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## **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 a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**CAPITAL ESTATE LIMITED**

**冠中地產有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 193)**

### **PROPOSED ADJUSTMENT OF THE NOMINAL VALUE OF THE SHARES OF THE COMPANY BY WAY OF CAPITAL REDUCTION**

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A letter from the board of directors of the Company is set out on pages 3 to 8 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong Hotel, No. 238 Jaffe Road, Wan Chai, Hong Kong on Wednesday, 6 September 2006 at 10:00 a.m. is set out on page 9 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong 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 shall not preclude you from attending and voting in person at such meeting or at any adjourned meeting should you so wish.

14 August 2006

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## DEFINITIONS

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

“Adjustment Proposal”	the proposal for the adjustment of the nominal value of the Shares by cancelling paid up capital to the extent of HK\$0.19 on each of the issued Shares and crediting the same to the share premium account of the Company and by reducing the nominal value of all issued and unissued Shares from HK\$0.20 to HK\$0.01 per Share
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the Board of Directors of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Capital Estate Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Court”	the High Court of Hong Kong
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong Hotel, No. 238 Jaffe Road, Wan Chai, Hong Kong on Wednesday, 6 September 2006 at 10:00 a.m.
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	10 August 2006, 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
“New Shares”	shares of HK\$0.01 each in the share capital of the Company upon the Adjustment Proposal becoming effective
“Shareholders”	holders of Shares

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## DEFINITIONS

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“Shares”	ordinary shares of HK\$0.20 each in the existing share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrantholders”	holders of warrants issued by the Company pursuant to the warrant instrument dated 19 May 2006
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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## LETTER FROM THE BOARD

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### CAPITAL ESTATE LIMITED

### 冠中地產有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 193)**

*Executive Directors:*

Mr. Chu Nin Yiu, Stephen (*Executive Chairman*)

Mr. Chu Nin Wai, David (*Deputy Chairman*)

Mr. Lau Chi Kan, Michael

*Registered Office:*

Unit 1901, 19th Floor

Asia Orient Tower, Town Place

33 Lockhart Road

Wanchai

Hong Kong

*Independent non-executive Directors:*

Mr. Li Sze Kuen, Billy

Mr. Wong Kwong Fat

Mr. Leung Kam Fai

14 August 2006

*To the Shareholders and Warrantholders*

Dear Sir or Madam,

### **PROPOSED ADJUSTMENT OF THE NOMINAL VALUE OF THE SHARES OF THE COMPANY BY WAY OF CAPITAL REDUCTION**

#### **INTRODUCTION**

The Board announced on 4 August 2006 its intention to put forward a proposal to the Shareholders for the adjustment of the nominal value of the Shares by cancelling paid up capital of the Company to the extent of HK\$0.19 on each of the issued Shares and crediting the same to the share premium account of the Company and by reducing the nominal value of all the issued and unissued Shares from HK\$0.20 to HK\$0.01 per New Share.

On the basis of the 1,693,587,340 Shares currently in issue, a credit of HK\$321,781,594.60 will arise as a result of the Adjustment Proposal which will, in its entirety, be credited to the share premium account of the Company.

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## LETTER FROM THE BOARD

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### ADJUSTMENT PROPOSAL

Since 25 April 2006, the Shares have generally been traded at prices around the nominal value of HK\$0.20 per Share, prices have ranged from a low of HK\$0.154 to a high of HK\$0.227. The closing price per Share as at the Latest Practicable Date was HK\$0.158. Under the Companies Ordinance, the Company, being a company incorporated in Hong Kong, may not issue new shares at a discount to the nominal value of the Shares unless, amongst other things, such issue is authorised by a resolution of the Shareholders and/or (as appropriate) is sanctioned by the Court.

As a result, it creates difficulty for the Company to raise new equity capital from the securities market. Following the completion of the Adjustment Proposal, the nominal value of the Shares will become HK\$0.01 per New Share and will therefore allow the Company with greater flexibility in pricing any new equity fund raising exercise in the future. The Board therefore considers the Adjustment Proposal to be in the interests of the Company and the Shareholders as a whole. At present, no arrangement for the issue of any New Shares has been entered into by the Company with any party nor is any such arrangement proposed.

### EFFECTS OF THE ADJUSTMENT PROPOSAL

The existing authorised share capital of the Company is HK\$2,000,000,000 divided into 10,000,000,000 Shares of HK\$0.20 each, of which 1,693,587,340 Shares have been issued and are credited as fully paid up. On the basis of the 1,693,587,340 Shares currently in issue, a credit of HK\$321,781,594.60 will arise as a result of the Adjustment Proposal which will be credited, in its entirety, to the share premium account of the Company.

Upon the Adjustment Proposal becoming effective, and assuming no further Shares are issued in the meantime, the authorised share capital of the Company will be HK\$100,000,000 divided into 10,000,000,000 New Shares, of which 1,693,587,340 New Shares will be in issue and credited as fully paid up.

The following table sets out the effect of the Adjustment Proposal on the share capital of the Company, that is, before and after the implementation of the Adjustment Proposal:

		Share capital before the Adjustment Proposal HK\$	Amount of the Share capital reduced as a result of the Adjustment Proposal HK\$	Share capital immediately after the Adjustment Proposal becoming effective HK\$
Par value		0.20	0.19	0.01
Authorised share capital	10,000,000,000	2,000,000,000	1,900,000,000	100,000,000
Issued and fully paid share capital	1,693,587,340	338,717,468	321,781,594.60	16,935,873.40

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has 46,500,000 outstanding Share options and 160,000,000 outstanding warrants. Pursuant to the warrant instrument of the Company dated 19 May 2006, there is no adjustment to the subscription price of the warrant in the event of a capital reduction where only the nominal value is reduced and no capital distribution is involved. According to the independent financial advisor appointed by the Company to check the accuracy of the computation of the adjustment of the option price in respect of the outstanding Share options of the Company, no adjustment to the option price is required. A separate notification will be sent to the holders of the options.

