THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 Monday, 12 March 2007. 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 RIGHTS ISSUE ON THE BASIS OF FIVE RIGHTS SHARES FOR EVERY SHARE HELD; INCREASE IN AUTHORISED SHARE CAPITAL; AND AMENDMENT TO THE SHARE OPTION SCHEME

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

MENLO CAPITAL

Menlo Capital Limited

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 Settlement Date if in these circumstances described below:

1. there occurs:
   (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. 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
3. 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
4. the Prospectus Documents when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly 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.

If the Underwriter exercises such right, the Rights Issue will not proceed. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither the Underwriter nor the Company 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 the fees and expenses payable under it (other than the underwriting commission).

It should be noted that the Shares will be dealt in on an ex-rights basis from Tuesday, 6 March 2007. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 15 March 2007 to Friday, 23 March 2007 (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 Thursday, 15 March 2007 to Friday, 23 March 2007 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

A notice convening the extraordinary general meeting of the Shareholders of the Company to be held at Boardroom 3 & 4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong at 9:00 a.m. on Monday, 12 March 2007 is set out on pages 117 to 119 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at the Company's share registrars, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you wish.

A letter of advice from Menlo Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 29 to 42 of this circular.

16 February 2007

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DEFINITIONS

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

"Acceptance Date"	28 March 2007 (or such other date as the Underwriter may agree in writing with the Company as the last date for acceptance of, and payment for, Rights Shares)
"Addendum"	the addendum to the Share Option Scheme containing proposed amendments to the terms and conditions of the Share Option Scheme proposed to be adopted by the Company under special resolution No. 3 of the notice of EGM
"Announcement"	the announcement of the Company dated 26 January 2007 relating to the proposed Rights Issue, Capital Increase and amendment to the Share Option Scheme
"associates"	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 Increase"	the proposed increase in authorised share capital of the Company from HK$100 million to HK$2 billion by the creation of 190 billion new Shares
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the 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
"connected person(s)"	the meaning given to it in the Listing Rules
"Director(s)"	the 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 Monday, 12 March 2007 at which resolutions will be proposed to consider and, if thought fit, approve the Capital Increase, Rights Issue and amendment to the Share Option Scheme
"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 Supervalue and its associates
"Independent Third Party(ies)"	person(s), or in the case of companies, their ultimate beneficial owner(s), who are independent of and not connected with the Company and its connected persons or their respective associates (as "associates" is defined in the Listing Rules)
"Last Trading Day"	25 January 2007, being the last trading day before the suspension of the trading of the Shares, pending the release of the Announcement
"Latest Practicable Date"	13 February 2007, 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
"Macau"	the Macau Special Administrative Region of the PRC
"Menlo Capital"	Menlo Capital Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO, which is not a connected person of the Company, and is the independent financial adviser to the Independent Board Committee and Independent Shareholders
"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 Overseas Shareholder(s) 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
"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, which for the purpose of this circular excludes Hong Kong and Macau
"Prospectus"	the 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"	12 March 2007
"Registrar"	the Company's share registrars and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
"Rights Issue"	the proposed issue by way of rights of five Rights Shares for every Share in issue on the Record Date at a price of HK$0.026 per Rights Share
"Rights Share(s)"	new Share(s) to be issued and allotted under the Rights Issue, being not less than 8,467,936,700 Shares and not more than 9,584,436,700 Shares
"Settlement Date"	the date being the second Business Day following the Acceptance Date

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong
"Shares(s)"	share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Share Option(s)"	the outstanding share option(s) granted by the Company pursuant to the Share Option Scheme
"Share Option Scheme"	the share option scheme of the Company adopted on 30 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 holding of the shareholding interests in the Company
"Supplementary Guidance"	the supplementary guidance on Rule 17.03(13) of the Listing Rules issued by the Stock Exchange dated 5 September 2005
"Underwriter"	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 of the Company
"Underwriting Agreement"	the underwriting agreement dated 25 January 2007 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue
"Warrants"	warrants issued by the Company in amounts of subscription rights of HK$0.20 for each warrant entitling the holders thereof to subscribe up to an aggregate amount of HK$52,986,000 for new Shares at an initial subscription price of HK$0.20 per Share subject to adjustment, at any time from the date of issue on 19 May 2006 up to 18 May 2007
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

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

1. there occurs:

(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. 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

3. 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

4. the Prospectus Documents, when published, contain information which would be untrue or inaccurate in any material respect and the Company has failed to send out promptly 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.

If the Underwriter exercises such right, the Rights Issue will not proceed. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither it nor the Company shall have any claim against the other of them 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 the fees and expenses payable under it (other than the underwriting commission).

