 Shares as at the Latest Practicable Date
Number of Consolidated Shares after completion of the Capital Reorganisation	:	52,543,986 Consolidated Shares (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) or 54,935,986 Consolidated Shares (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date)
Number of Rights Shares	:	not less than 210,175,944 Rights Shares (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) and not more than 219,743,944 Rights Shares (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date)

LETTER FROM THE BOARD

Save for (i) the outstanding Convertible Notes, which are convertible into 115,000,000 Shares (or 1,150,000 Consolidated Shares) and (ii) the outstanding Share Options, which when exercised in full will result in the issue of 124,200,000 Shares (or 1,242,000 Consolidated Shares), the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares as at the Latest Practicable Date

Subscription price per Rights Share : HK\$1.00 per Rights Share (nominal value of HK\$1.00)

Assuming that no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date, the 210,175,944 nil-paid Rights Shares proposed to be provisionally allotted represent:

- (a) 4% of the Company's existing issued share capital;
- (b) 400% of the Company's issued share capital upon completion of the Capital Reorganisation; and
- (c) approximately 80% of the Company's issued share capital upon completion of the Capital Reorganisation and as enlarged by the issue of the Rights Shares.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders. The Company will send copies of the Prospectus to Non-Qualifying Shareholders for their information only, but the Company will not send any PAL or EAF to the Non-Qualifying Shareholders.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, investors must lodge any transfers of Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:00 p.m. on Friday, 23rd September, 2005.

Holders of outstanding Convertible Notes and Share Options who wish to participate in the Rights Issue should convert their Convertible Notes and exercise their Share Options in accordance with their respective terms before 4:00 p.m. on Friday, 23rd September, 2005 so as to enable them to be registered as a Shareholder on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from Monday, 26th September, 2005, to Thursday, 29th September, 2005, both dates inclusive. No transfers of Shares will be registered during this period.

LETTER FROM THE BOARD

Subscription price

The subscription price for the Rights Shares will be HK\$1.00 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares takes up for Rights Shares. The subscription price represents:

	Before Share Consolidation <i>HK\$0.01</i>	After Share Consolidation <i>HK\$1.00</i>
<i>Rights Price</i>		
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	HK\$0.012	HK\$1.20
<i>Discount (%)</i>	<i>16.7%</i>	<i>16.7%</i>
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0250	HK\$2.50
<i>Discount (%)</i>	<i>60.0%</i>	<i>60.0%</i>
(c) Theoretical ex-rights price per Share calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0130	HK\$1.30
<i>Discount (%)</i>	<i>23.1%</i>	<i>23.1%</i>
(d) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	HK\$0.0227	HK\$2.27
<i>Discount (%)</i>	<i>55.9%</i>	<i>55.9%</i>
(e) Unaudited pro forma consolidated net tangible assets value per Consolidated Share as adjusted for the effect of the Rights Issue as at 31st January, 2005 (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date)	HK\$0.0128	HK\$1.28
<i>Discount (%)</i>	<i>21.9%</i>	<i>21.9%</i>

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter with reference to the then market price and recent price trend of the Shares. Having discussed this with the Underwriter and taking into consideration (i) that the prices of the Shares has been on a declining trend since attaining their highest level of HK\$0.035 per Share in May 2005 and trading has since retreated to between HK\$0.021 to HK\$0.027 per Share from 4th July, 2005 and up to the Last Trading Day; (ii) the possible decrease in price of Shares after the Announcement; and (iii) the willingness of the Underwriter to underwrite the Rights Shares, the Directors consider the terms of the Rights Issue, including the subscription price, to be fair and reasonable and in the best interests of the Company and the Shareholders.

LETTER FROM THE BOARD

Basis of provisional allotment

The basis of the provisional allotment will be four Rights Shares for every Consolidated Share, being not less than 210,175,944 Rights Shares and not more than 219,743,944 Rights Shares at a price of HK\$1.00 per Rights Share. Acceptance of all or any part of a Qualifying Shareholder's provisional allotment will be possible by completing the PAL and lodging the same with a remittance for the Rights Shares being applied for.

Share certificates and refund cheques for Rights Issue

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Thursday, 20th October, 2005 to those who have accepted and (where applicable) applied for, and paid for the Rights Shares by ordinary post at their own risk. Refund cheques in respect of wholly or partly unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Thursday, 20th October, 2005 by ordinary post to the applicants at their own risk.

Status of the Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Consolidated Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

Rights of Non-Qualifying Shareholders

The Company is currently making enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholders. If, based on legal opinions provided by legal advisers, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to such Overseas Shareholders. The results of such enquiries and the basis for excluding the Non-Qualifying Shareholders, if any, from the Rights Issue will be set out in the Prospectus. The Company will send copies of the Prospectus to the Non-Qualifying Shareholders for their information only, but the Company will not send any PAL or EAF to the Non-Qualifying Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and before dealings in nil-paid Rights Shares end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Non-Qualifying Shareholders. The Company will retain individual amounts of HK\$100 or less for its own benefit. Any unsold entitlement of Non-Qualifying Shareholders, together with any Rights Shares provisionally allotted but not accepted, will be made available for excess application on EAFs by Qualifying Shareholders.

LETTER FROM THE BOARD

Application for excess Rights Shares

Qualifying Shareholders will be entitled to apply, by way of excess application, for any unsold entitlements of the Non-Qualifying Shareholders and for any Rights Shares provisionally allotted but not accepted.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis but will give preference to the topping-up of odd lots to whole board lots.

Listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in (a) the Consolidated Shares in issue after the Capital Reorganisation becomes effective; and (b) the Rights Shares, in both their nil-paid and fully-paid forms on the Stock Exchange. It is expected that dealings in the Consolidated Shares will commence on Friday, 30th September, 2005 and that dealings in the Rights Shares in their nil-paid form will take place from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005, both days inclusive.

No part of the share capital of the Company is listed or dealt in and no listing or permission to deal is being or is proposed to be sought on, any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares and Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Capital Reorganisation becoming effective and the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in both their nil-paid and fully-paid forms or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, will be subject to the payment of stamp duty in Hong Kong.

LETTER FROM THE BOARD

Underwriting arrangements

Underwriting agreement dated 8th August, 2005

The Underwriter has agreed to fully underwrite up to 185,349,384 Rights Shares, which represent approximately 67.48% of the issue share capital of the Company as enlarged by the issue of the Rights Shares, other than Rights Shares which Supervalue has undertaken to subscribe (being 219,743,944 Rights Shares, assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date, less the 34,394,560 Rights Shares to be issued to and accepted by Supervalue). The Underwriter and its ultimate beneficial controlling shareholder do not have any shareholding in the Company and are not connected persons (as defined in the Listing Rules) of the Company, details of which are set out under the paragraph headed “Shareholding in the Company” below.

Conditions of the Rights Issue

The Rights Issue is conditional, among other things, on each of the following conditions being fulfilled:

- (i) the approval of the Capital Reorganisation by Shareholders at the EGM and the Capital Reorganisation becoming effective thereafter;
- (ii) the passing of the relevant resolutions by the Independent Shareholders approving the Rights Issue at the EGM;
- (iii) the posting of the Prospectus Documents to the Qualifying Shareholders; and
- (iv) the Listing Committee of the Stock Exchange agreeing to grant listings of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the dates specified in such approval and not having withdrawn or revoked such listings and permission on or before 4:00 p.m. on the Settlement Date.

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived in whole or in part by the Underwriter) by the relevant dates and times specified in the Underwriting Agreement (or, in each case, such later date or time as the Underwriter may agree in writing with the Company pursuant to the Underwriting Agreement), then all liabilities of the parties thereto shall cease and terminate and neither party shall have any claim against the other (except in respect of any antecedent breaches and any matters or things arising out of or in connection with the Underwriting Agreement) and the irrevocable undertaking by Supervalue to accept its entitlement under the Rights Issue will lapse. The Rights Issue will not proceed accordingly.

Commission

The Company will pay the Underwriter an underwriting commission of 1.5% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter may pay sub-underwriting fees. The Directors are of the view that the underwriting commission accords with market rates and is fair and reasonable to the Company.

LETTER FROM THE BOARD

Undertaking from Supervalue

As at the Latest Practicable Date, Supervalue, which is wholly owned by Mr. Chu, was interested in 859,864,000 Shares, representing approximately 16.36% of the total issued share capital of the Company. Supervalue has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of the undertaking, being 8th August, 2005, to the close of business on the Record Date and that it will take up its entitlement in full, representing 34,394,560 Rights Shares. Supervalue will not apply for any excess Rights Shares.

Termination of the Underwriting Agreement

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing given by the Underwriter to the Company at any time prior to 4:00 p.m. on the Settlement Date if there occurs:

1. (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue; or

2. if, at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date:
 - (a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or

LETTER FROM THE BOARD

- (b) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement upon the Company becoming aware of any untrue or inaccurate representations or warranties contained in the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or
- (c) the Prospectus Documents when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to promptly send out any announcements or circulars (after the despatch of this circular or the Prospectus Documents), in such manner (and as appropriate with such contents), as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.

Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees as may then be agreed by the relevant parties. If the Underwriter exercises such right, the Rights Issue will not proceed.

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Thursday, 22nd September, 2005. Dealings in the Rights Shares in the nil-paid form will take place from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares, Consolidated Shares and Rights Shares in their nil-paid form during the period from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005 (both dates inclusive), who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in the Shares or the Consolidated Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) and any persons dealing in the nil-paid Rights Shares during the period from Tuesday, 4th October, 2005 to Wednesday, 12th October, 2005 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

LETTER FROM THE BOARD

Shareholding in the Company

Assuming **no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue will be as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalue)	
	<i>Shares</i>	<i>%</i>	<i>Consolidated Shares</i>	<i>%</i>	<i>Consolidated Shares</i>	<i>%</i>	<i>Consolidated Shares</i>	<i>%</i>
Supervalue	859,864,000	16.36	8,598,640	16.36	42,993,200	16.36	42,993,200	16.36
Underwriter (<i>Note</i>)	—	—	—	—	—	—	175,781,384	66.91
Public	4,394,534,668	83.64	43,945,346	83.64	219,726,730	83.64	43,945,346	16.73
Total	<u>5,254,398,668</u>	<u>100.00</u>	<u>52,543,986</u>	<u>100.00</u>	<u>262,719,930</u>	<u>100.00</u>	<u>262,719,930</u>	<u>100.00</u>

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter, sub-underwriters and parties acting in concert with any of them will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

LETTER FROM THE BOARD

Assuming **all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date**, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue will be as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalve)	
	Shares	%	Consolidated Shares	%	Consolidated Shares	%	Consolidated Shares	%
Supervalve	859,864,000	15.65	8,598,640	15.65	42,993,200	15.65	42,993,200	15.65
Underwriter (<i>Note</i>)	—	—	—	—	—	—	185,349,384	67.48
Public	4,633,734,668	84.35	46,337,346	84.35	231,686,730	84.35	46,337,346	16.87
Total	<u>5,493,598,668</u>	<u>100.00</u>	<u>54,935,986</u>	<u>100.00</u>	<u>274,679,930</u>	<u>100.00</u>	<u>274,679,930</u>	<u>100.00</u>

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter, sub-underwriters and parties acting in concert with any of them will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

The Underwriter is wholly-owned by Get Nice Incorporated, which in turn is wholly-owned by Get Nice Holdings Limited (stock code: 64) (“Get Nice Holdings”), a company listed on the main board of the Stock Exchange. According to the Underwriter, Get Nice Holdings is owned as to approximately 30.36% by Honeylink Agents Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and as to approximately 69.64% by the public as at the Latest Practicable Date. The Underwriter and its ultimate controlling shareholder are Independent Third Parties and are not parties acting in concert with Supervalve. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Supervalve and the Underwriter.

In the event that the Underwriter and the sub-underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriter and the sub-underwriters shall procure

LETTER FROM THE BOARD

independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

The Stock Exchange has stated that it will closely monitor trading in the Consolidated Shares following the completion of the Rights Issue. If less than 25% (or such lower percentage as may be allowed under the Listing Rules) of the Consolidated Shares are held by the public, it will constitute a breach of the Listing Rules, and if the Stock Exchange believes that:

- **a false market exists or may exist in the trading in the Consolidated Shares; or**
- **there are too few Consolidated Shares in public hands to maintain an orderly market,**

then it will consider exercising its discretion to suspend trading in the Consolidated Shares until a sufficient public float is attained.

Business review and prospects

The Company is principally engaged in property rental, financial investment, property development, property sales, provision of estate agency services, and investments. According to the annual report of the Company for the financial year ended 31st July, 2004, the Group recorded an audited consolidated turnover of approximately HK\$22.6 million (2003: approximately HK\$41.3 million), net loss of approximately HK\$2.86 million (2003: net loss of approximately HK\$44.0 million), and had net tangible asset value of approximately HK\$95.9 million (2003: approximately HK\$79.1 million) as at 31st July, 2004. The Directors attributed such improvement in results to a decrease in deficit on revaluation of investment properties, decrease in allowance for loan receivables and decrease in administration expenses following the disposal of a sale of silk products business.

As evidenced by the interim report of the Company for the six months ended 31st January, 2005, the Group has managed to turn-around its financial performance and a net profit of approximately HK\$13.7 million was recorded compared to a net loss of approximately HK\$1.0 million for the same period in 2004. The Directors attributed such improvement to the continued improvement in the local economy and the recent surges in local property prices and transaction volume, and the continuing benefit to the retail sectors brought about by increasing number of mainland visitors travelling under individual travel permits granted by PRC local provinces.

The Group strives to identify appropriate property investments that satisfy the Group's stringent investment criteria in terms of risks and returns, and continues to seek appropriate investment opportunities which may arise in these areas. There have been ongoing discussions on potential investment opportunities, but they are preliminary and are subject to further negotiations. The Company will make further announcements in relation to the progress of any potential investment opportunities as and when deemed necessary and appropriate by the Directors, to ensure compliance with Rule 13.09 of the Listing Rules.

LETTER FROM THE BOARD

Reasons for the Rights Issue and use of proceeds

The Group has been actively seeking investment opportunities in the property sector in general, both in Hong Kong and Macau, in order to expand its property portfolio. The Directors believe that appropriate investment opportunities may arise at any time and investment decisions may have to be made within a short period of time. They are therefore of the view that sufficient cash resources will be necessary for the Group to secure any suitable investment opportunities in a timely and cost effective manner, without resorting to high-cost borrowings. The Directors have considered other ways of fund raising such as debt financing and placing of new Shares, and the Directors are of the opinion that in order to save interests costs incurred in debt financing and in view of the dilution effect on the interests of the Shareholders in the case of placing of new Shares, it is in the best interests of the Company and the Shareholders to enlarge the capital base and increase the liquidity of Shares of the Company through the Rights Issue, as the enlarged capital base will support the continuing development and daily operation of the Group and at the same time allow the Group to invest in any potential property investment projects in a timely manner. The Rights Issue also allows Shareholders (other than Non-Qualifying Shareholder(s)) to participate in the growth and future development of the Group on equal terms.

The estimated net proceeds of the Rights Issue will be between HK\$205.8 million (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) and HK\$215.2 million (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date). The Company plans to use the net proceeds as follows: (a) as to approximately HK\$200 million for investments in the property sector in general, both in Hong Kong and Macau, in order to expand its property portfolio; and (b) as to the balance of approximately HK\$5.8 million to 15.2 million as general working capital of the Company. The Company is currently reviewing several potential property projects. Nevertheless, negotiations are preliminary. Announcements will be made by the Company, if deemed appropriate under the Listing Rules by the Directors, if there is further progress to these reviews and negotiations requiring announcement. The Company will make announcements if there is any change in the use of proceeds of the Rights Issue as and when appropriate.

Adjustments in relation to the Convertible Notes and the Share Options

The Capital Reorganisation and the Rights Issue may lead to an adjustment to the subscription price and/or the number of Consolidated Shares to be issued upon conversion of the outstanding Convertible Notes and exercises of the Share Options. The Company will consult its auditors about the required adjustment and the holders of the Convertible Notes and Share Options will be informed by further announcement of the required adjustments as soon as practicable.

LETTER FROM THE BOARD

PREVIOUS FUND RAISING EXERCISES OF THE COMPANY

The fund raising exercises conducted by the Company in the past 12 months immediately preceding the Latest Practicable Date are set out below:

Date of announcement	Description	Net proceeds	Intended use of net proceeds as announced	Actual use of proceeds
5th January, 2005	(i) Placing of 650,000,000 Shares and top-up subscription of 650,000,000 Shares at HK\$0.0265 per Share	HK\$16.8 million	The aggregate net proceeds of approximately HK\$52.4 million are designated for property development and investment in	The net proceeds have not been used and are temporarily deposited with banks.
	(ii) Placing of the Convertible Notes in the aggregate principal amount of HK\$36.4 million	HK\$35.6 million	Macao including retail shops and commercial buildings.	