Other than the expenses incurred in relation to the Adjustment Proposal, the implementation of the Adjustment Proposal will not, in itself, alter the underlying assets, business operations, management or financial position of the Group or affect the proportionate interests of the Shareholders. The Board believes that the Adjustment Proposal will not have any adverse effect on the financial position of the Group. No capital will be lost as a result of the Adjustment Proposal and, except for the expenses involved in relation to the Adjustment Proposal which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Group will remain unchanged before and after the Adjustment Proposal becoming effective. The Adjustment Proposal does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company. The Adjustment Proposal will not result in any change in the relative rights of the Shareholders.

### CONDITIONS

Implementation of the Adjustment Proposal is conditional upon the satisfaction of the following conditions:

- (i) the passing of a special resolution by the Shareholders to approve the Adjustment Proposal at the EGM to be convened by the Company;
- (ii) the registration by the Registrar of Companies in Hong Kong of a copy of resolution passed by the Shareholders, a copy of a minute containing the particulars required under section 61A of the Companies Ordinance and a statement in the prescribed form signed by an officer of the Company certifying that the relevant conditions under the Companies Ordinance have been satisfied; and
- (iii) the Stock Exchange granting the listing of, and permission to deal in, the New Shares in issue and to be issued arising from the Adjustment Proposal.

If these conditions are fulfilled, the Adjustment Proposal will become effective immediately following the registration of the minute required under section 61A of the Companies Ordinance, which is currently expected to be on or around 7 September 2006.

Application has been made to the Stock Exchange for the granting of the listing of, and permission to deal in, the New Shares in issue and to be issued arising from the Adjustment Proposal.

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# LETTER FROM THE BOARD

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## FREE EXCHANGE OF CERTIFICATES FOR SHARES

Shareholders may submit existing certificates for the Shares (in pink colour) to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for exchange, at the expense of the Company within one month from the effective date of the Adjustment Proposal, which is expected to be on or around 7 September 2006, for certificates for the New Shares (in green colour). Thereafter, certificates for the 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). Certificates for the existing shares will continue to be good evidence of legal title and may be exchanged for certificates for the New Shares at any time, and are valid for trading, settlement and registration on the basis of one Share for one New Share.

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place 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.

## EXPECTED TIMETABLE IN RELATION TO THE ADJUSTMENT PROPOSAL

The expected timetable of the Adjustment Proposal is as follows:

2006

Latest time for lodging of proxies .....	10:00 a.m. on Monday, 4 September
EGM .....	10:00 a.m. on Wednesday, 6 September
Effective date of Adjustment Proposal.....	Thursday, 7 September
Commencement of trading in the New Shares .....	9:30 a.m. on Thursday, 7 September
First day for free exchange of certificates for Shares into new certificates for New Shares .....	Thursday, 7 September
Last day for free exchange of certificates for Shares into new certificates for New Shares .....	Friday, 6 October

A further announcement will be made to inform the Shareholders should there be any change to the expected timetable in relation to the Adjustment Proposal.



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## LETTER FROM THE BOARD

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### GENERAL

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

An application has been made to the Listing Committee for the listing of, and permission to deal, in the New Shares of HK\$0.01 each in the share capital of the Company in issue and to be issued following the completion of the Adjustment Proposal.

The New Shares will rank *pari passu* in all respects with each other. The New Shares will be traded in the existing board lot size of 5,000 New Shares.

### EXTRAORDINARY GENERAL MEETING

A notice of the EGM, at which a special resolution will be proposed to approve the Adjustment Proposal, to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong Hotel, No. 238 Jaffe Road, Wan Chai, Hong Kong on Wednesday, 6 September, 2006 at 10:00 a.m. is set out on page 9 of this circular. To the best knowledge, information and belief of the Directors of the Company, none of the Shareholders or their associates has any interest in the Adjustment Proposal which is different from that of any other Shareholders of the Company. Accordingly, none of the Shareholders is required to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM should you so wish.

Under the Articles of Association of the Company, at any general meeting of Shareholders, a resolution shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

In the opinion of the Directors, the Adjustment Proposal is in the best interests of the Company and Shareholders as a whole. The Directors recommend, therefore, that Shareholders should vote in favour of the special resolution to be proposed at the EGM.

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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### 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 Capital Estate Limited (the “Company”) will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong Hotel, No. 238 Jaffe Road, Wan Chai, Hong Kong on Wednesday, 6 September 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:

“THAT the capital of the Company of HK\$2,000,000,000 divided into 10,000,000,000 shares of HK\$0.20 each be reduced to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each and that the nominal amount of all the issued and unissued shares in the capital of the Company be re-designated from HK\$0.20 to HK\$0.01 per share.”

By Order of the Board

**Chu Nin Yin, Stephen**

*Executive Director*

Hong Kong, 14 August 2006

*Registered Office:*

Unit 1901, 19th Floor

Asia Orient Tower, Town Place

33 Lockhart Road

Wanchai

Hong Kong

*Notes:*

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any ordinary share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such ordinary share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such ordinary share shall alone be entitled to vote in respect thereof.
- (3) To be valid, a 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 that power or authority, must be deposited at the Company’s Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting should they so wish.