EXPECTED TIMETABLE

	2007
Last day of dealings in Shares on a cum-rights basis	Monday, 5 March
First day of dealings in Shares on an ex-rights basis	Tuesday, 6 March
Latest time for lodging transfers of Shares in order to qualify for the Rights Issue	4:30 p.m., Wednesday, 7 March
Register of members closes	Thursday, 8 March to Monday, 12 March (both dates inclusive)
Latest time for return of proxy form of EGM (not less than 48 hours prior to EGM)	9:00 a.m., Saturday, 10 March
Expected date of EGM	9:00 a.m., Monday, 12 March
Record Date	Monday, 12 March
Despatch of the Prospectus Documents	Tuesday, 13 March
First day of dealings in nil-paid Rights Shares	Thursday, 15 March
Latest time for splitting of nil-paid Rights Shares	4:00 p.m., Tuesday, 20 March
Last day of dealings in nil-paid Rights Shares	Friday, 23 March
Latest time for payment for and acceptance of Rights Shares	4:00 p.m., Wednesday, 28 March
Rights Issue becomes unconditional	after 4:00 p.m., Friday, 30 March
Announcement of results of acceptances and excess applications in the Rights Issue	Monday, 2 April
Despatch of refund cheques for wholly and partially unsuccessful excess applications	Tuesday, 3 April
Share certificates for Rights Shares posted	Tuesday, 3 April
First day of dealings in fully-paid Rights Shares	Tuesday, 10 April

Notes:

1. All times and dates in this circular refer to Hong Kong local times and dates.

2. An announcement will be made to inform the Shareholders should there be any change to the expected timetable in relation to the Rights Issue.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will be changed if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares changes the dates mentioned in the "Expected timetable" in this section may be affected. A press announcement will be made by the Company in such event.

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

Independent non-executive Directors:
Mr. Li Sze Kuen, Billy
Mr. Wong Kwong Fat
Mr. Leung Kam Fai

Registered Office:
Unit 1901, 19th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wan Chai
Hong Kong

16 February 2007

To the Shareholders and, for information only, holders of the Share Options and Warrants

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
FIVE RIGHTS SHARES FOR EVERY SHARE HELD;
INCREASE IN AUTHORISED SHARE CAPITAL;
AND
AMENDMENT TO THE SHARE OPTION SCHEME**

INTRODUCTION

On 26 January 2007, the Company announced the proposed Rights Issue, the proposed Capital Increase and the proposed amendment to the Share Option Scheme.

Subject to the approval of the Capital Increase by Shareholders at the EGM and the Rights Issue becoming effective and the fulfilment of the relevant conditions, the Company proposes to raise not less than approximately HK$220.2 million before expenses (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) or not more than approximately HK$249.2 million before expenses (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date) by way of the Rights Issue of not less than

8,467,936,700 Rights Shares and not more than 9,584,436,700 Rights Shares at a price of HK$0.026 per Rights Share. The Company will provisionally allot five Rights Shares in nil-paid form for every Share held by the Qualifying Shareholders on the Record Date. The Rights Issue will not be available to Non-Qualifying Shareholders.

As at the date of the Announcement, the Company had outstanding 63,300,000 Share Options and 160,000,000 Warrants, pursuant to which, if fully exercised before the Record Date, 223,300,000 Shares would fall to be issued. As at the Latest Practicable Date, the Company had 1,693,587,340 Shares in issue, and outstanding 63,300,000 Share Options and 160,000,000 Warrants pursuant to which, if fully exercised before the Record Date, 223,300,000 Shares would fall to be issued and no other outstanding options, warrants, or other securities convertible into or giving rights to subscribe for Shares.

Supervalue, which is wholly-owned by Mr. Chu, owned approximately 22.52% of the issued share capital of the Company as at the Latest Practicable Date, and has irrevocably undertaken to the Company and the Underwriter that the Shares beneficially owned by it will remain beneficially owned by Supervalue at the close of business on the Record Date and that its entitlement under the Rights Issue will be taken up in full. Pursuant to the Underwriting Agreement, the Rights Shares (other than the Rights Shares to be allotted in respect of the Shares beneficially owned by Supervalue) have been fully underwritten by the Underwriter.

In accordance with Rule 7.19(6)(a) of the Listing Rules, the Rights Issue will be 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 Shareholders 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 its associates, all other Directors (excluding independent non-executive Directors) namely Mr. Chu Nin Wai, David (deputy chairman of the Company) and Mr. Lau Chi Kan, Michael (executive Director) and their respective associates will abstain from voting on the resolution to approve the Rights Issue at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors has been established to make recommendations to the Independent Shareholders in respect of voting on the resolutions to approve the Rights Issue at the EGM by way of poll.

Menlo Capital has been appointed as 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 Rights Issue, the Capital Increase and the amendment to the Share Option Scheme and to give you notice of the EGM at which resolutions will be proposed to consider and, if thought fit, approve these matters.