The Directors are of the view that the Company will have sufficient funds to meet its current working capital requirements after the Rights Issue and they have no present intention to issue further new Consolidated Shares to raise funds. The Group may however raise further funds in future when they are required and the Directors consider it desirable to increase liquidity, including if opportunities for new businesses or investments arise.

THE EGM

A notice convening the EGM to be held at Board Room 1, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 9:00 a.m. on Thursday, 29th September, 2005 is set out on pages 115 to 117 of this circular at which resolutions will be proposed, inter alia, to consider and, if thought fit, to approve the Capital Reorganisation and the Rights Issue.

In accordance with Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional upon approval by the Shareholders at the EGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour at the EGM. The Company did not have any controlling Shareholder as at the Latest Practicable Date and save for Mr. Chu, none of the Directors and chief executive of the Company holds any Shares. Accordingly, Mr. Chu, being an executive Director, Supervalve and their respective associates will abstain from voting at the EGM in respect of the Rights Issue, which will be subject to the approval by the Independent Shareholders at the EGM by way of poll.

An independent board committee of the Company comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on how they should vote in respect of the Rights Issue. The Independent Board Committee comprises Mr. Li Sze Kuen, Billy, Mr. Wong Kwong Fat, and Mr. Leung Kam Fai.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed. Whether or not Shareholders intend to attend the meeting, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Registrar as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the EGM or any adjourned meeting (as the case may be) should they so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to article 74 of the articles of association of the Company, a poll may be demanded in relation to any resolution put to the vote of the EGM before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

- (i) by the chairman of the meeting; or
- (ii) by at least three Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person or by proxy or in the case of a Shareholder being a corporation by its duly authorised representative representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) by any Shareholder or Shareholders present in person or by proxy or in the case of a Shareholder being a corporation by its duly authorised representative representing and holding Shares 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.

RECOMMENDATION

In relation to the Rights Issue, your attention is drawn to the letter from the Independent Board Committee on page 28 and the letter from Access Capital, the independent financial adviser of the Company, sets out on pages 29 to 46 of this circular. The Directors believe that the proposed resolutions in relation to the Capital Reorganisation and the Rights Issue are in the interest of the Company and the Shareholders as a whole and, accordingly, the Directors recommend Shareholders to vote in favour of the aforesaid resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendices I and II to this circular.

Yours faithfully,
For and on behalf of
Capital Estate Limited
Chu Nin Yiu, Stephen
Executive Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CAPITAL ESTATE LIMITED

冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

12th September, 2005

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FOUR RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD**

We refer to the circular dated 12th September, 2005 (the “Circular”) issued to the Shareholders of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee and to advise the Independent Shareholders in connection with the terms of the Rights Issue. Access Capital Limited (“Access Capital”) has been appointed as the independent financial adviser of the Company to advise us in this respect.

Your attention is drawn to the letter from the Board set out on pages 9 to 27 of the Circular, which sets out information relating to the Rights Issue. We also draw your attention to the letter from Access Capital as set out on pages 29 to 46 of the Circular, which contains its advice to us regarding the Rights Issue.

Having taken into account the principal factors and reasons considered by and the recommendation of Access Capital, the Independent Board Committee is of the view that the terms of the Rights Issue are fair and reasonable in so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Independent Board Committee

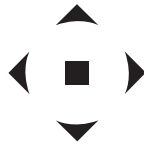
Li Sze Kuen, Billy
Independent
Non-Executive Director

Wong Kwong Fat
Independent
Non-Executive Director

Leung Kam Fai
Independent
Non-Executive Director

LETTER FROM ACCESS CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital dated 12 September 2005 prepared for the purpose of incorporation in this circular.



**A C C E S S
C A P I T A L**

Suite 606, 6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

12 September 2005

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

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FOUR RIGHTS SHARES FOR EVERY CONSOLIDATED SHARE HELD

1. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the Rights Issue. Details of the Rights Issue are contained in the “Letter from the Board” of the circular to the Shareholders, and for information only, the holders of Share Options and Convertible Notes dated 12 September 2005 (the “Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise specifies.

Immediately after completion of the Share Consolidation, the authorised share capital of the Company will comprise of 52,543,986 issued Consolidated Shares and 69,956,014 unissued Consolidated Shares of HK\$1.00 each. The Capital Reorganisation is conditional upon, inter alia, the approval of the Shareholders at the EGM.

Upon completion of the Capital Reorganisation, the Company proposes to raise approximately HK\$210.2 million before expenses (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) or approximately HK\$219.7 million before expenses (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) by way of the Rights Issue of not less than 210,175,944 Rights Shares and not more than 219,743,944 Rights Shares at a price of HK\$1.00 per Rights Share.

LETTER FROM ACCESS CAPITAL

In accordance with Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional upon approval by the Shareholders at the EGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour at the EGM. The Company did not have any controlling Shareholder as at the Latest Practicable Date and save for Mr. Chu Nin Yiu, Stephen (being an executive Director and defined as “Mr. Chu” in the Circular), none of the Directors and chief executive of the Company holds any Shares. Accordingly, Mr. Chu, Supervalve and their associates will abstain from voting on the resolution(s) to approve the Rights Issue at the EGM.

2. THE INDEPENDENT BOARD COMMITTEE

An independent board committee, comprising Messrs. Li Sze Kuen, Billy, Wong Kwong Fat, Leung Kam Fai, has been established to consider the terms of the Rights Issue, and to advise the Independent Shareholders thereon.

We have been appointed by the Independent Board Committee to advise them as to whether the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion in relation to the terms of the Rights Issue for their consideration when making their recommendation to the Independent Shareholders.

3. BASIS OF THE OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided and/or made to us by the Company and/or the Directors and/or the senior management of the Company. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or the Directors and/or the senior management of the Company and for which it is/they are solely responsible were true, accurate and valid at the time they were made and given and continue to be true, accurate and valid as at the date of the Circular. We have also assumed that all statements, information, opinions and representations made or provided by the Company and/or the Directors and/or the senior management of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Directors and/or the senior management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis of our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company, the Directors, the senior management of the Company and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company, or any of their respective subsidiaries.

LETTER FROM ACCESS CAPITAL

4. PRINCIPAL FACTORS AND REASONS CONSIDERED

In forming our opinion, we have taken into consideration the following principal factors and reasons:

4.1 Background to and reasons for the Rights Issue

4.1.1 Principal activities of the Group

The Group is principally engaged in property rental, financial investment, property development, property sales, provision of estate agency services and investments.

4.1.2 Overall financial performance of the Group

As stated in the annual report of the Company for the year ended 31 July 2004, the Group recorded an audited consolidated turnover of approximately HK\$22.6 million (2003: approximately HK\$41.3 million), net loss of approximately HK\$2.86 million (2003: net loss of approximately HK\$44.0 million), and had net tangible assets of approximately HK\$95.9 million (2003: approximately HK\$79.1 million) as at 31 July 2004.

The Directors attributed such improvement in results to the decrease in deficit on revaluation of investment properties, decrease in allowance for loan receivables and decrease in administration expenses following the disposal of a sale of silk products business.

As stated in the unaudited consolidated financial statements of the Group for the six months ended 31 January 2005, the Group has managed to turn-around its financial performance and achieved a net profit of approximately HK\$13.7 million as compared to a net loss of approximately HK\$1.0 million for the same period in 2004. The Directors attributed such improvement to the continued improvement in the local economy and the recent surges in local property prices and transaction volume, and the continuing benefit to the retail sectors brought about by increasing number of mainland visitors travelling under individual travel permits.

4.1.3 Reasons for the Rights Issue

As stated in the “Letter from the Board”, the Group has been actively seeking investment opportunities in the property sector in general, both in Hong Kong and Macau, in order to expand its property portfolio. The Group strives to identify appropriate property investments that satisfy the Group’s stringent investment criteria in terms of risks and returns, and continue to seek and, if though fit, capture any appropriate investment opportunities which may arise in these areas.

LETTER FROM ACCESS CAPITAL

The estimated net proceeds of the Rights Issue are expected to be between approximately HK\$205.8 million (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) and approximately HK\$215.2 million (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date).

The Company plans to use the net proceeds as follows: (a) approximately HK\$200.0 million for investments in the property sector in general, both in Hong Kong and Macau, in order to expand its property portfolio; and (b) the balance of approximately HK\$5.8 million to HK\$15.2 million will be used as general working capital of the Company.

The Company has in January 2005 raised an aggregate net proceeds of approximately HK\$52.4 million vis-a-vis (i) a top-up placing of 650,000,000 Shares at HK\$0.0265 per Share with a net proceed of approximately HK\$16.8 million; and (ii) a placing of the Convertible Notes with a net proceed of HK\$35.6 million. According to the Directors, there have been ongoing discussions on potential investment opportunities, but they are preliminary and are subject of further negotiations; hence, the aforesaid net proceeds have not been used and are deposited with banks.

In light of the continuing improvement of the property market in Hong Kong and Macau, the Group intends to continue to expand in property development and its property portfolio in these regions. According to the Company, as at 30 June 2005 (the latest practicable date for ascertaining the figure set out in this statement), the Group has approximately HK\$100.6 million cash on hand. Although the aforesaid cash is still waiting to be utilised, the Directors believe the choices of investments to be made by the Group are limited by the amount of cash currently available. In order to enable the Group to be more flexible in making investment decisions in the future and/or to enhance the confidence of potential co-investors of any property investment/development projects to allow the Group to participate in larger scale projects, and in view of the transaction value of the property market for major investment transactions recorded with the Land Registry in Hong Kong (including office, retail and industrial properties) during the past few months range between approximately HK\$150 million to approximately HK\$750 million, the Directors believe that it will be desirable and justifiable for the Company to raise some HK\$200 million or HK\$300 million cash. In this regard, we understand that the Company intends, with the aggregate proceeds of the placing mentioned above and the Rights Issue, to seek property development opportunities in Hong Kong and Macau, both on its own account or in conjunction with other investors. The Directors are of the view that with the strengthening of the financial position of the Group after the Rights Issue, the Group will be in a better position to participate in property investment and development which are both time-sensitive and capital intensive in nature. In addition, the Directors consider that it is desirable for the Company to expand its shareholders' fund substantially, not only in the context of

LETTER FROM ACCESS CAPITAL

allowing the Group to participate in larger scale property development project but also to allow the Company and its management to commit itself in suitable investment opportunities readily.

According to the Directors, they have considered other alternatives such as debt financing. However, this form of financing often result in an increase in gearing as well as the financing costs for the Group.

According to the Directors, they have also considered fund raising by way of placing of new shares. However, the Directors are of the opinion that equity financing through placing of new shares would deprive the Shareholders' opportunity to maintain their proportionate interests in the Company as well as would result in a dilution effect of their interests. In any event, the Directors view that a substantial equity placement would result in significant dilution of the shareholdings of the Shareholders, and such dilution and the consequential reduction in their vested interest in the Company would not be congenial to the efforts in securing investors support in a placement exercise.

The Directors' view under the prevailing arrangement, the Rights Issue offers a better fund raising alternative as compared to debt financing and placing of new shares, whilst enabling the Qualifying Shareholders to have an equal opportunity to maintain their proportionate interests in the Company should they wish to do so. Accordingly, the Directors are of the view that it is in the best interests of the Company and the Shareholders to enlarge the capital base of the Company through the Rights Issue.

Based on the aforesaid reasons, we concur with the Directors' view and we are of the view that the Rights Issue is justifiable and in the interests of the Company and the Shareholders as a whole.

4.2 Principal terms of the Rights Issue

The following are the issue statistics of the Rights Issue.

Basis of the Rights Issue	: Four (4) Rights Shares for every Consolidated Share held on the Record Date
Numbers of Shares in issue as at the Latest Practicable Date	: 5,254,398,668 Shares
Number of Consolidated Shares after completion of the Capital Reorganisation	: 52,543,986 Consolidated Shares (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) or 54,935,986 Consolidated Shares (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date)

LETTER FROM ACCESS CAPITAL

- Number of Rights Shares : not less than 210,175,944 Rights Shares (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) and not more than 219,743,944 Rights Shares (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date)
- Subscription Price : HK\$1.00 per Rights Share with nominal value of HK\$1.00 each

In view of the nature of business of the Group, the Directors believe that it is desirable and justifiable for the Company to secure an adequate sum of cash resources (such as approximately HK\$200 million in this case) for any suitable investment opportunities as mentioned in paragraph 4.1.3 above (including larger scale property development projects) in a timely and cost effective manner. The Directors have been actively seeking suitable investment opportunities. In the event that the Company has successfully completed the Rights Issue and enlarged its available cash resources by an additional HK\$200 million, the Directors expect such added flexibility will enable the Company to secure/commit investment opportunities readily.

In order to achieve this objective without incurring substantial financing cost for the Group and/or causing substantial dilution to the shareholdings of the Shareholders, the Directors believe that a rights issue ratio of, in this case, four Rights Shares for every Consolidated Share held on the Record Date, is essential.

Taking into account the reasons above, we are of the view that the basis of the Rights Issue (i.e. four Rights Shares for every Consolidated Share held on the Record Date) is justifiable.

LETTER FROM ACCESS CAPITAL

4.3 Recent share price performance and liquidity of the Shares

4.3.1 Share price performance

In appraising the Rights Issue, we would like to draw Shareholders' attention to the following chart, which sets out the closing price performance of the Shares, before Share Consolidation, as quoted on the Stock Exchange from 7 February 2005 (i.e. the date six months prior to 5 August 2005, the last full trading day immediately prior to the suspension of the Shares before the issue of the Announcement) to the Latest Practicable Date ("Review Period"):



Source: Bloomberg

Shareholders should note that the Share price was traded within a range of HK\$0.018 to HK\$0.035 per Share between 7 February 2005 to 5 August 2005. Following the publication of the Announcement on 8 August 2005, the Share price fell sharply to HK\$0.014 per Share on 12 August 2005 and continued to trade within the range of HK\$0.01 per Share to HK\$0.014 per Share up to and including the Latest Practicable Date. As at the Latest Practicable Date, the closing price per Share quoted on the Stock Exchange was HK\$0.012 per Share.

4.3.2 Liquidity of the Shares

Set out below is a table showing the number of Shares traded between 7 February 2005 (i.e. the date six months prior to 5 August 2005) to 5 August 2005 (i.e. the last full trading day immediately prior to the suspension of the Shares before the issue of the Announcement) and between 12 August 2005 (i.e. the date trading of the Shares resumed following the publication of the Announcement) to the Latest Practicable Date.

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Period/month	Average trading volume over trading days of that period/month <i>Shares</i>	Percentage to Shares in issue %
2005		
<i>Pre-Announcement</i>		
7 to 28 February	44,548,524	0.85
March	34,419,143	0.66
April	152,781,688	2.91
May	124,202,730	2.36
June	76,946,901	1.46
July	33,141,300	0.63
1 to 5 August	29,096,000	0.55
<i>Post-Announcement</i>		
12 to 31 August	148,753,000	2.83
1 September to the Latest Practicable Date	56,417,571	1.07

Source: Bloomberg

Shareholders should note that the Shares were thinly traded between 7 February 2005 to 28 February 2005 and March 2005 with an average daily trading volume ranging between approximately 34.4 million Shares to approximately 44.5 million Shares. The trading volume of the Shares became relatively active in April 2005 and May 2005 with an average daily trading volume ranging between approximately 124.2 million Shares to approximately 152.8 million Shares. Thereafter, the average daily trading volume has fallen to the February/March 2005 level. Between 1 and 5 August 2005 (i.e. the last full trading day immediately prior to the suspension of the Shares before the issue of the Announcement), the average daily trading volume was approximately 29.1 million Shares.

Following the publication of the Announcement on 12 August 2005, the average daily volume of the Shares was approximately 118 million Shares between 12 August 2005 to the Latest Practicable Date.

LETTER FROM ACCESS CAPITAL

We noted that the average trading volume of the Shares has reduced since May 2005 till 5 August 2005 (as described in the table above) and the price range of the Shares were narrowly traded (i.e. between HK\$0.021 per Share to HK\$0.035 per Share) during the same period (as shown in paragraph 4.3.1 above). We also noted that the trading volume of the Shares has increased after the publication of the Announcement, whilst the Share price has fallen continuously to the prevailing level of HK\$0.01 per Share (i.e. the extremities permissible to trade on the Stock Exchange). Given the Shares have been traded in a narrow range and the volatile liquidity of the Shares, we wish to draw Shareholders' attention to the fact that it is uncertain as to whether the prevailing trading price of the Shares which is at the lowest permissible level and close to the subscription price of the Rights Share of HK\$0.01 (before Share Consolidation) will sustain or improve after the completion of the Rights Issue and if liquidity of the Shares may sustain or improve with the enlarged capital base following the completion of the Rights Issue.