PROPOSED RIGHTS ISSUE

The Company proposes to raise long term equity capital of the Company by way of the Rights Issue, on the terms set out below:

Issue statistics (prepared on the basis of the Company's existing 1,693,587,340 Shares in issue, without taking into account any Shares which may be issued between the Latest Practicable Date and the Record Date)

Basis of the Rights Issue	Five (5) Rights Shares for every Share held on the Record Date
Number of Shares in issue	1,693,587,340 Shares as at the Latest Practicable Date
Number of outstanding Share Options	The Company had outstanding Share Options as at the Latest Practicable Date. The outstanding Share Options will lapse on 29 December 2012. Upon exercise of the rights attaching to the outstanding Share Options before the Record Date, 63,300,000 Shares would fall to be issued
Number of outstanding Warrants	The Company had outstanding Warrants as at the Latest Practicable Date. The outstanding Warrants will lapse on 18 May 2007. Upon exercise of the rights attaching to the outstanding Warrants before the Record Date, 160,000,000 Shares would fall to be issued
Number of Rights Shares	not less than 8,467,936,700 Rights Shares (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) and not more than 9,584,436,700 Rights Shares (assuming all outstanding Share Options are exercised and Warrants are converted before the Record Date) Save for the outstanding Share Options and Warrants, the Company had no other 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$0.026 per Rights Share with par value of HK$0.01 each
Enlarged issued share capital upon completion of the Rights Issue (assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date)	HK$101,615,240.40 comprising 10,161,524,040 Shares

Enlarged issued share capital upon completion of the Rights Issue (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date)	HK$115,013,240.40 comprising 11,501,324,040 Shares

Assuming that no outstanding Share Options are exercised and no Warrants are converted before the Record Date, the 8,467,936,700 nil-paid Rights Shares proposed to be provisionally allotted represent: (a) five times the Company's existing issued share capital; and (b) approximately 83.33% of the Company's enlarged issued share capital upon completion of the Rights Issue 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: (i) registered as a member of the Company at the close of business on the Record Date; and (ii) a Qualifying Shareholder.

In order to be registered as members of the Company at the close of business on the Record Date, owners must lodge any transfers of Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:30 p.m. on Wednesday, 7 March 2007.

Holders of outstanding Share Options and Warrants who wish to participate in the Rights Issue should exercise their Share Options and convert their Warrants in accordance with their respective terms before 4:30 p.m. on Wednesday, 7 March 2007 so as to enable them to be registered as Shareholders on or before the Record Date.

Closure of register of members

The register of members of the Company will be closed from Thursday, 8 March 2007 to Monday, 12 March 2007 (both dates inclusive). No transfers of Shares will be registered during this period.

Subscription price

The subscription price for the Rights Shares is HK$0.026 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares or, where applicable, on 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 represents:

(i) a discount of approximately 83.65% to the closing price of HK$0.159 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 80.88% to the closing price of HK$0.136 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 40.90% to the theoretical ex-rights price of HK$0.044 per Share, which is calculated on the basis of the closing price of HK$0.136 per Share on the Last Trading Day;

(iv) a discount of approximately 80.00% to the average of the closing prices per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day of approximately HK$0.130; and

(v) a discount of approximately 91.03% to the audited net tangible asset value per Share of the Group as at 31 July 2006 of HK$0.29.

The Shares have been trading at prices substantially below the net tangible asset value per Share. In terms of historical prices, closing prices of the Shares were on a downward trend where during the period from 26 July 2006 up to 1 September 2006 closing prices per Share had traded between a high of HK$0.193 on 26 July 2006 and a low of HK$0.083 on 1 September 2006. From 4 September 2006 to 19 January 2007, the Shares had been traded in a narrow band between the lowest and highest closing prices of HK$0.087 to HK$0.141 respectively.

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter. Making reference to the size of the Rights Issue, the historical market trading statistics of the Shares, the Underwriter indicated that it was willing to underwrite the Rights Shares at prices not higher than HK$0.026 per Rights Share.

The Directors acknowledged the substantial amounts of the relevant discounts to the relative share values as indicated above. After taking into consideration the reasons for the Rights Issue as stated in the paragraph headed "Reasons for the Rights Issue and use of proceeds" below, the Directors consider the terms of the Rights Issue, including the subscription price, in the context of the Company's long-term growth objectives, to be fair and reasonable and in the interests of the Company and the Shareholders.

Basis of provisional allotment

The basis of the provisional allotment will be five Rights Shares for every Share, being not less than 8,467,936,700 Rights Shares and not more than 9,584,436,700 Rights Shares at a price of HK$0.026 per Rights Share.

Share certificates and refund cheques for Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted on or before Tuesday, 3 April 2007 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 partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Tuesday, 3 April 2007 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 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 Shareholders with registered addresses outside Hong Kong

Based on the register of members of the Company as at the Latest Practicable Date, there were 1, 1, 3, 3, 4 and 1 Shareholders with registered addresses in Australia, Canada, Macau, New Zealand, Singapore and the United States of America respectively.

The Directors have, in compliance with Rule 13.36(2)(a) of the Listing Rules, made enquiries regarding the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchange.

Based on the opinions of legal advisers in Macau, New Zealand and Singapore, there are no onerous restrictions on extending the Rights Issue to the Shareholders in Macau, New Zealand and Singapore and they are thus being offered Rights Shares and are not Non-Qualifying Shareholders.

In respect of the Shareholders in Australia, Canada and the United States of America, based on opinions of legal advisers in the relevant jurisdiction, the Directors have formed the view that the offer of the Rights Shares to the Shareholders with addresses in such jurisdictions will require registration of the Prospectus and/or subject to legal restrictions and/or relevant regulatory requirements. In light of the time and costs involved, the Directors have determined that the Rights Issue will not be extended to Shareholders with registered addresses in Australia, Canada and the United States of America who are thus Non-Qualifying Shareholders. Accordingly, no provisional allotment of Rights Shares will be made to these 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 entitlements 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.

Application for excess Rights Shares

Qualifying Shareholders will be given the right 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 topping-up odd lots to whole board lots.

Investors with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the names of nominee companies should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to them individually. Investors with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own name(s) prior to the Record Date.

Investors whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, must lodge all necessary document with the branch share registrar of the Company in Hong Kong for completion of the relevant registration by 4:30 p.m. on Wednesday, 7 March 2007.

The latest time for acceptance of Rights Shares is expected to be 4:00 p.m. on Wednesday, 28 March 2007, or such later date as may be agreed between the Company and the Underwriter.

Listings and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal on the Stock Exchange in the Rights Shares, in both their nil-paid and fully-paid forms. It is expected that dealings in the Rights Shares in their nil-paid form will take place from Thursday, 15 March 2007 to Friday, 23 March 2007, both dates 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 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 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.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS. The nil-paid Rights Shares will have the same board lot size as the existing fully paid Shares, i.e. 5,000 Shares in one board lot. 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.

Underwriting arrangements

Underwriting agreement dated 25 January 2007

The Underwriter has agreed to fully underwrite up to 7,677,454,200 Rights Shares, which represent approximately 66.75% of the issued 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 9,584,436,700 Rights Shares, assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date, less the 1,906,982,500 Rights Shares to be provisionally alloted to and accepted by Supervalue). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Underwriter and its ultimate beneficial controlling shareholders do not have any shareholding in the Company.

Conditions of the Rights Issue

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

(i) the passing by Shareholders of the necessary resolution in general meeting to approve the Capital Increase on or before the date of despatch of the Prospectus Documents and all necessary approvals being obtained, if any;

(ii) the Listing Committee of the Stock Exchange agreeing to grant and not having withdrawn or revoked listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to the date on which the nil-paid Rights Shares commence trading; and

(iii) compliance with and performance of all the obligations of the Company in the Underwriting Agreement.

If the conditions of the Rights Issue under the Underwriting Agreement are not fulfilled (or waived where applicable) 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 2% of the aggregate subscription price of the Rights Shares underwritten by it, out of which the Underwriter may pay sub-underwriting fees. The Directors believe that the underwriting commission accords with market rates.

Undertaking from Supervalue

As at the Latest Practicable Date, Supervalue, which is wholly-owned by Mr. Chu, is interested in 381,396,500 Shares, representing approximately 22.52% 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 remain beneficially owned by Supervalue at the close of business on the Record Date as they are on the date of the undertaking, being the date of the Underwriting Agreement, and that the Rights Shares to be allotted in respect of those Shares will be taken up in full, representing 1,906,982,500 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 it to the Company at any time prior to 4:00 p.m. on the Settlement Date if:

1. there occurs:

   (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. 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

3. 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

4. the Prospectus Documents, when published, contain information which is untrue or inaccurate in any material respect and the Company has failed to send out promptly any announcements or circulars (after the despatch of 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.

If the Underwriter exercises such right, the Rights Issue will not proceed. Upon the giving of notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and neither it nor the Company 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 the fees and expenses payable under it (other than the underwriting commission).

WARNING OF THE RISKS OF DEALING IN SHARES AND RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Tuesday, 6 March 2007. Dealings in the Rights Shares in the nil-paid form will take place from Thursday, 15 March 2007 to Friday, 23 March 2007 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares, the Shares and Rights Shares in their nil-paid form 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 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 Thursday, 8 March 2007 to Monday, 12 March 2007 (both dates inclusive) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholding in the Company

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

	Existing shareholding as at the Latest Practicable Date		**Immediately after completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)**		**Immediately after completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalue)**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Supervalue	381,396,500	22.52	2,288,379,000	22.52	2,288,379,000	22.52
Underwriter *(Notes)*	—	—	—	—	6,560,954,200	64.57
Public	1,312,190,840	77.48	7,873,145,040	77.48	1,312,190,840	12.91
Total	**1,693,587,340**	**100.00**	**10,161,524,040**	**100.00**	**10,161,524,040**	**100.00**

Notes:

1. 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 and the sub-underwriters will not individually own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

2. It is the current intention of the Underwriter and the sub-underwriters to place down all (or part) of any Shares that they acquire in the Rights Issue. Neither the Underwriter nor the sub-underwriters have any intention to become the single largest Shareholder as a result of the Rights Issue or to place down all (or part) of any Shares to any individual placee who will own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