LETTER FROM ACCESS CAPITAL

4.3.3 The Subscription Price

The subscription price for the Rights Shares is HK\$1.00 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, application for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for Rights Shares. The subscription price of the Rights Issue represents:

Rights Price	Before Share Consolidation <i>HK\$0.01</i>	After Share Consolidation <i>HK\$1.00</i>
(a) Closing price per Share quoted on the Stock Exchange on the Latest Practicable Date	HK\$0.012	HK\$1.20
<i>Discount (%)</i>	<i>16.7%</i>	<i>16.7%</i>
(b) Closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.025	HK\$2.50
<i>Discount (%)</i>	<i>60.0%</i>	<i>60.0%</i>
(c) Theoretical ex-rights price per Share calculated based on the closing price per Share quoted on the Stock Exchange on the Last Trading Day	HK\$0.0130	HK\$1.30
<i>Discount (%)</i>	<i>23.1%</i>	<i>23.1%</i>
(d) Average closing price per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day	HK\$0.0227	HK\$2.27
<i>Discount (%)</i>	<i>55.9%</i>	<i>55.9%</i>
(e) Unaudited pro forma consolidated net tangible assets per Consolidated Share as adjusted for the effect of the Rights Issue as at 31 January 2005 ⁽¹⁾	HK\$0.0128	HK\$1.28 ⁽²⁾
<i>Discount (%)</i>	<i>21.9%</i>	<i>21.9%</i>

Notes: 1. Based on the figures as stated in appendix I to the Circular under the heading “7. Statement of unaudited pro forma consolidated net tangible assets of the Group”.

2. Assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date, details of which are set out in appendix I to the Circular under the heading “7. Statement of unaudited pro forma consolidated net tangible assets of the Group”.

LETTER FROM ACCESS CAPITAL

As stated in the “Letter from the Board”, the subscription price for the Rights Shares was determined after arm’s length negotiation between the Company and the Underwriter with reference to the current market price and recent price trend of the Shares. The Directors noted the price of the Shares as at the Last Trading Day and the subscription price of the Rights Shares are both below the unaudited net tangible assets per Share as at 31 January 2005.

Given the thin trading volume of the Shares (with an average daily trading volume ranging between approximately 29.1 million Shares to 152.8 million Shares, representing approximately 0.55% to 2.91% of the Shares in issue) as described in paragraph 4.3.2 above, it would be in our opinion unlikely for the Company to raise equity fund on an underwritten basis at a price which does not represent a significant discount to the market price of the Shares.

We have noted 18 rights issues/open offer (the “Comparables”) announced by Hong Kong Main Board listed companies between 3 January 2005 to the Latest Practicable Date and the details of such issues are set out below.

Rights issue/open offer announced by Main Board listed companies (between 3 January 2005 to the Latest Practicable Date) excluding (i) H shares companies and (ii) net proceeds raised less than HK\$50 million and above HK\$500 million

Company name (stock code) and date of announcement	Subscription price per share HK\$	Net proceeds raised HK\$million	U/W fee %	Offer ratio	Closing price on the last trading day HK\$	10-day average trading price HK\$	Theoretical ex- entitlement price HK\$	(Discount) of subscription price to		
								the closing price on the last trading day %	the 10-day average trading price %	the theoretical ex- entitlement price %
Maxx Bioscience Holdings Ltd (512) 6 January 2005	0.11	77.0	1.25	2 for 1	0.188	0.176	0.136	(41.5)	(37.5)	(19.1)
Northern International Holdings Ltd (736) 28 January 2005	0.02	94.0	2.0	1 for 1	0.03	0.0291	0.025	(33.3)	(31.3)	(20.0)
Tonic Industries Holdings Limited (978) 28 January 2005	0.20	62.0-67.0	2.0	1 for 2	0.270	0.2595	0.2467	(25.9)	(22.9)	(18.9)
Hang Fung Gold Technology Limited (870) 7 February 2005	1.01	186.3-204.8	1.0	1 for 3	1.160	1.190	1.120	(12.9)	(15.1)	(10.0)
Ruilu Holdings Limited (491) 29 April 2005	0.10	157.0	2.0	3 for 1	0.242	0.2433	0.1355	(58.7)	(58.9)	(26.2)
Lai Sun Garment (International) Limited (191) 18 May 2005	0.50	85.8	4.3	1 for 8	0.530	0.550	0.527	(5.7)	(9.1)	(5.1)
Hualing Holdings Limited (382) 19 May 2005	0.10	233	2.0	3 for 2	0.230	0.2351	0.152	(56.5)	(57.5)	(34.2)
U-RIGHT International Holdings Ltd (627) 23 May 2005	0.25	217	2.0	1 for 2	0.365	0.3635	0.3267	(31.5)	(31.2)	(23.5)

LETTER FROM ACCESS CAPITAL

Company name (stock code) and date of announcement	Subscription price per share <i>HK\$</i>	Net proceeds raised <i>HK\$million</i>	U/W fee %	Offer ratio	Closing price on the last trading day <i>HK\$</i>	10-day average trading price <i>HK\$</i>	Theoretical ex- entitlement price <i>HK\$</i>	(Discount) of subscription price to		
								the closing price on the last trading day %	the 10-day average trading price %	the theoretical ex- entitlement price %
SNP Leefung Holdings Limited (623) 25 May 2005	1.20	118.8	2.0	1 for 4	1.400	1.420	1.360	(14.3)	(15.5)	(11.8)
Sino Gas Group Ltd (260) 30 May 2005	0.02	128	3.0	2 for 1	0.039	0.0534	0.026	(48.7)	(62.5)	(23.1)
Wealthmark International (Holdings) Ltd (39) 8 July 2005	0.54	53	2.5	1 for 2	0.63	0.65	0.60	(14.3)	(19.6)	(10.0)
Zhong Hua International Holdings Ltd (1064) (Note) 19 July 2005	0.25	55.3	2.0	1 for 2	0.73	0.619	0.342	(65.8)	(59.6)	(26.9)
Asia Alliance Holdings Limited (616) (Note) 22 July 2005	0.40	140.3-142.6	1.0	10 for 1	0.86	0.89	0.442	(53.5)	(55.1)	(9.5)
Unity Investments Holdings Ltd (913) (Note) 26 July 2005	0.10	50.5-90.1	2.5	10 for 1	0.27	0.29	0.115	(63.0)	(65.5)	(13.0)
Symphony Holdings Limited (1223) 27 July 2005	0.63	345	2.5	1 for 2	1.650	1.653	1.31	(61.8)	(61.9)	(51.9)
Gorient (Holdings) Ltd (729) (Note) 5 August 2005	0.1	58	3.0	3 for 1	0.25	0.303	0.138	(60.0)	(67.0)	(27.5)
Oriental Investment Corp Ltd (735) 12 August 2005	0.10	55	2.5	3 for 10	0.129	0.1293	0.1223	(22.5)	(22.7)	(18.2)
United Power Investment Ltd (674) 29 August 2005	0.15	193	1.5	1 for 1	0.46	0.484	0.305	(67.4)	(69.0)	(50.8)
Maximum			4.3					(67.4)	(69.0)	(51.9)
Minimum			1.0					(5.7)	(9.1)	(5.1)
Average			2.2					(41.0)	(42.3)	(22.2)
<i>The Company (after Share Consolidation) 11 August 2005</i>	<i>1.00</i>	<i>205.7-215.2</i>	<i>1.5</i>	<i>4 for 1</i>	<i>2.50</i>	<i>2.27</i>	<i>1.30</i>	<i>(60.0)</i>	<i>(55.9)</i>	<i>(23.1)</i>

Note: Assuming the proposed consolidation of every 10 shares into one consolidated share has taken place.

Source: Published announcement of the abovementioned companies.

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Shareholders should note that the discount of the subscription price to the closing price on the Last Trading Day of the Shares is one of the highest as set out in the table above. Nevertheless, the discount of the subscription price to the market prices of the Shares falls within the range between the maximum and minimum discount of the Comparables. Given the substantial size of the proceeds of approximately HK\$210.2 million before expenses (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) or approximately HK\$219.7 million before expenses (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) to be raised under the Rights Issue relative to the present size of the Company's market capitalisation and balance sheet, it is understandable that the Underwriter to price in the requisite discount under the terms of the Rights Issue in order to provide incentive for Shareholders to participate in the Rights Issue. Although the subscription price of the Rights Share of HK\$0.01 (before Share Consolidation) represented a slight discount to the closing price per Share as at the Latest Practicable Date, we consider the fairness and reasonableness of the terms of the Rights Issue as well as to whether they are in the interests of the Company and the Shareholders as a whole have to be taken into account of the reasons and all others factors which we have discussed in this letter. Based on our analysis set out in this letter, we are of the view that the subscription price of HK\$1.00 per Rights Share, after the Share Consolidation, is fair and reasonable to the Independent Shareholders.

4.3.4 Other principal terms of the Underwriting Agreement with regard to the Rights Issue

Underwriting commission

We have reviewed the underwriting commission charged by the underwriters in recent rights issues/open offer (as set out in paragraph 4.3.3 above) and noted that the underwriting commission of 1.5% to be charged by the Underwriter is within the market rate of 1 to 3% (except Lai Sun Garment (International) Ltd.) and we are of the view such rate to be fair and reasonable so far as the Independent Shareholders are concerned.

Force majeure

All Shareholders and other potential investors should be aware that the Rights Issue will not proceed if the Underwriter exercises its right to terminate the Underwriting Agreement in accordance with the terms contained therein, the particulars of which are set out in the paragraph headed "Termination of the Underwriting Agreement" in the "Letter from the Board".

As such, any Shareholder or any other person dealing in the Shares up to the date on which all the conditions of the Rights Issue are fulfilled shall bear the risk that the Rights Issue may not become unconditional or may not proceed.

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4.4 Expected effects on the Company and the Shareholders

4.4.1 *Net asset value*

The subscription price for the Rights Shares is HK\$1.00 per Rights Share, representing a discount of approximately 69.6% to the net assets per Consolidated Share of HK\$3.29 (based on the unaudited consolidated net assets of the Group as at 31 January 2005 and the then issued Shares and adjusted for the effect of the Share Consolidation), a discount of approximately 67.4% to the net assets per Consolidated Share of HK\$3.07 (based on the audited consolidated net assets of the Group as at 31 July 2004 and the then issued Shares and adjusted for the effect of the Share Consolidation).

Based on the unaudited consolidated net tangible assets of the Group as at 31 January 2005 of approximately HK\$129,495,000 (being unaudited consolidated share capital and reserves of the Group as at 31 January 2005 of approximately HK\$133,801,000 less goodwill of approximately HK\$4,306,000 as extracted from appendix I to the Circular under the heading “7. Statement of unaudited pro forma consolidated net tangible assets of the Group”) and assuming no outstanding Share Options as at 31 January 2005 are exercised, and on the basis of 4,069,398,668 Shares in issue as at 31 January 2005 (as extracted from appendix I to this Circular) the unaudited consolidated net tangible assets per Share as at 31 January 2005 was approximately HK\$0.032. Based on this figure and upon completion of the Share Consolidation, the unaudited consolidated net tangible assets per Consolidated Share will be approximately HK\$3.20. According to appendix I to the Circular, the unaudited pro forma consolidated net tangible assets per Consolidated Share after the Rights Issue (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date) will be approximately HK\$1.28, representing a decrease of approximately 60.0% from HK\$3.20.

According to appendix I to the Circular, the unaudited pro forma consolidated net tangible assets per Consolidated Share after the Rights Issue (assuming all outstanding Convertible Notes are converted and all Share Options are exercised before Record Date) will be approximately HK\$1.25.

Although the net assets per Share will be diluted as a result of the completion of the Rights Issue, the fairness and reasonableness of the terms of the Rights Issue as well as to whether they are in the interests of the Company and the Shareholders as a whole have to be taken into account of the reasons and all others factors which we have discussed in this letter. In addition, as the Company will be in a better position to secure/commit investment opportunities readily following the completion of the Right Issue, the Directors believe and we are of the view that the financial position of the Group will be strengthened (as compared to the financial year ended 31 July 2004, the latest published audited financials of the Group).

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Notwithstanding the fact that there is a substantial dilution on the net assets as a result of the completion of the Rights Issue, taking into account of the reasons and all others factors as discussed in this letter, we are of the view that the terms of the Rights Issue are fair and reasonable to the Independent Shareholders.

4.4.2 Cash position, working capital and gearing ratio

The cash position of the Group will be increased by the same amount of the actual net proceeds of the Rights Issue.

As stated in appendix I to the Circular, the Directors are of the opinion that, after taking into account the existing cash and bank balances and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

The gearing ratio (based on the total liabilities as at 31 January 2005 and adjusted by the issuance of the Convertible Notes divided by shareholders' equity of approximately HK\$133.8 million as at 31 January 2005) was approximately 0.397. The gearing ratio of the Group will be improved to approximately 0.154 (assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date). Based on the above calculation, the gearing ratio will be improved following the completion of the Rights Issue.

Taking into account the aforesaid improvement in the cash position, the working capital, and the gearing ratio and the factors considered by the Directors in relation to alternative financing methods such as debt financing and placing of new shares as discussed in this letter, we are of the view that the Rights Issue is the appropriate type of fund raising method under the current circumstance.

4.4.3 Shareholding structure of the Company

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue:

- (1) Assuming no outstanding Convertible Notes are converted and no Share Options are exercised before the Record Date, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue will be as follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalve)	
	Shares	%	Consolidated Shares	%	Consolidated Shares	%	Consolidated Shares	%
Supervalve	859,864,000	16.36	8,598,640	16.36	42,993,200	16.36	42,993,200	16.36
Underwriter (Note)	—	—	—	—	—	—	175,781,384	66.91
Public	4,394,534,668	83.64	43,945,346	83.64	219,726,730	83.64	43,945,346	16.73
Total	5,254,398,668	100.0	52,543,986	100.0	262,719,930	100.0	262,719,930	100.0

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Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter, sub-underwriters and parties acting in concert with any of them will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

- (2) Assuming all outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date, the shareholding in the Company immediately after the Capital Reorganisation but before completion of the Rights Issue and immediately after completion of the Rights Issue will be follows:

	Existing shareholding		Immediately after the Capital Reorganisation but before completion of the Rights Issue		After completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		After completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalue)	
	Shares	%	Consolidated Shares	%	Consolidated Shares	%	Consolidated Shares	%
Supervalue	859,864,000	15.65	8,598,640	15.65	42,993,200	15.65	42,993,200	15.65
Underwriter (Note)	—	—	—	—	—	—	185,349,384	67.48
Public	4,633,734,668	84.35	46,337,346	84.35	231,686,730	84.35	46,337,346	16.87
Total	5,493,598,668	100.0	54,935,986	100.0	274,679,930	100.0	274,679,930	100.0

Note: The Underwriter has confirmed that it has sub-underwritten its underwriting obligations under the Rights Issue to sub-underwriters such that each of the Underwriter, sub-underwriters and parties acting in concert with any of them will not own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

As stated in the “Letter from the Board”, in the event that the Underwriter and sub-underwriters are required to take up the Rights Shares pursuant to their underwriting obligations, the Underwriter and the sub-underwriters shall procure independent placees to take up such number of Rights Shares as necessary to ensure that the public float requirements under Rule 8.08 of the Listing Rules are complied with.

Supervalue, which is wholly-owned by Mr. Chu, owns approximately 16.36% of the issued share capital of the Company as at Latest Practicable Date. Supervalue has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will not be disposed of or transferred and will remain registered in its name from the date of such undertaking to the close of business on the Record Date and that it will take up its entitlement under the Rights Issue in full.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares at the same price in proportion to their existing shareholding in the Company

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and those who exercise their rights to take up their entitlement in full, their shareholding interests in the Company will remain unchanged after the Rights Issue. For those Qualifying Shareholders who do not subscribe for any of their entitlement under the Rights Issue, their shareholding interest will be diluted by approximately 80.0%.

Taking into account of all the reasons and factors set out in this letter (even if (i) there is a possibility of a non-compliance with the public float requirement and (ii) a substantial dilution to the shareholding interest in the Company if the Qualifying Shareholders choose not to subscribe his/her rights entitlements), we are of the view that the terms of the Rights Issue are fair and reasonable; and the implementation of the Rights Issue is in the interests of the Company and the Shareholders as a whole. In addition, we are of the view that whether and how much the Qualifying Shareholders should subscribe for the Rights Shares depend on their financial capacity and their willingness to participate in the Rights Issue and Qualifying Shareholders who choose to exercise their entitlement in full, their shareholding interests in the Company will remain unchanged after the Rights Issue.