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

	Shareholding immediately after exercising the outstanding Share Options and conversion of the Warrants in full		Immediately after completion of the Rights Issue (assuming all Rights Shares are taken up by Qualifying Shareholders)		Immediately after completion of the Rights Issue (assuming no Rights Shares are taken up by Qualifying Shareholders other than Supervalue)	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Supervalue	381,396,500	19.90	2,288,379,000	19.90	2,288,379,000	19.90
Directors	46,500,000	2.43	279,000,000	2.43	46,500,000	0.40
Underwriter *(Notes)*	—	—	—	—	7,677,454,200	66.75
Public	1,488,990,840	77.68	8,933,945,040	77.68	1,488,990,840	12.95
Total	**1,916,887,340**	**100.00**	**11,501,324,040**	**100.00**	**11,501,324,040**	**100.00**

Notes:

1. 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 and the sub-underwriters will not individually own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

2. It is the current intention of the Underwriter and the sub-underwriters to place down all (or part) of any Shares that they acquire in the Rights Issue. Neither the Underwriter nor the sub-underwriters have any intention to become the single largest Shareholder as a result of the Rights Issue or to place down all (or part) of any Shares to any individual placee who will own 30% or more of the issued share capital of the Company after completion of the Rights Issue.

The Underwriter is a wholly-owned subsidiary of 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 was owned as to approximately 30.85% by Honeylink Agents Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and as to approximately 69.15% by the public as at the Latest Practicable Date. The Underwriter and its ultimate controlling shareholders are Independent Third Parties and are not parties acting in concert with Supervalue. The sub-underwriters and their ultimate beneficial owners are Independent Third Parties and are not parties acting in concert with Supervalue and the Underwriter.

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

The Company will ensure compliance with the public float requirements under Rule 8.08 of the Listing Rules upon completion of the Rights Issue.

The Stock Exchange has stated that it will closely monitor trading in the 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 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 Shares; or**

- **there are too few Shares in public hands to maintain an orderly market,**

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

Business review and prospects

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

According to the annual report of the Company for the financial year ended 31 July 2006, the Group recorded an audited consolidated turnover of approximately HK$408.9 million (2005 restated: approximately HK$25.7 million), net profit of approximately HK$28.9 million (2005: net profit of approximately HK$6.4 million), and had a net tangible asset value of approximately HK$484.8 million (2005 restated: approximately HK$155.1 million) as at 31 July 2006. The Directors attributed such improvements was mainly due to the increase in interest and dividend income and unrealised holding gain on investments held for trading, which was partly offset by the downward revaluation of investment properties and increase in administration costs.

According to the interim report of the Company for the six months ended 31 January 2006, the Group had a net loss of approximately HK$1.6 million compared to a net profit of approximately HK$13.7 million for the same period in 2005. The Directors attributed such loss was mainly due to the decrease in unrealised holding gain on investment in securities and derivative financial instruments of approximately HK$8.7 million, coupled with an increase in administration expenses of approximately HK$2.3 million.

As stated in previous communications (including the 2006 annual report and the announcements issued by the Company dated 4 April 2006 and 19 December 2005) to Shareholders, it is the Group's strategy to look for appropriate property investments in Macau and/or Hong Kong. Consistent with this strategy, the Group has been seeking and assessing a number of 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 continues, to seek and, if thought fit, capture appropriate investment opportunities which may arise in these areas.

Reasons for the Rights Issue and use of proceeds

To take advantage of the rapid expansion and development of the Macau economy, the Company has been actively seeking suitable investment opportunities in Macau with the view of achieving long-term growth for the Company. Apart from the possible very substantial acquisition in relation to an office building in Macau announced on 19 January 2007 (the "Proposed Acquisition"), the Company is assessing other investment opportunities.

The Directors therefore believe that having regard to the increasing and active investment flows into the Macau economy, it is important that the Company should have access to a substantial amount of cash or highly liquid assets so that it can maintain the competitive advantage and ability to commit on suitable investment opportunities as and when they become available. The Directors therefore consider that it would be in the interests of the Company and the Shareholders to raise long-term equity funding via the proposed Rights Issue, to strengthen the Company's financial capability for its future investment activities, whilst allowing all Shareholders the equitable opportunity to increase their investment in and participation of the Company's future prospects.

The Directors have considered other ways of fund raising, including bank borrowing and placing of new Shares and concluded that bank borrowings, even if practicable, will incur interest costs while placing of new Shares will result in dilution of the interests of Shareholders. The Rights Issue will enhance the capital base of the Group while allowing Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. On this basis, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue.

The estimated expenses of the Rights Issue (including underwriting commission, legal and professional fee and other related expenses) amount to approximately HK$5.2 million (assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date) and approximately HK$5.8 million (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date) and will be borne by the Company. In the event that the Company proceeds to consummate the Proposed Acquisition, it is expected that the bulk of the Company's existing cash resources will be utilised. As the Company currently does not have sufficient funding to finance the entire Proposed Acquisition, a portion of the proceeds from the Rights Issue will be utilised for such acquisition (if it happens). If not, the Company's cash resources would be augmented by the estimated net proceeds of approximately HK$215.0 million (assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date) or approximately HK$243.4 million (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date) for deployment of future investment opportunities.