In any event and as stated in the “Letter from the Board”, Shareholders or any other investors who are in doubt of their positions and who would like to deal in the Shares during the relevant trading period (as set out in the section headed “Expected timetable” in this Circular) are recommended to obtain professional advice and beware of the risks involved in dealing the Shares.

On the other hand, Shareholders and others who are attracted by the prospects of the Company and wish to increase their shareholding in the Company may apply for excess Rights Shares by means of excess application.

5. RECOMMENDATION

In making our recommendation we have considered the above principal factors and, in particular, taken into account the following:

- the background of the Group;
- the reasons for the Rights Issue and the intended use of proceeds;
- the Rights Issue as an equity financing method;
- the terms of the Rights Issue including the discount of the subscription price to the closing price on the Last Trading Date (as adjusted for the effect of the Share Consolidation);
- the expected effects on the Company after completion of the Rights Issue;

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- the effect to the shareholding structure of the Company following the completion of the Rights Issue; and
- the effect to the shareholding of the Qualifying Shareholders as to whether they exercise their entitlements under the Rights Issue.

In summary, after taking into account the factors and reasons mentioned in this letter, we are of the view the terms of the Rights Issue to be fair and reasonable so far as the Independent Shareholders are concerned; and that the implementation of the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Access Capital Limited
Jeanny Leung
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarises the results, assets and liabilities of the Group for the last three financial years ended 31st July, 2004 and the six months ended 31st January, 2005.

The Company's auditors have not issued any qualified opinion on the Group's financial statements for the three preceding years.

Results

	For the year ended 31st July,			For the six months ended 31st January, 2005
	2002	2003	2004 (unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>37,580</u>	<u>41,273</u>	<u>22,622</u>	<u>12,431</u>
Profit/(Loss) before taxation	(98,764)	(46,008)	(2,880)	13,807
Taxation	<u>(52)</u>	<u>(24)</u>	<u>(2)</u>	<u>—</u>
Profit/(Loss) before minority interests	(98,816)	(46,032)	(2,882)	13,807
Minority interests	<u>—</u>	<u>2,078</u>	<u>21</u>	<u>(110)</u>
Net profit/(loss) for the year	<u>(98,816)</u>	<u>(43,954)</u>	<u>(2,861)</u>	<u>13,697</u>

The Group does not have any extraordinary or exceptional items for each of the three years ended 31st July, 2004 and the six months ended 31st January, 2005.

Financial position

	At 31st July,			For the six months ended 31st January, 2005
	2002	2003	2004 (unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	139,924	101,168	120,842	151,525
Total liabilities	(37,331)	(20,684)	(19,621)	(16,730)
Minority interests	<u>(2,570)</u>	<u>(601)</u>	<u>(885)</u>	<u>(994)</u>
Shareholders' funds	<u>100,023</u>	<u>79,883</u>	<u>100,336</u>	<u>133,801</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST JULY, 2004

The financial information set out below is an extract from pages 15 to 56 of the annual report of the Company for the financial year ended 31st July, 2004. All information in this paragraph should be read in conjunction with the audited accounts which are included in the annual report of the Company for the financial year ended 31st July, 2004.

Consolidated Income Statement

For the year ended 31st July, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	22,622	41,273
Cost of sales		(1,589)	(8,947)
Direct cost on property rental		(1,589)	(1,867)
Direct cost of sales of properties		(4,024)	(19,818)
Direct cost on estate agency services		(1,015)	—
Direct cost on trading securities sold		(7,141)	—
Reversal of allowance for (allowance for) properties held for sale		3,954	(2,225)
Gross profit		11,218	8,416
Other operating income		1,882	4,121
Surplus (deficit) on revaluation of investment properties		1,615	(8,885)
Administrative expenses		(14,369)	(27,269)
Loss on disposal of investment properties		(620)	(567)
Loss on disposal of other securities		—	(160)
Allowance for loan receivables		—	(11,003)
Amortisation of goodwill arising on acquisition of subsidiaries		(494)	(2,071)
Unrealised holding loss on trading securities		(739)	(3,635)
Loss from operations	5	(1,507)	(41,053)
Finance costs		(577)	(1,286)
Share of results of an associate		—	(411)
(Loss) gain on disposal of discontinuing operations		(734)	261
Loss on disposal of subsidiaries		(62)	(3,519)
Loss before taxation		(2,880)	(46,008)
Taxation	10	(2)	(24)
Loss before minority interests		(2,882)	(46,032)
Minority interests		21	2,078
Net loss for the year		(2,861)	(43,954)
Loss per share			
Basic	11	(0.11 cents)	(5.35 cents)

Consolidated Balance Sheet*At 31st July, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Investment properties	12	19,780	23,165
Property, plant and equipment	13	104	79
Deferred tax assets	29	17	—
Goodwill	14	4,419	762
Other securities	16	—	—
Promissory note receivables	17	—	22,000
		<u>24,320</u>	<u>46,006</u>
Current assets			
Properties held for sale	18	35,580	25,341
Trade and other receivables	19	6,281	5,503
Loan receivables	20	—	—
Inventories		—	1,260
Trading securities	16	8,392	1,952
Promissory note receivables	17	22,000	—
Bank balances and cash		24,269	21,106
		<u>96,522</u>	<u>55,162</u>
Current liabilities			
Trade and other payables	21	7,124	3,119
Taxation payable		20	1
Promissory note payables	22	—	3,051
Bank borrowings — due within one year	23	1,234	1,546
		<u>8,378</u>	<u>7,717</u>
Net current assets		<u>88,144</u>	<u>47,445</u>
Total assets less current liabilities		<u>112,464</u>	<u>93,451</u>
Minority interests		<u>885</u>	<u>601</u>
Non-current liabilities			
Bank borrowings — due after one year	23	8,243	12,967
Convertible note payables	25	3,000	—
		<u>11,243</u>	<u>12,967</u>
		<u>100,336</u>	<u>79,883</u>
Capital and reserves			
Share capital	26	32,694	20,814
Reserves		67,642	59,069
		<u>100,336</u>	<u>79,883</u>

Balance Sheet*At 31st July, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Investment properties	12	1,480	1,340
Interests in subsidiaries	15	74,386	53,243
Other securities	16	—	—
Promissory note receivables	17	—	22,000
		<u>75,866</u>	<u>76,583</u>
Current assets			
Properties held for sale	18	206	206
Trade and other receivables		1,567	464
Promissory note receivables	17	22,000	—
Bank balances and cash		141	4,019
		<u>23,914</u>	<u>4,689</u>
Current liabilities			
Trade and other payables		799	688
Bank borrowings — due within one year	23	67	65
		<u>866</u>	<u>753</u>
Net current assets		<u>23,048</u>	<u>3,936</u>
Total assets less current liabilities		<u>98,914</u>	<u>80,519</u>
Non-current liabilities			
Amount due to a subsidiary	24	700	—
Bank borrowings — due after one year	23	571	638
Convertible note payables	25	3,000	—
		<u>4,271</u>	<u>638</u>
		<u>94,643</u>	<u>79,881</u>
Capital and reserves			
Share capital	26	32,694	20,814
Reserves	28	61,949	59,067
		<u>94,643</u>	<u>79,881</u>

Consolidated Statement of Changes in Equity*For the year ended 31st July, 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital reduction reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
At 31st July, 2002	192,960	250,952	157	—	268	(344,314)	100,023
Capital reduction (<i>note 26a</i>)	(188,136)	(250,952)	—	170,583	—	268,505	—
Issue of shares on private placements (<i>note 26b</i>)	2,114	8,174	—	—	—	—	10,288
Issue of shares on rights issue (<i>note 26c</i>)	13,876	—	—	—	—	—	13,876
Expenses incurred in connection with issue of shares	—	(350)	—	—	—	—	(350)
Net loss for the year	—	—	—	—	—	(43,954)	(43,954)
At 31st July, 2003	20,814	7,824	157	170,583	268	(119,763)	79,883
Conversion of convertible notes (<i>note 26d</i>)	2,500	2,500	—	—	—	—	5,000
Issue of shares on private placements (<i>note 26e</i>)	9,380	9,380	—	—	—	—	18,760
Expenses incurred in connection with issue of shares	—	(446)	—	—	—	—	(446)
Net loss for the year	—	—	—	—	—	(2,861)	(2,861)
Balance at 31st July, 2004	<u>32,694</u>	<u>19,258</u>	<u>157</u>	<u>170,583</u>	<u>268</u>	<u>(122,624)</u>	<u>100,336</u>

Consolidated Cash Flow Statement*For the year ended 31st July, 2004*

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss from operations		(1,507)	(41,053)
Adjustments for:			
Loss on disposal of properties held for sale	32	—	74
Amortisation of goodwill arising on acquisition of subsidiaries		494	2,071
Release of negative goodwill arising on acquisition of an associate		—	(187)
Interest income		(1,529)	(1,684)
(Surplus) deficit on revaluation of investment properties		(1,615)	8,885
Depreciation		38	890
Allowance for bad and doubtful debts		—	724
Loss on disposal of other securities		—	160
Loss on disposal of property, plant and equipment		2	176
Loss on disposal of investment properties		620	567
Allowance for loan receivables		—	11,003
(Reversal of allowance for) allowance for properties held for sale		(3,954)	2,225
Unrealised holding loss on trading securities		739	3,635
Operating cash flows before movements in working capital		(6,712)	(12,514)
(Increase) decrease in properties held for sale		(8,685)	5,091
Decrease (increase) in trade and other receivables		6,935	(3,827)
Decrease in inventories		371	5,287
Increase in trading securities		(7,179)	(5,587)
(Decrease) increase in trade and other payables		(1,898)	866
Cash used in operations		(17,168)	(10,684)
People's Republic of China, other than Hong Kong Income Tax paid		—	(333)
NET CASH USED IN OPERATING ACTIVITIES		(17,168)	(11,017)

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
INVESTING ACTIVITIES			
Net cash inflow from disposal of interests in subsidiaries	31	2,793	7,885
Proceeds from disposal of investment properties		4,380	363
Interest received		1,529	1,684
Acquisition of subsidiaries	30	(5,899)	—
Purchase of property, plant and equipment		(68)	(29)
Proceeds from disposal of property, plant and equipment		—	519
Proceeds from disposal of other securities		—	40
Increase in loan receivables		—	(10,003)
Purchase of other securities		—	(200)
NET CASH FROM INVESTING ACTIVITIES		2,735	259
FINANCING ACTIVITIES			
Proceeds from issue of shares		18,760	24,164
Proceeds from issue of convertible notes		8,000	—
Repayment of promissory note payables		(3,051)	(12,478)
Repayment of bank loans		(5,097)	(3,972)
Interest paid		(577)	(1,286)
Expenses paid in connection with the issue of shares		(446)	(350)
New bank loans obtained		—	15,665
NET CASH FROM FINANCING ACTIVITIES		17,589	21,743
INCREASE IN CASH AND CASH EQUIVALENTS		3,156	10,985
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		20,847	9,862
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		24,003	20,847
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		24,269	21,106
Bank overdrafts		(266)	(259)
		24,003	20,847

Notes to the Financial Statement*For the year ended 31st July, 2004***1. GENERAL**

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as a property and investment holding company. The activities of its principal subsidiaries are set out in note 15.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”)

In the current year, the Group has adopted for the first time, the revised Statement of Standard Accounting Practice (“SSAP”) 12 “Income Taxes”, which is one of HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The term of HKFRS is inclusive of SSAPs and Interpretations approved by HKICPA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st July each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)***Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st August, 2001 remained in reserves continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions after 1st August, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the term of the relevant lease
Furniture, fixtures and equipment	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Investments in subsidiaries

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties. Net realisable value is determined by reference to estimated sales proceeds less selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)***Revenue recognition**

Sales of goods are recognised when goods are delivered and title has been passed.

Sales of trading securities are recognised when the related bought and sold notes are executed.

Commissions and service charges are recognised when services are provided.

Revenue from estate agency services is recognised when the services are rendered.

For completed properties which were acquired for resale, revenue is recognised on the execution of a binding agreement.

Rental income from properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES (*Cont'd*)**Taxation** (*Cont'd*)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals expenses under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Retirement benefit scheme contributions

Payments to defined contribution scheme and the Mandatory Provident Fund Scheme (“MPF Scheme”) are charged as an expense as they fall due.

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover and business segments

For management purposes, the Group is currently organised into five operating divisions — property rental, financial investment, property sale, estate agency and other investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property rental	—	leasing of properties
Financial investment	—	trading of listed securities and provision of financial services
Property sale	—	sale of properties held for sale
Estate agency	—	provision of estate agency services
Other investment	—	investment in other securities

In March 2004 and June 2003, the sale of silk products business and the tourist business, respectively, were discontinued and disposed of (see notes 9 and 31).

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (*Cont'd*)Turnover and business segments (*Cont'd*)

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	Continuing operations					Discontinuing operations		
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Estate agency HK\$'000	Other investment HK\$'000	Sale of silk products HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Income Statement								
For the year ended 31st July, 2004								
TURNOVER								
External sales	767	7,645	4,380	1,981	—	7,849	—	22,622
SEGMENT RESULT	(1,563)	749	3,747	380	—	(498)	—	2,815
Unallocated corporate income								106
Unallocated corporate expenses								(4,428)
Loss from operations								(1,507)
Finance costs								(577)
Loss on disposal of discontinuing operations	—	—	—	—	—	(734)	—	(734)
Loss on disposal of subsidiaries	(62)	—	—	—	—	—	—	(62)
Loss before taxation								(2,880)
Taxation								(2)
Loss before minority interests								(2,882)
Minority interests								21
Net loss for the year								(2,861)
BALANCE SHEET								
At 31st July, 2004								
ASSETS								
Segment assets	21,822	8,874	35,623	10,522	—	—	—	76,841
Unallocated corporate assets								44,001
Consolidated total assets								120,842
LIABILITIES								
Segment liabilities	3,934	—	323	4,073	—	—	—	8,330
Unallocated corporate liabilities								11,291
Consolidated total liabilities								19,621
OTHER INFORMATION								
For the year ended 31st July, 2004								
Capital additions	—	—	—	68	—	—	—	68
Depreciation	—	—	2	35	—	—	1	38
Reversal of allowance for properties held for sale	—	—	3,954	—	—	—	—	3,954
Surplus on revaluation of investment properties	1,615	—	—	—	—	—	—	1,615
Loss on disposal of investment properties	620	—	—	—	—	—	—	620
Additions of goodwill	—	—	—	4,532	—	—	—	4,532
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	494	—	—	—	494
Unrealised holding loss on trading securities	—	739	—	—	—	—	—	739

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Turnover and business segments (Cont'd)

	Continuing operations				Discontinuing operations			
	Property rental HK\$'000	Financial investment HK\$'000	Property sale HK\$'000	Other investment HK\$'000	Sale of silk products HK\$'000	Tourism HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
INCOME STATEMENT								
For the year ended 31st July, 2003								
TURNOVER								
External sales	1,914	—	19,854	—	18,910	595	—	41,273
SEGMENT RESULT	(13,236)	(15,528)	(1,395)	(160)	(6,241)	(692)	—	(37,252)
Unallocated corporate income								131
Unallocated corporate expenses								(3,932)
Loss from operations								(41,053)
Finance costs								(1,286)
Share of result of an associate	—	—	—	—	—	—	(411)	(411)
Gain on disposal of discontinuing operations	—	—	—	—	—	261	—	261
Loss on disposal of subsidiaries	—	—	—	—	—	—	(3,519)	(3,519)
Loss before taxation								(46,008)
Taxation								(24)
Loss before minority interests								(46,032)
Minority interests								2,078
Net loss for the year								(43,954)
BALANCE SHEET								
At 31st July, 2003								
ASSETS								
Segment assets	23,528	1,990	25,341	—	3,333	—	—	54,192
Unallocated corporate assets								46,976
Consolidated total assets								101,168
LIABILITIES								
Segment liabilities	1,879	—	9	—	569	—	—	2,457
Unallocated corporate liabilities								18,227
Consolidated total liabilities								20,684
OTHER INFORMATION								
For the year ended 31st July, 2003								
Capital additions	2	—	—	—	—	—	27	29
Depreciation	48	97	—	—	745	—	—	890
Allowance for properties held for sale	—	—	2,225	—	—	—	—	2,225
Deficit on revaluation of investment properties	8,885	—	—	—	—	—	—	8,885
Loss on disposal of other securities	—	—	—	160	—	—	—	160
Loss on disposal of property, plant and equipment	—	136	40	—	—	—	—	176
Loss on disposal of investment properties	567	—	—	—	—	—	—	567
Allowance for loan receivables	—	11,003	—	—	—	—	—	11,003
Allowance for bad and doubtful debts	—	—	65	—	659	—	—	724
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	—	—	—	2,071	2,071
Unrealised holding loss on trading securities	—	3,635	—	—	—	—	—	3,635

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)***Geographical segments**

The Group's current operations are mainly located in Hong Kong and Japan. The Group's property rental businesses are carried out in Hong Kong. Financial investment is located in Hong Kong and property sale division is located in Hong Kong and Japan. Estate agency division is located in Hong Kong. Other investment is located in Hong Kong.

In prior year, the Group's property rental businesses were carried out in the People's Republic of China, other than Hong Kong (the "PRC") and Hong Kong.

Segment information about geographic markets is presented below:

	Turnover by geographical market		Loss from operation	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	22,615	20,678	(1,125)	(35,857)
The PRC	7	20,595	—	354
Japan	—	—	3,940	(1,749)
	<u>22,622</u>	<u>41,273</u>	2,815	(37,252)
Unallocated corporate income			106	131
Unallocated corporate expenses			<u>(4,428)</u>	<u>(3,932)</u>
Loss from operations			<u>(1,507)</u>	<u>(41,053)</u>

Revenue from the Group's discontinued sale of silk products operations of HK\$7,849,000 (2003: HK\$18,910,000) was derived principally from Hong Kong.

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (*Cont'd*)Geographical segments (*Cont'd*)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	89,944	72,859	4,600	29
The PRC	—	5,575	—	—
Japan	26,688	22,734	—	—
Overseas	4,210	—	—	—
	<u>120,842</u>	<u>101,168</u>	<u>4,600</u>	<u>29</u>

5. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Directors' remuneration (<i>note 7</i>)	1,781	1,285
Other staff costs	3,745	4,257
Retirement benefit scheme contributions, excluding directors	<u>255</u>	<u>150</u>
Total staff costs	<u>5,781</u>	<u>5,692</u>
Auditors' remuneration:		
Current year	631	525
Underprovision in prior years	80	192
Depreciation	38	890
Allowance for bad and doubtful debts	—	724
Loss on disposal of property, plant and equipment	2	176
Bank and other interest income	(79)	(33)
Release of negative goodwill arising on acquisition of an associate (included in other operating income)	—	(187)
Interest income on promissory note receivables	(1,103)	(1,142)
Interest income on trading securities	(347)	—
Interest income on loan receivables	<u>—</u>	<u>(509)</u>

6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	85	—
Promissory notes	6	779
Convertible notes	77	—
	<u>168</u>	<u>779</u>
Borrowings not wholly repayable within five years:		
Bank borrowings	409	507
	<u>577</u>	<u>1,286</u>

7. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	100	100
Non-executive	—	—
Independent non-executive directors	200	200
	<u>300</u>	<u>300</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	1,411	979
Retirement benefit scheme contributions	70	6
	<u>1,481</u>	<u>985</u>
	<u>1,781</u>	<u>1,285</u>

The emoluments of each of the directors were below HK\$1,000,000 for both years.

8. EMPLOYEES' EMOLUMENTS

Of the five highest (2003: seven) individuals with the emoluments in the Group, four (2003: five) were directors of the Company whose emoluments are included in note 7 above. The emoluments of the remaining one employee (2003: two employees) are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	150	448
Retirement benefit scheme contributions	—	16
	<u>150</u>	<u>464</u>

During the year, no emoluments were paid by the Group to the five (2003: seven) highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. During the years ended 31st July, 2004 and 2003, no directors waived any emoluments.

The emoluments of each of these employees were below HK\$1,000,000.

9. DISCONTINUING OPERATIONS

In March 2004, the Group ceased its operations in the provision of sale of silk products after the disposal of a subsidiary, Marcello Asia Limited ("Marcello").

The results of the discontinuing operations are as follows:

	Period ended 30th March, 2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	7,849	18,910
Cost of sales	<u>(1,589)</u>	<u>(8,345)</u>
	6,260	10,565
Other operating income	91	58
Administrative expenses	<u>(6,849)</u>	<u>(16,864)</u>
Loss for the period up to date of discontinuance	<u>(498)</u>	<u>(6,241)</u>

During the year, Marcello had a net cash inflow of HK\$218,000 (2003: outflow of HK\$69,000) attributable to the Group's net cash used in operating activities.

9. DISCONTINUING OPERATIONS (*Cont'd*)

The carrying amounts of the assets and liabilities of Marcello at the date of disposal and at 31st July, 2003 are as follows:

	At 30th March, 2004 HK\$'000	At 31st July, 2003 HK\$'000
Total assets	<u>1,684</u>	<u>2,571</u>
Total liabilities	<u>180</u>	<u>569</u>

Loss on disposal of discontinuing operations of HK\$734,000 arose on the disposal of Marcello, being the proceeds of disposal less the carrying amount of the subsidiary's net assets as referred to note 31.

In June 2003, the Group ceased its operations in the provision of tourist services after the disposal of a subsidiary, Great Prospect Limited ("Great Prospect").

The results of the discontinuing operations were as follows:

	Period ended 30th June, 2003 HK\$'000
Turnover	595
Cost of sales	<u>(601)</u>
	(6)
Administrative expenses	<u>(686)</u>
Loss for the period up to date of discontinuance	<u>(692)</u>

During the year ended 31st July, 2003, Great Prospect had a net cash outflow of HK\$692,000 attributable to the Group's net cash used in operating activities.

9. DISCONTINUING OPERATIONS (Cont'd)

The carrying amounts of the assets and liabilities of Great Prospect at the date of disposal were as follows:

	At 30th June, 2003 HK\$'000
Total assets	1
Total liabilities	372

Gain on disposal of discontinuing operations of HK\$261,000 arose on the disposal of Great Prospect, being the proceeds of disposal less the carrying amount of the subsidiary's net assets as referred to note 31.

10. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current tax:		
Hong Kong	19	—
The PRC	—	24
	19	24
Deferred tax (note 29)	(17)	—
	2	24

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

10. TAXATION (*Cont'd*)

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	<u>(2,880)</u>	<u>(46,008)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	(504)	(8,050)
Tax effect of expenses not deductible for tax purpose	2,615	8,120
Tax effect of income not taxable for tax purpose	(2,908)	(4,806)
Tax effect of tax losses not recognised	804	2,913
Tax effect of deferred tax assets not recognised	94	1,802
Effect of different tax rate of a subsidiary operating in other jurisdictions	—	69
Utilisation of tax loss previously not recognised	<u>(99)</u>	<u>(24)</u>
Tax effect	<u>2</u>	<u>24</u>

11. LOSS PER SHARE

The calculation of basis loss per share is based on the following data:

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Net loss for the year	<u>2,861,000</u>	<u>43,954,000</u>
Weighted average number of shares for the purpose of basic loss per share	<u>2,531,048,941</u>	<u>821,427,141</u>

No diluted loss per share for the year ended 31st July, 2004 has been presented as the exercise price of the Company's options was higher than the average market price of shares during the year and the conversion of the Company's outstanding convertibles notes would result in a decrease in net loss per share.

There was no dilutive potential shares outstanding during the year ended 31st July, 2003.

12. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
VALUATION				
At 1st August, 2003	23,165	32,980	1,340	1,450
Disposals	(5,000)	(930)	—	—
Surplus (deficit) arising on revaluation	1,615	(8,885)	140	(110)
At 31st July, 2004	<u>19,780</u>	<u>23,165</u>	<u>1,480</u>	<u>1,340</u>
Comprising:				
Investment properties held in Hong Kong under:				
Long leases	1,440	1,300	—	—
Medium-term leases	18,340	21,865	1,480	1,340
	<u>19,780</u>	<u>23,165</u>	<u>1,480</u>	<u>1,340</u>

The investment properties of the Group and the Company are held for rental purposes under operating leases and were revalued at 31st July, 2004 on an open market value basis by independent firms of professional valuers, Chung, Chan & Associates and CS Surveyors Limited, chartered surveyors.

The surplus arising on revaluation of the Group's and the Company's investment properties at 31st July, 2004 amounted to HK\$1,615,000 (2003: deficit of HK\$8,885,000) and HK\$140,000 (2003: deficit of HK\$110,000), respectively, have been credited to the income statement.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
COST			
At 1st August, 2003	3,094	649	3,743
Additions	—	68	68
Upon acquisition of subsidiaries	376	152	528
Disposals	—	(3)	(3)
Disposal of subsidiaries	(3,094)	(646)	(3,740)
At 31st July, 2004	376	220	596
DEPRECIATION			
At 1st August, 2003	3,094	570	3,664
Provided for the year	10	28	38
Upon acquisition of subsidiaries	354	103	457
Eliminated on disposals	—	(1)	(1)
Eliminated on disposal of subsidiaries	(3,094)	(572)	(3,666)
At 31st July, 2004	364	128	492
NET BOOK VALUES			
At 31st July, 2004	12	92	104
At 31st July, 2003	—	79	79

14. GOODWILL

	THE GROUP <i>HK\$'000</i>
COST	
At 1st August, 2003	1,143
Arising on acquisitions of subsidiaries	4,532
Disposals	(1,143)
	<u>4,532</u>
At 31st July, 2004	<u>4,532</u>
AMORTISATION AND IMPAIRMENT	
At 1st August, 2003	381
Provided for the year	494
Eliminated on disposals	(762)
	<u>113</u>
At 31st July, 2004	<u>113</u>
NET BOOK VALUES	
At 31st July, 2004	<u><u>4,419</u></u>
At 31st July, 2003	<u><u>762</u></u>

The amortisation period adopted for goodwill ranges from 3 to 20 years.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost	31,539	31,539
Amounts due from subsidiaries	224,373	195,955
	<u>255,912</u>	<u>227,494</u>
Allowance	(181,526)	(174,251)
	<u><u>74,386</u></u>	<u><u>53,243</u></u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date.

15. INTERESTS IN SUBSIDIARIES (*Cont'd*)

Details of the Company's principal subsidiaries at 31st July, 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Adrian Realty Limited	Hong Kong	HK\$1,000,000	100	—	Property investment
Ahead Company Limited	Hong Kong	HK\$2	100	—	Trading of securities and investment holding
Century 21 Hong Kong Limited	Hong Kong	HK\$3,880,000	—	82.5	Provision of estate agency services
Chadbury International Limited	British Virgin Islands/Japan	US\$1	—	100	Property investment
Consecutive Profits Limited ("CPL")	British Virgin Islands	US\$10	—	80	Investment holding
Evergood Management Limited	Hong Kong	HK\$2	100	—	Investment holding
Hegel Trading Limited	Hong Kong	HK\$2	100	—	Property investment
High Cheong Developments Limited ("High Cheong")	British Virgin Islands	US\$1	100	—	Investment holding
Silver Tower Limited	Hong Kong	HK\$2	—	100	Property investment
Top Mount Limited	Hong Kong	HK\$2	—	100	Investment holding
Top Universal Management Limited	Hong Kong	HK\$2	100	—	Investment holding

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

16. INVESTMENTS IN SECURITIES

	THE GROUP					
	Trading securities		Other securities		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:						
Listed						
At cost	4,840	5,587	—	—	4,840	5,587
Unrealised holding loss	(658)	(3,635)	—	—	(658)	(3,635)
	<u>4,182</u>	<u>1,952</u>	<u>—</u>	<u>—</u>	<u>4,182</u>	<u>1,952</u>
Unlisted						
At cost	—	—	701	701	701	701
Unrealised holding loss	—	—	(701)	(701)	(701)	(701)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>4,182</u>	<u>1,952</u>	<u>—</u>	<u>—</u>	<u>4,182</u>	<u>1,952</u>
Listed debt securities:						
At cost	4,291	—	—	—	4,291	—
Unrealised holding loss	(81)	—	—	—	(81)	—
	<u>4,210</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,210</u>	<u>—</u>
Total:						
Listed						
Hong Kong	4,182	1,952	—	—	4,182	1,952
Elsewhere	4,210	—	—	—	4,210	—
	<u>8,392</u>	<u>1,952</u>	<u>—</u>	<u>—</u>	<u>8,392</u>	<u>1,952</u>
Market value of listed securities, reported as current	<u>8,392</u>	<u>1,952</u>	<u>—</u>	<u>—</u>	<u>8,392</u>	<u>1,952</u>

16. INVESTMENTS IN SECURITIES (Cont'd)

	THE COMPANY	
	Other securities	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities:		
At cost	700	700
Unrealised holding loss	(700)	(700)
	<u> </u>	<u> </u>
At fair value	<u> </u>	<u> </u>

17. PROMISSORY NOTE RECEIVABLES

	THE GROUP AND THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal	22,000	22,000
Less: Amount due within one year shown under current assets	(22,000)	—
	<u> </u>	<u> </u>
Amount due after one year	<u> </u>	<u>22,000</u>

The promissory note receivables are unsecured, bear interest at 5% per annum and receivable on 27th February, 2005.

18. PROPERTIES HELD FOR SALE

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties in Hong Kong	8,892	206	206	206
Properties in Japan	26,688	22,735	—	—
Properties in the PRC	<u> </u>	<u>2,400</u>	<u> </u>	<u> </u>
	<u>35,580</u>	<u>25,341</u>	<u>206</u>	<u>206</u>

Included above of the Group are properties in Japan of HK\$26,688,000 (2003: in Japan and in the PRC of HK\$25,135,000) carried at net realisable value.

19. TRADE AND OTHER RECEIVABLES

At 31st July, 2004, the balance of trade and other receivables included trade receivables of HK\$4,450,000 (2003: of HK\$714,000). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	2,402	52
61 to 90 days	146	3
91 days or above	1,902	659
	<u>4,450</u>	<u>714</u>

The Group allows an average credit period of 30 days to its trade customers.

20. LOAN RECEIVABLES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal	10,500	10,500
Interest receivables	503	503
Less: Allowance	<u>(11,003)</u>	<u>(11,003)</u>
	<u>—</u>	<u>—</u>

The loans were unsecured and bore interest at prevailing market rate.

21. TRADE AND OTHER PAYABLES

At 31st July, 2004, the balance of trade and other payables included trade payables of HK\$2,382,000 (2003: of HK\$446,000). An aged analysis of trade payables is as follows:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	1,589	2
61 to 90 days	491	—
91 days or above	<u>302</u>	<u>444</u>
	<u>2,382</u>	<u>446</u>

22. PROMISSORY NOTE PAYABLES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal	—	3,051

At 31st July, 2003, the promissory note payables were unsecured and bore interest at Hong Kong best lending rate. The amount was fully settled during the year ended 31st July, 2004.

23. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unsecured bank overdrafts	266	259	—	—
Secured bank loans	9,211	14,254	638	703
	<u>9,477</u>	<u>14,513</u>	<u>638</u>	<u>703</u>

The maturity profile of the above loans and overdrafts is as follows:

Within one year or upon demand	1,234	1,546	67	65
More than one year but not exceeding two years	1,008	1,343	70	67
More than two years but not exceeding five years	3,263	4,386	226	218
More than five years	3,972	7,238	275	353
	<u>9,477</u>	<u>14,513</u>	<u>638</u>	<u>703</u>
Less: Amount due within one year shown as current liabilities	<u>(1,234)</u>	<u>(1,546)</u>	<u>(67)</u>	<u>(65)</u>
Amount due after one year	<u>8,243</u>	<u>12,967</u>	<u>571</u>	<u>638</u>

24. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest free and has no fixed repayment terms. The subsidiary agreed that the amount will not be repayable within twelve months from the balance sheet date and accordingly, the amount is classified as non-current.

25. CONVERTIBLE NOTE PAYABLES

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Principal	3,000	—

The convertible note payables represents the HK\$3,000,000 2% redeemable convertible notes due 2005. The convertible notes carry interest at 2% per annum and are redeemable on 15th October, 2005. The holders of the convertible notes have the options to convert the convertible notes into shares of HK\$0.01 each of the Company at any time during the period from 16th October, 2003 to 15th October, 2005 at a conversion price of HK\$0.02 per share.

26. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares		
Authorised:		
At 1st August, 2002 at HK\$0.40 each	2,250,000,000	900,000
Capital reduction (<i>note a</i>)	—	(877,500)
Increase in authorised share capital (<i>note a</i>)	10,000,000,000	100,000
	<u>12,250,000,000</u>	<u>122,500</u>
At 31st July, 2003 and 31st July, 2004, at HK\$0.01 each	<u>12,250,000,000</u>	<u>122,500</u>
Issued and fully paid:		
At 1st August, 2002 at HK\$0.40 each	482,399,556	192,960
Capital reduction (<i>note a</i>)	—	(188,136)
Issue of shares on private placements on:		
— 6th December, 2002 (<i>note b</i>)	96,400,000	964
— 24th March, 2003 (<i>note b</i>)	115,000,000	1,150
Issue of shares on rights issue (<i>note c</i>)	1,387,599,112	13,876
	<u>2,081,398,668</u>	<u>20,814</u>
At 31st July, 2003, at HK\$0.01 each	2,081,398,668	20,814
Conversion of convertible notes (<i>note d</i>)	250,000,000	2,500
Issue of shares on private placements on:		
— 13th February, 2004 (<i>note e</i>)	400,000,000	4,000
— 29th April, 2004 (<i>note e</i>)	538,000,000	5,380
	<u>3,269,398,668</u>	<u>32,694</u>
At 31st July, 2004, at HK\$0.01 each	<u>3,269,398,668</u>	<u>32,694</u>

26. SHARE CAPITAL (Cont'd)*Notes:*

- (a) On 10th October, 2002, an order of petition (the “Order”) was granted by the High Court of Hong Kong Special Administrative Region (the “High Court”). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 2nd September, 2002, be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

The High Court approved the minute set forth in the schedule 2 of the Order (the “Minute”). Pursuant to the Minute, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK\$900,000,000 divided into 2,250,000,000 ordinary shares of HK\$0.40 each (of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid) to HK\$22,500,000 divided into 2,250,000,000 ordinary shares of HK\$0.01 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK\$22,500,000 to HK\$122,500,000 by the creation of additional 10,000,000,000 shares of HK\$0.01 each. Accordingly, on the registration of the Minute, the authorised share capital of the Company was HK\$122,500,000 divided into 12,250,000,000 shares of HK\$0.01 each, of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK\$250,952,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

In addition, the Company gave the undertaking set forth in the schedule 1 of the Order (the “Undertaking”). Pursuant to the Undertaking, the Company undertook that out of the capital by which the Company sought to be reduced, a sum of HK\$170,583,000 would be credited to a capital reduction reserve in the books of account of the Company to be designated as capital reduction reserve account (the “Capital Reduction Reserve Account”) which would not be treated as realised profits and should be treated as a reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the “Creditors”) were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the Capital Reduction Reserve Account would be cancelled and provided that prior to the cancellation of the Capital Reduction Reserve Account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares and the audited accounts of the Company would contain a note recording this undertaking.

- (b) On 6th December, 2002 and 24th March, 2003, arrangements were made for private placements to independent investors of 96,400,000 and 115,000,000 new shares of the Company of HK\$0.01 each at placing prices of HK\$0.059 and HK\$0.04 per share, representing a discount of approximately 19.2% and 21.57% to the closing market price of the Company’s shares on 20th November, 2002 and 28th February, 2003, respectively. The net proceeds had been used to finance the Group’s general working capital for operating activities. These shares were issued under the general mandates granted to the directors at the extraordinary general meeting of the Company held on 2nd September, 2002 and 30th December, 2002, respectively, and rank *pari passu* with other shares in issue in all respects.
- (c) In order to finance the Group’s operating activities of property investment, the Company issued 1,387,599,112 rights shares of HK\$0.01 each, at a subscription price of HK\$0.01 per share. The allocation was made on 6th June, 2003 to existing shareholders, on the basis of two rights shares for every one ordinary share then held. The new shares rank *pari passu* with the existing shares in all respects.
- (d) On 30th January, 2004, the HK\$5,000,000 2% redeemable convertible notes due 2005 were converted into 250,000,000 ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.02 per share. The new shares rank *pari passu* with the existing shares in all respects.
- (e) On 13th February, 2004 and 29th April, 2004, arrangements were made for private placements to independent investors of 400,000,000 and 538,000,000 new shares of the Company of HK\$0.01 each at placing prices of HK\$0.02 per share, representing a discount of approximately 13.04% to the closing market price of the Company’s shares on 6th February, 2004 and 24th March, 2004, respectively. The net proceeds have been used to finance the Group’s general working capital for operating activities, property investments and real estate franchising and agency business. The 400,000,000 and 538,000,000 new shares were issued under the general mandates granted to the directors at the annual general meeting and extraordinary general meeting of the Company held on 18th December, 2003 and 22nd April, 2004, respectively. The new shares rank *pari passu* with other shares in issue in all respects.

27. SHARE OPTIONS**Scheme adopted on 7th March, 1997 (the “1997 Scheme”)**

The 1997 Scheme was adopted on 7th March, 1997 for the primary purpose of providing incentives to directors and eligible employees and would expire on 6th March, 2007. Under the 1997 Scheme, the Board of Directors of the Company (the “Board”) might grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 per lot of share options granted. Options granted should be accepted within 28 days from the date of offer of the options.

The exercise price was determined by the directors of the Company, and should be equal to the higher of the nominal value of the Company’s shares or 80 percent of the average closing price of the shares for the five business days immediately preceding the date of grant. The maximum number of shares in respect of which options might be granted under the 1997 Scheme should not exceed 10 percent of the issued share capital of the Company from time to time.

No option shall be granted to any one person which if exercised in full would result in the total number of shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 percent of the number of shares issued and issuable under all the options which might be granted under the 1997 Scheme at the time it is proposed to grant the said option to that person.

An option may be exercised in accordance with the terms of the 1997 Scheme at any time after the date upon which the option is granted and prior to the expiry of ten years from that date. The period during which an option might be exercised would be determined by the Board in its absolute discretion, save that no option might be exercised more than 10 years after it has been granted or 10 years from the date of the adoption of the 1997 Scheme, whichever is earlier. No option might be granted more than 10 years after the date of approval of the 1997 Scheme.

Pursuant to a resolution passed on 30th December, 2002, the 1997 Scheme was terminated.

No share options of the 1997 Scheme were granted or exercised during the year ended 31st July, 2004 and 2003. At 31st July, 2004 and 2003, there was no option outstanding under the 1997 Scheme.

Scheme adopted on 30th December, 2002 (the “2002 Scheme”)

Following the termination of the 1997 Scheme in December 2002, the 2002 Scheme was adopted pursuant to a resolution passed on 30th December, 2002 for the primary purpose of providing incentives to directors, employees and eligible participants and will expire on 29th December, 2012.

27. SHARE OPTIONS (*Cont'd*)**Scheme adopted on 30th December, 2002 (the “2002 Scheme”) (*Cont'd*)**

Under the 2002 Scheme, the Board may grant options to executive directors, employees of the Company and its subsidiaries and such eligible participants at the discretion of the Board pursuant to the terms of the 2002 Scheme, to subscribe for shares of the Company at a price per share not less than the highest of i) the closing price of a share of the Company listed on the Stock Exchange at the date of grant of the option; ii) the average of the closing price of a share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and iii) the nominal value of a share of the Company.

The maximum number of shares in respect of which options shall be granted under the 2002 Scheme shall not exceed 10% in aggregate of the issued share capital of the Company at the date of its adoption. No director, employee or eligible participant may be granted options under the 2002 Scheme which will enable him or her if exercise in full to subscribe for exceeding 1% of the issued share capital of the Company in any 12-month period. The option period for which the options granted can be exercisable, shall be such period as notified by the Board, save that it shall not be more than 10 years from the date of grant subject to the terms of the 2002 Scheme. Nominal consideration of HK\$1 is payable on acceptance of each grant and the share options granted shall be accepted within 28 days from the date of grant.

At 31st July, 2004, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 125,200,000, representing 3.8% of the shares of the Company in issue at that date. Total consideration of HK\$15 (2003: Nil) was received by the Company during the year on acceptance of the grants.

No share option of the 2002 Scheme was granted or exercised during the year ended 31st July, 2003. At 31st July, 2003, there was no option outstanding under the 2002 Scheme.

The following table discloses details of the 2002 Scheme and movements in such holdings during the year ended 31st July, 2004:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Outstanding at 31.7.2004
20.11.2003	20.11.2003 — 29.12.2012	0.0234	—	41,600,000	41,600,000
17.3.2004	17.3.2004 — 29.12.2012	0.0240	—	83,600,000	83,600,000
			—	125,200,000	125,200,000

27. SHARE OPTIONS (Cont'd)

Scheme adopted on 30th December, 2002 (the “2002 Scheme”) (Cont'd)

Details of the options held by the directors included in the above table are as follows:

Date of grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2003	Granted during the year	Outstanding at 31.7.2004
20.11.2003	20.11.2003 — 29.12.2012	0.0234	—	20,800,000	20,800,000
17.3.2004	17.3.2004 — 29.12.2012	0.0240	—	61,100,000	61,100,000
			—	81,900,000	81,900,000

No share option was exercised by the above directors to subscribe for shares in the Company during the year.

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital reduction reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY						
At 1st August, 2002	250,952	2,127	—	268	(346,303)	(92,956)
Capital reduction (<i>note 26a</i>)	(250,952)	—	170,583	—	268,505	188,136
Issue of shares on private placements (<i>note 26b</i>)	8,174	—	—	—	—	8,174
Expenses incurred in connection with issue of shares	(350)	—	—	—	—	(350)
Net loss for the year	—	—	—	—	(43,937)	(43,937)
At 31st July, 2003	7,824	2,127	170,583	268	(121,735)	59,067
Conversion of convertible notes (<i>note 26d</i>)	2,500	—	—	—	—	2,500
Issue of shares on private placements (<i>note 26e</i>)	9,380	—	—	—	—	9,380
Expenses incurred in connection with issue of shares	(446)	—	—	—	—	(446)
Net loss for the year	—	—	—	—	(8,552)	(8,552)
At 31st July, 2004	<u>19,258</u>	<u>2,127</u>	<u>170,583</u>	<u>268</u>	<u>(130,287)</u>	<u>61,949</u>

Under the capital reduction exercise carried out in October 2002, the Company undertook to maintain a capital reduction reserve account. This account would not be treated as realised profits and should be treated as reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the “Creditors”) were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the account would be cancelled and provided that prior to the cancellation of the account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares.

At 31st July, 2004 and 2003, the Company had no reserve available for distribution to the shareholders.

29. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
At 1st August, 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	913	(913)	—
	<u>913</u>	<u>(913)</u>	<u>—</u>
— as restated	913	(913)	—
Charge (credit) to income statement	219	(219)	—
	<u>219</u>	<u>(219)</u>	<u>—</u>
At 31st July, 2003	1,132	(1,132)	—
Charge (credit) to income statement	116	(133)	(17)
	<u>116</u>	<u>(133)</u>	<u>(17)</u>
At 31st July, 2004	<u>1,248</u>	<u>(1,265)</u>	<u>(17)</u>
THE COMPANY			
At 1st August, 2002			
— as previously reported	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	37	(37)	—
	<u>37</u>	<u>(37)</u>	<u>—</u>
— as restated	37	(37)	—
Charge (credit) to income statement	11	(11)	—
	<u>11</u>	<u>(11)</u>	<u>—</u>
At 31st July, 2003	48	(48)	—
Charge (credit) to income statement	8	(8)	—
	<u>8</u>	<u>(8)</u>	<u>—</u>
At 31st July, 2004	<u>56</u>	<u>(56)</u>	<u>—</u>

At 31st July, 2004, the Group and the Company had unused tax losses of HK\$47,648,000 (2003: HK\$53,579,000) and HK\$9,562,000 (2003: HK\$8,842,000), respectively, available for offset against future profits and deductible temporary differences of HK\$232,000 (2003: HK\$2,634,000) and HK\$19,000 (2003: HK\$24,000), respectively, in respect of accelerated tax depreciation. A deferred tax assets of the Group and the Company have been recognised in respect of HK\$7,229,000 (2003: HK\$6,468,000) and HK\$324,000 (2003: HK\$276,000) of such losses, respectively. No deferred tax assets of the Group and the Company have been recognised in respect of the remaining unused losses of HK\$40,419,000 (2003: HK\$47,111,000) and HK\$9,238,000 (2003: HK\$8,566,000), respectively, and the deductible temporary differences due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

30. ACQUISITION OF SUBSIDIARIES

On 30th January, 2004, the Group acquired 80% interest in CPL and its subsidiaries for a consideration of HK\$6,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$4,532,000.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	71	—
Trade and other receivables	8,318	—
Bank balances and cash	115	—
Trade and other payables	(6,212)	—
Bank overdrafts	(14)	—
Bank borrowings	(54)	—
Minority interests	(756)	—
	<u>1,468</u>	<u>—</u>
Net assets	1,468	—
Goodwill arising on acquisition	4,532	—
	<u>6,000</u>	<u>—</u>
Satisfied by:		
Cash consideration paid	<u>6,000</u>	<u>—</u>
Analysis of net outflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(6,000)	—
Bank balances and cash acquired	115	—
Bank overdrafts acquired	(14)	—
	<u>(5,899)</u>	<u>—</u>
Net outflow of cash and cash equivalents	<u>(5,899)</u>	<u>—</u>

The subsidiaries acquired during the year contributed HK\$1,981,000 to the Group's turnover, and HK\$380,000 to the Group's profit from operations.

31. DISPOSAL OF SUBSIDIARIES

In August, 2003, the Group disposed of its subsidiary, Kan Hock Investment and Developments Limited (“Kan Hock”). As referred to in note 9 in March 2004, the Group discontinued its operations in the provision of sale of silk products at the time of disposal of its subsidiary, Marcello. The net assets of Kan Hock and Marcello at the dates of disposal and at 31st July, 2004 were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	74	—
Other securities	—	4,005
Properties held for sale	2,400	—
Inventories	889	—
Trade and other receivables	605	912
Bank balances and cash	300	116
Trade and other payables	(309)	(1,486)
	<u>3,959</u>	<u>3,547</u>
Goodwill released	381	7,603
Minority interests	(451)	109
(Loss) gain on disposal of discontinuing operations	(734)	261
Loss on disposal of subsidiaries	(62)	(3,519)
	<u><u>3,093</u></u>	<u><u>8,001</u></u>
Satisfied by:		
Cash consideration received	<u><u>3,093</u></u>	<u><u>8,001</u></u>

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration received	3,093	8,001
Bank balances and cash disposed of	(300)	(116)
Net inflow of cash and cash equivalents	<u><u>2,793</u></u>	<u><u>7,885</u></u>

The subsidiaries disposed of did not contribute significantly to the Group’s cash flows or operating results for both years.

32. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st July, 2003, the Group disposed of certain properties held for sale of HK\$14,650,000 for a total consideration of HK\$14,576,000. The consideration was satisfied by the transfer of portion of the promissory note payables, accrued promissory note interest, rental deposits and rental receivables of HK\$14,743,000, HK\$168,000, HK\$281,000 and HK\$616,000, respectively. A loss on disposal of HK\$74,000 was resulted and included in the income statement.

33. PLEDGE OF ASSETS

At 31st July, 2004, investment properties of the Group and the Company amounting to HK\$17,780,000 (2003: HK\$23,165,000) and HK\$1,480,000 (2003: HK\$1,340,000), respectively, had been pledged to banks to secure credit facilities to the extent of HK\$10,750,000 (2003: HK\$16,665,000) and HK\$750,000 (2003: HK\$750,000) granted to the Group and the Company of which HK\$9,163,000 (2003: HK\$14,254,000) and HK\$638,000 (2003: HK\$703,000) were utilised by the Group and the Company, respectively.

34. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated defined contribution retirement benefit schemes (“Defined Contribution Schemes”) for its qualifying employees in Hong Kong. The assets of the schemes were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group. The Defined Contribution Schemes were terminated on 1st December, 2000.

Effective on 1st December, 2000, the Group has joined the MPF Scheme for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31st July, 2004, contributions of the Group under the MPF Scheme amounted to HK\$325,000 (2003: HK\$156,000).

Forfeited contributions in respect of unvested benefits of employees leaving the Group under the Defined Contribution Schemes cannot be used to reduce ongoing contributions after their termination. At 31st July, 2003, the Group had forfeited contributions of HK\$176,000 arising upon employees leaving the Defined Contribution Schemes.

35. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK\$850,000 (2003: HK\$994,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	151	720
In the second to fifth year inclusive	—	720
	<u>151</u>	<u>1,440</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated and rentals are fixed for an average term of one year (2003: two and half years).

At 31st July, 2004, the Company had no commitments under non-cancellable operating leases (2003: Nil).

The Group as lessor

Property rental income earned by the Group during the year was HK\$767,000 (2003: HK\$1,914,000) before deduction of outgoings of HK\$275,000 (2003:HK\$441,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 3% (2003: 6%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of two years (2003: one year).

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	368	618	120	100
In the second to fifth year inclusive	<u>229</u>	<u>65</u>	<u>220</u>	<u>—</u>
	<u>597</u>	<u>683</u>	<u>340</u>	<u>100</u>

36. CONTINGENT LIABILITIES

At 31st July, 2004, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary amounting to HK\$8,525,000 (2003: HK\$9,380,000).

At 31st July, 2003, the Company had also given guarantees to promissory note holders to secure the payment of outstanding principal and interest of promissory note payables of HK\$3,051,000 issued by its subsidiaries. The promissory note was fully repaid by its subsidiaries and the guarantees were released during the year ended 31st July, 2004.