CAPITAL INCREASE

As at the Latest Practicable Date, the authorised capital of the Company comprises of 100,000,000 Shares of HK$0.01 each with a nominal value of HK$100 million. To facilitate the implementation of the proposed Rights Issue, the Directors propose that a resolution be passed at the EGM to increase the authorised share capital of the Company from HK$100 million to HK$2 billion by the creation of 190 billion new Shares of HK$0.01 each. Upon the Capital Increase becoming effective and assuming no further Shares will be issued prior to the EGM, the authorised share capital of the Company will be HK$2 billion divided into 200 billion Shares of HK$0.01 each, of which 1,693,587,340 Shares of HK$0.01 each will be in issue and fully paid.

The Capital Increase is conditional on the passing of an ordinary resolution by the Shareholders at the EGM.

Adjustments in relation to the exercise price of Share Options and the Warrants

The Rights Issue may lead to adjustment to the exercise price and/or the number of new Shares to be issued upon exercising of the outstanding Share Options and conversion of the Warrants. Pursuant to the terms of the Share Options Scheme and the terms and conditions of the Warrant instrument, the Company will consult its auditors or the independent financial adviser for the required adjustment and the holders of the Share Options and the Warrants will be informed of the required adjustments (if any) as soon as practicable. The Company shall make further announcement with regard to any adjustments in relation to the exercise price of Share Options and the Warrants respectively as and when appropriate.

PREVIOUS FUND RAISING EXERCISE OF THE COMPANY

The table below summarises the fund raising exercise of the Company in the 12 months ended on the Latest Practicable Date:

Date of announcement	Event	Net proceeds raised (approx.)	Original intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
30 June 2006	Placing of 264,000,000 new shares	HK$51.8 million	The Company planned to use the proceeds from the placing as funding to finance the acquisition of properties, property development or other potential investment as and when opportunities arise and/or for additional general working capital	The net proceeds have not been used and are temporarily deposited with banks
8 May 2006	Placing of not more than 264,930,000 Warrants	HK$12.8 million	The proceeds are planned to be applied as additional general working capital	The net proceeds have not been used and are temporarily deposited with banks

Save for the above, the Company did not carry out any fund raising exercise in the 12 months ended on the Latest Practicable Date.

AMENDMENT TO THE SHARE OPTION SCHEME

Reference is made to the supplementary guidance on Rule 17.03(13) of the Listing Rules issued by the Stock Exchange dated 5 September 2005. In order to enable the adjustment provision of the Share Option Scheme to comply with the Listing Rules and the Supplementary Guidance, a resolution will be proposed at the EGM approving the amendment to the Share Option Scheme.

Paragraph 10 of the Share Option Scheme sets out the adjustment provisions of the exercise price and/or the number of Shares subject to Share Option already granted in the event of any alteration of capital structure of the Company whilst any Share Option remains exercisable and the Share Option Scheme remains in effect. Paragraph 10 is reproduced below:—

"10.1 In the event of any capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company, such corresponding alterations (if any) shall be made (except on an issue of securities of the Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

(a) the number of Shares subject to any outstanding Options;

(b) the Exercise Price; and/or

(c) the number of Shares in respect of which any further Options may be granted within the limits set out in this Scheme (including without limitation, the Scheme Limit or if applicable, the New Scheme Limit referred to in paragraph 9),

as the Auditors or an approved independent financial adviser shall at the request of the Company or any Grantee, certify in writing either generally or as regards any particular Grantee, to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that a Grantee shall have the same proportion of the equity capital of the Company as that to which he or she was entitled to subscribe had he or she exercised all the Options held by him or her immediately before such adjustments and the aggregate Exercise Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. The capacity of the Auditors or the approved independent financial adviser, as the case may be, in this paragraph 10.1 is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on the Company and the Grantees. The cost of the Auditors or the independent financial adviser shall be borne by the Company.

10.2 In respect of any adjustments required by paragraph 10.1, other than any made on a capitalisation issue, the Auditors or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and/or such other requirement prescribed under the Listing Rules from time to time."

It is proposed to replace the existing paragraph 10 of the Share Option Scheme with the following:—

"10.1 In the event of any capitalisation issue, bonus issue, open offer, rights issue, sub-division or consolidation of Shares or reduction of capital of the Company, such corresponding alterations (if any) shall be made (except on an issue of securities of the Company made at full consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment unless it also involves a capitalisation issue) in:

(a) the number of Shares subject to any outstanding Options;

(b) the Exercise Price; and/or

(c) the number of Shares in respect of which any further Options may be granted within the limits set out in this Scheme (including without limitation, the Scheme Limit or if applicable, the New Scheme Limit referred to in paragraph 9),

provided that:—

(1) any such alterations shall be made on the basis that a Grantee shall have the same proportion of the equity capital of the Company as that to which he or she was entitled to subscribe had he or she exercised all the Options held by him or her immediately before such adjustments;

(2) that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value; and

(3) notwithstanding the above, any adjustments as a result of an issue of securities with a price dilutive element, such as a rights issue, open offer or capitalisation issue, shall be made in accordance with the Supplementary Guidance or such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time.

The capacity of the Auditors or the approved independent financial adviser, as the case may be, in this paragraph 10.1 is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on the Company and the Grantees. The cost of the Auditors or the independent financial adviser shall be borne by the Company.