37. RELATED PARTY DISCLOSURES

- (a) During the year, the Group reimbursed HK\$2,630,000 (2003: HK\$210,000) and HK\$599,000 (2003: HK\$189,000) for administrative expenses with CSI Investment Limited (“CSI”) and Mark Well Investment Limited (“Mark Well”), respectively. During the year ended 31st July, 2003, the Group also reimbursed HK\$649,000 for administrative expenses with Capital Strategic Investment (BVI) Limited (“CSI (BVI)”). Mr. Choo Yeow Ming, Ms. Ma Wai Man, Catherine and Mr. Chow Hou Man, the directors of the Company, are also directors of these companies. CSI, Mark Well and CSI (BVI) are subsidiaries of Capital Strategic Investment Limited (“Capital Strategic”), a listed company of the Stock Exchange. The amounts were negotiated by reference to prevailing market rates.
- (b) On 5th September, 2003, High Cheong, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with On Glory Holdings Limited (the “Agreement”), a wholly-owned subsidiary of Capital Strategic which is listed on the Stock Exchange and is a substantial shareholder of the Company. Pursuant to the Agreement, High Cheong acquired from On Glory Holdings Limited the entire 80% of the issued share capital of CPL, at a cash consideration of HK\$6,000,000. The principal asset of CPL is 82.5% equity interest in Century 21 Hong Kong Limited. Mr. Ng Kai Man, Luke, the deputy chairman and an executive director of the Company, is the minority shareholder who owns the remaining 20% of the issued share capital of CPL.
- (c) During the year ended 31st July, 2003, the Group reimbursed a sum of HK\$560,000 for administrative expenses with Cheung Tai Hong, Limited (“CTH”), a company in which Mr. Ding Chung Keung, Vincent was also a director. Ms. Lin Fung Yi and Mr. Tse Cho Tseung, ex-directors of the Company, were directors of CTH. CTH was a subsidiary of Cheung Tai Hong Holdings Limited, a listed company of the Stock Exchange. The amount was negotiated by reference to prevailing market rates.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 31ST JANUARY, 2005

The financial information set out below is an extract from pages 1 to 12 of the unaudited interim report of the Company for the six months ended 31st January, 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st January, 2005

		Six months ended 31st January	
	Notes	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Turnover	3	12,431	14,464
Cost of sales		(1,123)	(1,191)
Direct cost of sales of properties		(8,808)	—
Direct cost on property rental		(777)	(794)
Direct cost on trading securities sold		—	(7,140)
Gross profit		1,723	5,339
Other operating income		2,975	3,764
Administrative expenses		(3,725)	(8,971)
Loss on disposal of investment properties		—	(620)
Unrealised holding gain (loss) on investments in securities		13,140	(41)
Amortization of goodwill arising on acquisition of subsidiaries		(113)	(190)
Profit(loss) from operations	4	14,000	(719)
Finance costs		(193)	(361)
Loss on disposal of subsidiaries		—	(62)
Profit(loss) before taxation		13,807	(1,142)
Taxation	5	—	—
Profit(loss) before minority interests		13,807	(1,142)
Minority interests		(110)	120
Net profit(loss) for the period		13,697	(1,022)
Earnings(loss) per share	6		
— Basic		0.41 cents	(0.05) cents
— Diluted		0.40 cents	(0.04) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st January, 2005

		2005 31st January, 2005 <i>HK\$'000</i> <i>(unaudited)</i>	2004 31st July, 2004 <i>HK\$'000</i> <i>(audited)</i>
	<i>Notes</i>		
Non-Current Assets			
Investment properties	7	19,780	19,780
Property, plant and equipment		123	104
Deferred tax assets	14	17	17
Goodwill		4,306	4,419
		<u>24,226</u>	<u>24,320</u>
Current Assets			
Properties held for sale		29,257	35,580
Trade and other receivables	8	5,932	6,281
Investments in securities	10	25,131	8,392
Promissory note receivables	9	20,000	22,000
Tax recoverable		79	—
Bank balances and cash		46,900	24,269
		<u>127,299</u>	<u>96,522</u>
Current Liabilities			
Trade and other payables	11	7,996	7,124
Tax payable		—	20
Bank borrowings — due within one year	12	989	1,234
		<u>8,985</u>	<u>8,378</u>
Net Current Assets		<u>118,314</u>	<u>88,144</u>
Total assets less current liabilities		<u>142,540</u>	<u>112,464</u>
Minority Interests		<u>994</u>	<u>885</u>
Non-Current Liabilities			
Bank borrowings — due after one year	12	7,745	8,243
Convertible note payables	13	—	3,000
		<u>7,745</u>	<u>11,243</u>
		<u>133,801</u>	<u>100,336</u>
Capital and Reserves			
Share capital	15	40,694	32,694
Reserves		93,107	67,642
		<u>133,801</u>	<u>100,336</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 31st January, 2005*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital reduction reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
At 1st August, 2003	20,814	7,824	157	170,583	268	(119,763)	79,883
Conversion of convertible notes	2,500	2,500	—	—	—	—	5,000
Net loss for the period	—	—	—	—	—	(1,022)	(1,022)
At 31st January, 2004 and 1st February, 2004	23,314	10,324	157	170,583	268	(120,785)	83,861
Issue of shares on private placement	9,380	9,380	—	—	—	—	18,760
Expenses incurred in connection with issue of shares	—	(446)	—	—	—	—	(446)
Net loss for the period	—	—	—	—	—	(1,839)	(1,839)
At 31st July, 2004 and 1st August, 2004	32,694	19,258	157	170,583	268	(122,624)	100,336
Conversion of convertible notes (<i>note 15(a)</i>)	1,500	1,500	—	—	—	—	3,000
Issue of shares on private placement (<i>note 15(b)</i>)	6,500	10,725	—	—	—	—	17,225
Expenses incurred in connection with issue of shares	—	(457)	—	—	—	—	(457)
Net profit for the period	—	—	—	—	—	13,697	13,697
At 31st January, 2005	<u>40,694</u>	<u>31,026</u>	<u>157</u>	<u>170,583</u>	<u>268</u>	<u>(108,927)</u>	<u>133,801</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 31st January, 2005*

	Six months ended 31st January	
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	7,559	(1,828)
Tax paid	(98)	(1)
	7,461	(1,829)
Net cash used in investing activities:		
Acquisition of investment in securities	(3,503)	—
Other investment cash flows	842	208
Proceeds from disposal of investment properties	—	4,380
Net cash inflow from disposal of interests in subsidiaries	—	2,392
Acquisition of subsidiaries	—	(5,908)
Purchase of investment properties	—	(1,674)
	(2,661)	(602)
Net cash from (used in) from financing activities:		
Net proceeds from issue of shares	16,768	—
Receipt of promissory note receivables	2,000	—
Repayment of bank loans	(478)	(4,625)
Other financing cash flows	(193)	(361)
Proceeds from issue of convertible notes	—	8,000
Repayment of promissory note payables	—	(3,051)
	18,097	(37)
Net increase (decrease) in cash and cash equivalents	22,897	(2,468)
Cash and cash equivalents at beginning of the period	24,003	20,847
Cash and cash equivalent at end of the period, representing bank balances and cash	46,900	18,379

NOTES TO THE CONDENSED FINANCIAL STATEMENTS*For the six months ended 31st January, 2005***1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practices 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st July, 2004.

3. SEGMENT INFORMATION**Business segments**

An analysis of the Group’s turnover and contribution to operating results by business segments is as follows:

For the six months ended 31st January, 2005

	Property rental	Financial investment	Property sale	Estate agency	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External sales	<u>234</u>	<u>—</u>	<u>10,050</u>	<u>2,147</u>	<u>12,431</u>
SEGMENT RESULT	<u>(274)</u>	<u>11,550</u>	<u>2,093</u>	<u>323</u>	13,692
Unallocated corporate income					469
Unallocated corporate expenses					<u>(161)</u>
Profit from operations					<u>14,000</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

For the six months ended 31st January, 2004

	Continuing operations			Discontinuing operations	
	Property rental	Financial investment	Property sale	Sale of silk products	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
External sales	455	7,645	—	6,364	14,464
SEGMENT RESULT					
	(507)	542	3,501	(400)	3,136
Unallocated corporate expenses					(3,855)
Loss from operations					(719)

4. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations for the six months ended 31st January, 2005 has been arrived at after charging depreciation of HK\$24,000 (six month ended 31st January, 2004: HK\$2,000) in respect of the Group’s property, plant and equipment.

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period.

6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Six months ended	
	31st January	
	2005	2004
	HK\$'000	HK\$'000
Earnings (loss) for the purpose		
of basic earnings (loss) per share	13,697	(1,022)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<u>12</u>	<u>47</u>
Earnings (loss) for the purposes		
of diluted earnings (loss) per share	<u>13,709</u>	<u>(975)</u>
	Number of shares	Number of shares
Weighted average number of ordinary		
shares for the purposes		
of basic earnings (loss) per share	3,334,072,581	2,082,757,364
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>131,250,000</u>	<u>233,423,913</u>
Weighted average number of ordinary		
shares for the purposes of diluted		
earnings (loss) per share	<u>3,465,322,581</u>	<u>2,316,181,277</u>

7. INVESTMENT PROPERTIES

The investment properties of the Group are held for rental purposes under operating leases and were revalued at 31st July, 2004 on an open market value basis by an independent firm of professional valuers, chartered surveyors.

At 31st January, 2005, the directors have considered the carrying amount of the Group's investment properties and have estimated that the carrying amount does not differ significantly from that would be determined using fair values at that date.

8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period from 30 to 90 days to its trade customers. At 31st January, 2005, the balance of trade and other receivables included trade receivables of HK\$3,762,000 (31st July, 2004: HK\$4,450,000). An aging analysis of trade receivables at the reporting date is as follows:

	31st January, 2005 HK\$'000	31st July, 2004 HK\$'000
0 to 60 days	1,174	2,402
61 to 90 days	512	146
91 days or above	2,076	1,902
	<u>3,762</u>	<u>4,450</u>

9. PROMISSORY NOTE RECEIVABLES

The promissory note receivables are unsecured, bear interest at 5% per annum and due on 27th February, 2005.

During the six months ended 31st January, 2005, promissory note receivables of HK\$2,000,000 were received.

10. INVESTMENTS IN SECURITIES

During the six months ended 31st January, 2005, the Group acquired investment in securities of HK\$3,503,000 and recognized an unrealized holding gain of HK\$13,140,000.

11. TRADE AND OTHER PAYABLES

At 31st January, 2005, the balance of trade and other payables included trade payables of HK\$2,363,000 (31st July, 2004: HK\$2,382,000). An aged analysis of trade payables at the reporting date is as follows:

	31st January, 2005 HK\$'000	31st July, 2004 HK\$'000
0 to 60 days	741	1,589
61 to 90 days	464	491
91 days or above	1,158	302
	<u>2,363</u>	<u>2,382</u>

12. BANK BORROWINGS

During the six months ended 31st January, 2005, the Group settled bank loans of approximately HK\$478,000. The loans bear interest at prevailing market rates and are repayable in instalments over the remaining period of 8 years.

13. CONVERTIBLE NOTE PAYABLES

During the six months ended 31st January, 2005, all convertible notes were converted into 150,000,000 ordinary shares of the Company at conversion price of HK\$0.02 per share as set out in note 15.

14. DEFERRED TAX ASSETS

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st August, 2003	1,132	(1,132)	—
Charge (credit) to income statement	<u>66</u>	<u>(66)</u>	<u>—</u>
At 31st January, 2004	1,198	(1,198)	—
Charge (credit) to income statement	<u>50</u>	<u>(67)</u>	<u>(17)</u>
At 31st July, 2004	1,248	(1,265)	(17)
Charge (credit) to income statement	<u>67</u>	<u>(67)</u>	<u>—</u>
At 31st January, 2005	<u><u>1,315</u></u>	<u><u>(1,332)</u></u>	<u><u>(17)</u></u>

At 31st January, 2005, the Group had unused tax losses of HK\$50,049,000 (31st July, 2004: HK\$47,648,000) available for offset against future profits and deductible temporary difference of HK\$214,000 (31st July, 2004: HK\$232,000) in respect of accelerated tax depreciation. A deferred tax asset has been recognised in respect of HK\$7,613,000 (31st July, 2004: HK\$7,229,000) of such losses. No deferred tax assets have been recognized in respect of the remaining unused losses of HK\$42,436,000 (31st July, 2004: HK\$40,419,000) and the deductible temporary differences due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

15. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
At 31st July, 2004 and 31st January, 2005, at HK\$0.01 each	12,250,000,000	122,500
Issued and fully paid:		
At 1st August, 2004, at HK\$0.01 each	3,269,398,668	32,694
Conversion of convertible notes (<i>note a</i>)	150,000,000	1,500
Issue of shares on private placement on:		
19th January, 2005 (<i>note b</i>)	650,000,000	6,500
At 31st January, 2005, at HK\$0.01 each	4,069,398,668	40,694

- (a) In January 2005, the HK\$3,000,000 2% redeemable convertible notes due 2005 were converted into 150,000,000 ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.02 per share. The new shares rank pari passu with the existing shares in all respects.
- (b) On 5th January, 2005, arrangement was made for private placements to independent investors of 650,000,000 new shares of the Company at HK\$0.01 each at placing price of HK\$0.0265 per share, representing a discount of approximately 5.4% to the closing market price of the Company's share on 19th January, 2005. The net proceeds have been used to finance the Group's general working capital for operating activities, property investments and real estate franchising and agency business. The 650,000,000 new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 16th December, 2004. The new shares rank pari passu with other shares in issue in all respects.

16. POST BALANCE SHEET EVENTS

- (a) On 5th January, 2004, the Company entered into a conditional placing agreement (the “CB Placing Agreement”) with Kingston Securities Limited (the “Placing Agent”) in relation to the convertible notes to be issued by the Company in an aggregate principal amount of HK\$36.4 million (the “Convertible Notes”). Pursuant to the CB Placing Agreement, the Placing Agent agreed to place, on a fully underwritten basis, to not fewer than six independent corporate or individual investors. The Convertible Notes which carry a right to convert into new ordinary shares of HK\$0.01 each in the share capital of the Company at a conversion price of HK\$0.028 per share. The placing of the Convertible Notes was conditional upon, among other things, the Listing Committee of the Stock Exchange of Hong Kong Limited having granted listing of and permission to deal in the new 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 an extraordinary general meeting of the Company. The placing of the Convertible Notes was completed on 7th March, 2005.
- (b) On 4th April, 2005, the Group entered into a provisional sale and purchase agreement with an independent third party to dispose of an investment property at a consideration of HK\$2,900,000 and a net gain of approximately HK\$1,362,000. The transaction will be completed on or before 30th May, 2005.

4. INDEBTEDNESS**Borrowings and debts**

At the close of business on 31st July, 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK\$11.38 million, comprising (i) secured bank borrowings of HK\$7.64 million of which approximately HK\$0.87 million are repayable within one year and approximately HK\$6.77 million are repayable after one year; (ii) unsecured convertible note payables of approximately HK\$3.22 million which are repayable after one year; (iii) obligations under finance leases of approximately HK\$0.04 million of which approximately HK\$0.01 million are repayable within one year and approximately HK\$0.03 million are repayable after one year; and (iv) unsecured bank overdrafts of approximately HK\$0.48 million.

The bank borrowings of HK\$7.64 million at the close of business on 31st July, 2005 were secured by the Group’s certain investment properties with net book values of approximately HK\$16.3 million as at 31st January, 2005. The net book values of the Group’s property, plant and equipment held under finance leases were approximately HK\$0.04 million as at 31st January, 2005.

Contingent liabilities

At the close of business on 31st July, 2005, the Group had no material contingent liabilities.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31st July, 2005.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31st July, 2005 and up to the Latest Practicable Date.

5. WORKING CAPITAL

Taking into account the existing cash and bank balances and the estimated net proceeds from the Rights Issue, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

6. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st July, 2004, the date to which the latest audited financial statements of the Company were made up, save as publicly disclosed.

7. STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**Unaudited pro forma consolidated net tangible assets**

The unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had taken place on 31st January, 2005.

The pro forma financial information has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The following statement of unaudited pro forma consolidated net tangible assets of the Group is based on the unaudited consolidated net tangible assets of the Group as at 31st January, 2005, as shown in the unaudited financial statements of the Group for the six months ended 31st January, 2005, and adjusted to reflect the effect of the Rights Issue as follows:

	Unaudited consolidated share capital and reserves of the Group as at 31st January, 2005 (HK\$'000)	Less: Goodwill (HK\$'000)	Unaudited consolidated net tangible assets of the Group as at 31st January, 2005 (HK\$'000)	Estimated net proceeds from the Rights Issue (HK\$'000)	Unaudited pro forma consolidated net tangible assets of the Group after the Rights Issue (HK\$'000)
Based on the subscription price of HK\$1 per Rights Share assuming no outstanding Convertible Notes are converted and no outstanding Share Options are exercised before the Record Date	<u>133,801</u>	<u>(4,306)</u>	<u>129,495</u>	<u>205,800⁽¹⁾</u>	<u>335,295⁽³⁾</u>
Based on the subscription price of HK\$1 per Rights Share assuming all outstanding Convertible Notes are converted and all outstanding Share Options are exercised before the Record Date	<u>133,801</u>	<u>(4,306)</u>	<u>129,495</u>	<u>215,200⁽²⁾</u>	<u>344,695⁽³⁾</u>
Unaudited pro forma consolidated net tangible assets per Consolidated Share after the Rights Issue (HK\$)					
Based on the Consolidated Shares after the Rights Issue assuming no outstanding Convertible Notes are converted and no outstanding Share Options are exercised before the Record Date					<u>1.28⁽⁴⁾</u>
Based on the Consolidated Shares after the Rights Issue assuming all outstanding Convertible Notes are converted and all outstanding Share Options are exercised before the Record Date					<u>1.25⁽⁵⁾</u>

Notes:

1. The estimated net proceeds from the Rights Issue are based on the price of HK\$1 per Rights Share and 210,175,944 Rights Shares (based on 52,543,986 Consolidated Shares in issue upon completion of the Capital Reorganisation) expected to be issued under the Rights Issue, after deducting the estimated expenses directly attributable to the Rights Issue.
2. The estimated net proceeds from the Rights Issue are based on the price of HK\$1 per Rights Share and 219,743,944 Rights Shares (calculated as 210,175,944 Rights Shares as referred to note 1 above plus 9,568,000 Rights Shares expected to be issued under the assumption that all outstanding Convertible Notes convertible into 1,150,000 Consolidated Shares and all outstanding Share Options convertible into 1,242,000 Consolidated Shares were converted and exercised) expected to be issued under the Rights Issue, after deducting the estimated expenses directly attributable to the Rights Issue.
3. It does not include the net proceeds of HK\$33,180,000 from the conversion of 1,185,000,000 Convertible Notes placed in March 2005 by the Company at a conversion price of HK\$0.028 each as it was not directly attributable to the Rights Issue.
4. Based on the 262,719,930 Consolidated Shares (calculated as 52,543,986 Consolidated Shares in issue upon completion of the Capital Reorganisation plus 210,175,944 Rights Shares expected to be issued under the Rights Issue as referred to note 1 above), in issue after the Rights Issue.
5. Based on the 274,679,930 Consolidated Shares (calculated as 262,719,930 Consolidated Shares as referred to note 4 above plus 11,960,000 Consolidated Shares expected to be issued under the assumption that (i) all outstanding Convertible Notes convertible into 1,150,000 Consolidated Shares; and (ii) all outstanding Share Options convertible into 1,242,000 Consolidated Shares were converted and exercised) in issue after the Rights Issue.

8. LETTER ON THE UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP



12th September, 2005

The Board of Directors
Capital Estate Limited
Unit 1901, 19th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma consolidated net tangible assets of Capital Estate Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 100 to 102 of Appendix I to the circular dated 12th September, 2005 (the “Circular”) in connection with the proposed rights issue on the basis of four rights shares for every consolidated share held (the “Rights Issue”), which has been prepared, for illustrative purposes only, to provide information about how the Rights Issue might have affected the financial information presented as at 31st January, 2005 and any future date.

Responsibilities

It is the sole responsibility of the directors of the Company to prepare the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the pro forma financial information.

The pro forma financial information has been prepared on the basis set out on pages 100 to 102 of Appendix I to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative financial position of the Group as at 31st January, 2005 or at any future date.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, 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 AND CONVERTIBLE NOTES AND SHARE OPTIONS

(a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		HK\$
<i>Authorised</i>		
<u>12,250,000,000</u>	Shares	<u>122,500,000</u>
		HK\$
<i>Issued and fully paid or credited as fully paid:</i>		
<u>5,254,398,668</u>	Shares as at the Latest Practicable Date	<u>52,543,986</u>

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. The Shares in issue are listed on the Stock Exchange.

All of the Rights Shares to be issued will rank pari passu in all respect with each other, including, in particular, as to dividends, voting rights and capital, and with all Shares in issues as at the date of allotment and issue of the Rights Shares. The Rights Shares to be issued will be listed on the Stock Exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

Dealings in the shares of the Company may be settled through CCASS and you should consult your stockbroker or other registered dealer of securities, bank manager, solicitors, professional accountant or other professional adviser for details of these settlement arrangements and how such arrangements may affect your rights and interest.

(b) Convertible Notes

On 5th January 2005, the Company entered into a conditional placing agreement for the issue of the Convertible Notes amounting to HK\$36.4 million to certain independent third parties. The placing of the Convertible Notes was completed on 7th March, 2005. The Convertible Notes carry rights to convert into new Shares at the conversion price of 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. As at the Latest Practicable Date, the Company has outstanding Convertible Notes convertible into 115,000,000 Shares upon full conversion (equivalent to 1,150,000 Consolidated Shares upon completion of the Capital Reorganisation.)

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

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.

(c) Share Options

Details of outstanding Share Options granted by the Company at the Latest Practicable Date are as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Number of Shares to be allotted and issued upon exercise of the outstanding Share Options
Former Directors/ employees	20th November, 2003	20th November, 2003 to 29th December, 2012	0.0234	41,600,000
	17th March, 2004	17th March, 2004 to 29th December, 2012	0.0240	82,600,000
			Total	<u>124,200,000</u>

Save for the Convertible Notes and the Share Options disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares and no capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers in Appendix 10 of the Listing Rules are as follows:

Interests in issued Shares

Name of Director	Nature of interest	Number of issued ordinary Shares (long position)	% of existing issued share capital of the Company
Mr. Chu Nin Yiu, Stephen (<i>Note</i>)	Interest of controlled corporation	859,864,000	16.36

Note: The 859,864,000 Shares were beneficially owned by Supervalue. As Supervalue is wholly-owned by Mr. Chu, Mr. Chu is deemed to be interested in the 859,864,000 held by Supervalue under the SFO. The principal activity of Supervalue is the holding of the shares in the Company.

Interests in unissued Consolidated Shares

Name of Director	Nature of interest	Number of unissued ordinary Consolidated Shares (long position)	% of the Consolidated Shares to be issued under the Rights Issue (assuming no outstanding Convertible notes are converted and no Share Options are exercised before the Record Date)
Mr. Chu Nin Yiu, Stephen (<i>Note</i>)	Interest of controlled corporation	34,394,560	16.36

Note: The 34,394,560 Consolidated Shares are the Rights Shares which Supervalve has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Supervalve is wholly-owned by Mr. Chu. Therefore, Mr. Chu is deemed to be interested in the 34,394,560 Consolidated Shares to be taken up by Supervalve under the Rights Issue pursuant to the SFO. The principal activity of Supervalve is the holding of the shares in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31st July, 2004 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group, or had any options in respect of such capital are set out below:

Interest in issued Shares

Name of substantial Shareholder	Nature of interest	Number of issued ordinary Shares (long position)	% to existing issued share capital of the Company
Supervalue (Note)	Beneficial owner	859,864,000	16.36

Note: The 859,864,000 Shares were beneficially owned by Supervalue, which in turn was wholly-owned by Mr. Chu. The principal activity of Supervalue is the holding of such shareholding in the Company.

Interests in unissued Consolidated Shares

Name of substantial Shareholder	Nature of interest	Number of unissued ordinary Consolidated Shares (long position)
Supervalue (<i>Note 1</i>)	Beneficial owner	34,394,560
Get Nice Holdings Limited (<i>Note 2</i>)	Interest in controlled corporation	185,349,384
Get Nice Incorporated (<i>Note 2</i>)	Interest in controlled corporation	185,349,384
Honeylink Agents Limited (<i>Note 2</i>)	Interest in controlled corporation	185,349,384
Cheer Union Securities Limited (<i>Note 3</i>)	Other	52,848,418
Kingston Securities Limited (<i>Note 4</i>)	Other	52,848,418
Chu Yuet Wah (<i>Note 4</i>)	Interest in controlled corporation	52,848,418
Ma Siu Fong (<i>Note 4</i>)	Interest in controlled corporation	52,848,418
Poon Jing (<i>Note 5</i>)	Beneficial owner	52,848,418
Poon Jing (<i>Note 5</i>)	Interest in controlled corporation	8,280,000

Notes:

1. The 34,394,560 Consolidated Shares are the Rights Shares which Supervalue has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Supervalue is wholly-owned by Mr. Chu. The principal activity of Supervalue is the holding of the shares in the Company.
2. The 185,349,384 Consolidated Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue (assuming all the outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date). The Underwriter was wholly-owned by Get Nice Incorporated, which in turn was wholly-owned by Get Nice Holdings Limited. Get Nice Holdings Limited was owned as to approximately 30.36% by Honeylink Agents Limited.
3. The 52,848,418 Consolidated Shares are the Rights Shares which Cheer Union Securities Limited has sub-underwritten in respect of the Rights Issue (assuming all the outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) from the Underwriter.

4. The 52,848,418 Consolidated Shares are the Rights Shares which Kingston Securities Limited has sub-underwritten in respect of the Rights Issue (assuming all the outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) from the Underwriter. The issued share capital of Kingston Securities Limited is owned as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong respectively. Each of Chu Yuet Wah and Ma Siu Fong is therefore deemed to be interested in the 52,848,418 Consolidated Shares held by Kingston Securities Limited under the SFO.
5. The 52,848,418 Consolidated Shares are the Rights Shares which a sub-underwriter has sub-underwritten to Mr. Poon Jing, an Independent Third Party, in respect of the Rights Issue (assuming all the outstanding Convertible Notes are converted and all Share Options are exercised before the Record Date) from the Underwriter. The 8,280,000 Consolidated Shares are the Rights Shares to be taken up by an existing Shareholder, Finnex Limited, which is indirect wholly-owned by Asia Orient Holdings Limited, a listed company on the main board of the Stock Exchange, under the Rights Issue. As Mr. Poon Jing is interested in approximately 31.34% of Asia Orient Holdings Limited, Mr. Poon Jing is deemed to be interested in the 8,280,000 Consolidated Shares to be undertaken by Finnex Limited pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company are not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company and its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (a) a placing and subscription agreement dated 6th February, 2004 entered into between the Company, Success Field Group Limited, as vendor, which ultimately wholly-owned by Capital Strategic Investment Limited, being the then substantial Shareholder, and Kingsway Financial Services Group Limited, as the placing agent in relation to the placing of 400,000,000 Shares at HK\$0.02 per placing share, details of which are set out in the announcement of the Company dated 6th February, 2004;
- (b) a placing agreement dated 24th March, 2004 entered into between the Company and Kingston Securities Limited in relation to the placing of 538,000,000 new Shares at HK\$0.02 per placing share, details of which are set out in the announcement of the Company dated 25th March, 2004;

- (c) a top-up subscription agreement dated 5th January, 2005 entered into between Success Field Group and the Company in relation to a subscription of 650,000,000 new Shares at HK\$0.0265 per Share, details of which are set out in the announcement of the Company dated 5th January, 2005;
- (d) a conditional placing agreement dated 5th January, 2005 was entered into between the Company and Kingston Securities Limited in relation to the placing of the convertible notes in aggregate principal amount of HK\$36.4 million at the conversion price of HK\$0.028 per Share (subject to adjustment), details of which are set out in the announcement of the Company dated 5th January, 2005; and
- (e) the Underwriting Agreement.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance pending or threatened against any member of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

9. QUALIFICATIONS OF EXPERTS AND CONSENTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Name	Qualification
Access Capital	Corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of Access Capital and Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and letter (if any), as the case may be, or references to its name in the form and context in which they respectively appear.

10. EXPERT'S INTERESTS IN ASSETS

As at the Latest Practicable Date, each of Access Capital and Deloitte Touche Tohmatsu:

- (a) was not interested, directly or indirectly in any assets which have been, since 31st July, 2004 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group; and
- (b) did not have any shareholding interest in 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.

11. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$4.4 million and are payable by the Company.

12. MISCELLANEOUS

- (a) The secretary and qualified accountant of the Company is Mr. Hung Yat Ming, AHKICPA, CA.
- (b) The registered office of the Company is at Unit 1901, 19th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) There is no contract or arrangement entered into by any member of the Group, subsisting as at the date hereof in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.
- (e) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 29th September, 2005:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (c) the annual reports of the Company for the two years ended 31st July, 2004;
- (d) the interim report of the Company for the six months ended 31st January, 2005;
- (e) the letter of advice from Access Capital, the text of which is set out on pages 29 to 46;
- (f) the report from Deloitte Touche Tohmatsu on the pro forma unaudited financial information of the Group dated 12th September, 2005, the text of which is set out in Appendix I to this circular;
- (g) the letters of consent referred to in the section headed "Qualifications of Experts and Consents" in this appendix; and
- (h) this circular.

NOTICE OF EGM



CAPITAL ESTATE LIMITED 冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of Capital Estate Limited (the “Company”) will be held at Board Room 1, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 29th September, 2005 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**, with effect from 4:00 p.m. on the day this resolution is passed and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) granting listing of, and permission to deal in the ordinary shares of the Company in their HK\$1.00 form as referred to in paragraph (b) below:
 - (i) every 100 unissued ordinary shares of HK\$0.01 each of the Company be consolidated into one share of HK\$1.00 each; and
 - (ii) every issued ordinary share of HK\$0.01 each of the Company be consolidated in such manner that every 100 of such shares as are registered in the name of each shareholder after 4:00 p.m. on the day this resolution is passed as an ordinary resolution of the Company shall be consolidated into one ordinary share of HK\$1.00 each (“**Consolidated Shares**”) provided that any fractional entitlements to a Consolidated Share that would arise from and upon such consolidation shall be aggregated and sold, the proceeds of sale thereof being retained for the benefit of the Company (“**Share Consolidation**”).”
2. “**THAT** conditional on the passing of Ordinary Resolution No. 1 as set out in the notice convening the extraordinary general meeting at which this resolution is proposed and the Share Consolidation referred to therein becoming effective, the authorised share capital of the Company be increased from HK\$122,500,000 to HK\$2,000,000,000 by the creation of 1,877,500,000 shares of HK\$1.00 each ranking pari passu in all respects with the Consolidated Shares referred to therein.”

NOTICE OF EGM

3. “**THAT** conditional on (a) the passing of Ordinary Resolutions No. 1 and 2 as set out in the notice convening the extraordinary general meeting at which this resolution is proposed and the Share Consolidation becoming effective and (b) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Shares (as defined below) in their nil-paid and fully-paid forms:
- (i) the underwriting agreement dated 8th August, 2005 (“**Underwriting Agreement**”) between the Company and Get Nice Investment Limited (“**Underwriter**”) (a copy of the Underwriting Agreement has been produced to this meeting and marked “**A**” and initialled by the chairman of the meeting for the purpose of identification) be and is hereby confirmed, approved and ratified;
 - (ii) the issue of not less than 210,175,944 Consolidated Shares and not more than 219,743,944 Consolidated Shares (“**Rights Shares**”) pursuant to an offer by way of rights to holders of Shares in the Company at HK\$1.00 per Rights Share (“**Rights Issue**”) in the proportion of four Rights Shares for every one Consolidated Share held by holders of Shares (“**Shareholders**”) whose names appear on the register of members of the Company on 29th September, 2005 (or such other date as the Underwriter may be agree in writing with the Company) (“**Record Date**”) other than those Shareholders whose addresses on the register of members of the Company are outside Hong Kong on the Record Date and whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Issue to such Shareholders on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, on and subject to the terms and conditions set out in a prospectus to be sent to the Shareholders in respect of the Rights Issue (“**Prospectus**”) (a final version of the Prospectus having been produced to this meeting and marked “**B**” and initialled by the chairman of the meeting for the purpose of identification) and on such other terms and conditions as may be determined by the directors of the Company be and is hereby approved; and
 - (iii) the directors of the Company be and are hereby authorised to issue and allot the Rights Shares on terms as set out in the Prospectus and to do all such acts and things, to sign and execute all such further documents and to take such steps as the directors of the Company may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any of the transactions contemplated thereunder.”

By order of the board of
Capital Estate Limited
Chu Nin Yiu, Stephen
Executive Chairman

Hong Kong, 12th September, 2005

NOTICE OF EGM

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 an officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person as his proxy 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 personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote, in respect thereof.

As of the date hereof, the board of directors of the Company comprises Mr. Chu Nin Yiu, Stephen, Mr. Chu Nin Wai, David, Mr. Lau Chi Kan, Michael as executive Directors and Mr. Li Sze Kuen, Billy, Mr. Wong Kwong Fat and Mr. Leung Kam Fai as independent non-executive Directors.