10.2 In respect of any adjustments required by paragraph 10.1, other than any made on a capitalisation issue, the Auditors or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and/or such other requirement prescribed under the Listing Rules, the Supplementary Guidance or such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time."

Such proposed amendments will be effected by way of an Addendum to be attached to the Share Option Scheme. The Addendum is proposed to be tabled before the EGM for consideration and approval (if think fit) by the Shareholders.

Such amendment to the Share Option Scheme to be effected by the execution of the Addendum shall take effect on the date of adoption of the Addendum at the EGM. A resolution will be proposed at the EGM to approve the Addendum and to authorize the Directors to do all such acts and to enter into all transactions, documents and agreements to give effect to the Addendum.

There are no other changes to the terms of the Share Option Scheme save as mentioned above. The terms of the Share Option Scheme and the Addendum are available for inspection in the principal place of business of the Company in Hong Kong prior to the EGM.

THE EGM

A notice of the EGM to be held at Boardroom 3 & 4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 12 March 2007 at 9:00 a.m. is set out on pages 117 to 119 of this circular. At the EGM, resolutions will be proposed to consider and, if thought fit, to approve the Capital Increase, the Rights Issue and the amendment to the Share Option Scheme.

In accordance with the Listing Rules, the Capital Increase and the amendment to the Share Option Scheme will be subject to the approval by the Shareholders at the EGM. 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 its associates, all other Directors (excluding independent non-executive Directors) namely Mr. Chu Nin Wai, David (deputy chairman of the Company) and Mr. Lau Chi Kan. Michael (executive Director) 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.

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 the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Registrar 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 Shareholders from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should they so wish.

PROCEDURES FOR DEMANDING A POLL

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

(i) by the chairman of the meeting; or

(ii) by at least three 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 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) 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 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.

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 Menlo Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, sets out on pages 29 to 42 of this circular. The Directors believe that the proposed resolutions in relation to the Capital Increase, the Rights Issue and the amendment to the Share Option Scheme are fair and reasonable and in the interests of the Company and its 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 to III to this circular.

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

CAPITAL ESTATE LIMITED
冠中地產有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 193)

16 February 2007

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular dated 16 February 2007 (“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. Menlo Capital Limited (“Menlo Capital”) has been appointed as the independent financial adviser of the Company to advise us and the Independent Shareholders 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, inter alia, the Rights Issue. We also draw your attention to the letter from Menlo Capital as set out on pages 29 to 42 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 Menlo Capital, the Independent Board Committee considers the terms of the Rights Issue are fair and reasonable in so far as the Independent Shareholders are concerned; and that the Rights Issue is in the interests of the Company and its Shareholders as a whole. We therefore recommend 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	**Wong Kwong Fat**	**Leung Kam Fai**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of a letter from Menlo Capital Limited in connection with the proposed Rights Issue which has been prepared for the purpose of inclusion in this circular:

Menlo Capital Limited

Room 06, 1st Floor, Beautiful Group Tower
77 Connaught Road Central
Hong Kong

16 February 2007

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

Dear Sirs,

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

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 16 February 2007 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

The Company proposed to raise not less than approximately HK$220.2 million before expenses (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) or not more than approximately HK$249.2 million before expenses (assuming all outstanding Share Options are exercised and Warrants are converted before the Record Date) by way of the Rights Issue of not less than 8,467,936,700 Rights Shares and not more than 9,584,436,700 Rights Shares at a price of HK$0.026 per Rights Share.

In accordance with Rule 7.19(6)(a) of the Listing Rules, the Rights Issue is conditional upon approvals 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 held any Shares. Accordingly, Mr. Chu, being an executive Director, Supervalue and its associates, all other Directors (excluding independent non-executive Directors) namely Mr. Chu Nin Wai, David (deputy chairman of the Company) and Mr. Lau Chi Kan, Michael (executive Director) and their respective associates will abstain from voting on the resolution(s) to approve the Rights Issue at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors or management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

In formulating our opinion, we have not considered the taxation implications on Independent Shareholders in relation to the subscription for, holding or disposal of the Rights Shares or otherwise, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Rights Shares or otherwise. In particular, Independent Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, we have taken the following principal factors and reasons into consideration:

(I) Background and reasons for the Fund Raising

The Group is principally engaged in property rental, financial investment, property development, property sales, provision of estate agency services and investment. As stated in previous communications (including the 2006 annual report and the announcements issued by the Company dated 4 April 2006 and 19 December 2005) to the Shareholders, it is the Group's stated strategy to look for appropriate property investments in Macau and/or Hong Kong. Consistent with this strategy, the Company has been seeking and assessing a number of investment opportunities.

According to the annual report of the Company for the financial year ended 31 July 2006, the Group recorded an audited consolidated turnover of approximately HK$408.9 million (2005 restated: approximately HK$25.7 million), net profit of approximately HK$28.9 million (2005: net profit of approximately HK$6.4 million), and had a net tangible asset value of approximately HK$484.8 million (2005 restated: approximately HK$155.1 million) as at 31 July 2006. The Directors attributed such improvements was mainly due to the increase in interest and dividend income and unrealised holding gain on investments held for trading, which was partly offset by the downward revaluation of investment properties and increase in administration costs.

According to the interim report of the Company for the six months ended 31 January 2006, the Group had a net loss of approximately HK$1.6 million compared to a net profit of approximately HK$13.7 million for the same period in 2005. The Directors attributed such loss was mainly due to the decrease in unrealised holding gain on investment in securities and derivative financial instruments of approximately HK$8.7 million, coupled with an increase in administration expenses of approximately HK$2.3 million.

The Group has been seeking and assessing a number of investment opportunities in the property sector in general, both in Hong Kong and Macau, in order to expand its property portfolio. The Group keeps identifying appropriate property investments that satisfy the Group's investment criteria in terms of risks and returns, and continue to seek and, if thought fit, capture appropriate investment opportunities which may arise in these areas.

To take advantage of the rapid expansion and development of the Macau economy, the Company has been actively seeking suitable investment opportunities in Macau with the view of achieving long-term growth for the Company. Apart from the possible very substantial acquisition in relation to an office building in Macau announced on 19 January 2007 (the "Proposed Acquisition"), the Company is assessing other investment opportunities.

The Directors therefore believe that having regard to the increasing and active investment flows into the Macau economy, it is important that the Company should have access to a substantial amount of cash or highly liquid assets so that it can maintain the competitive advantage and ability to commit on suitable investment opportunities as and when they become available. The Directors therefore consider that it would be in the interests of the Company and the Shareholders to raise long-term equity funding via the proposed Rights Issue, to strengthen the Company's financial capability for its future investment activities, whilst allowing all Shareholders the equitable opportunity to increase their investment in and participation of the Company's future prospects.

According to the Gross Domestic Products ("GDP") data published by the Government of Macau, the GDP of Macau was approximately MOP63.5 billion, MOP82.9 billion and MOP92.6 billion for the years 2003, 2004 and 2005 respectively, representing the respective annual growth rate of 30.5% and 11.7%. For the first 3 quarters in year 2006, the GDP of Macau was approximately MOP79.4 billion, representing approximately 21.2% growth over the relevant period in last year. On such basis, we share the view of the Directors that the economic environment in Macau to be prosperous for the past few years and that the economy in Macau will continue to grow substantially. Therefore, we consider that the fund raising exercises including the proposed Rights Issue is in line with the Group' strategy.

As reviewed from the previous fund raising exercises by the Company in the past 12 months, details of which being set out in the section headed "Previous fund raising exercise of the Company' in the Board Letter, most of the funds are planned to use for financing the acquisition of properties, property development or other potential investment as and when opportunities arise and for additional general working capital of the Company. We are of the view that it is in the interests of the Company and the Shareholders as a whole, to raise additional finance to enlarge the Company's capital bases as well as providing the Company with sufficient cash or highly liquid assets for the suitable investment opportunities when they become available.

(II) Reasons for the Rights Issue

The Directors have considered other ways of fund raising, including bank borrowing and placing of new Shares and concluded that bank borrowings, even if practicable, will incur interest costs while placing of new Shares will result in dilution of the interests of Shareholders. The Rights Issue will enhance the capital base of the Group while allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. On this basis, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Rights Issue. We share the view of the Directors that for long term financial planning it is reasonable for the Company to raise funds in the equity capital market rather than in the debt market as the latter will increase the interest burden and worsen the financial position of the Group.

Regarding the equity capital market, as the previous placing of Shares and the placing of Warrants by the Company in the past 12 months had dilution effect on the Shareholders, we believe that it will not be in the best interest of the Shareholders to further dilute their shareholdings if equity financing in the size comparable to the Rights Issue were raised through a placing of new Shares or Warrants. Unlike placing of Shares and the placing of Warrants, the Rights Issue is effected on a pro-rata basis and we are of the view that the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interest in the Company and to continue to participate in the future development of the Group. Shareholders who do not take up their entitlements in full will have the opportunity to realise their nil-paid Rights Shares on the market, subject to market conditions. On this basis, we consider the Rights Issue is fair and reasonable to the Qualifying Shareholders.

The two fund raising exercises conducted by the Company in the past 12 months, the placing of Shares and the placing of Warrants as announced on 30 June 2006 and 8 May 2006 respectively, had raised an aggregate net amount of HK$64.6 million. As advised by the Directors, besides the dilution effect on the Shareholders related to the placing of Shares and the placing of Warrants, it was difficult for the Company to raise large amount of funds by way of placing of Shares or Warrants when compared with that of the Rights Issue. In order to relieve the pressure for conducting future fund exercises, it is appropriate for the Company to raise funds by the Rights Issue as it can raise a net amount of at least HK$215.0 million which is much more than the aggregate amount of HK$64.6 million from the previous placing exercises. Based on the above, we consider that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

(III) Use of proceeds of the Rights Issue

As stated in the Board Letter, the estimated expenses of the Rights Issue (including underwriting commission, legal and professional fee and other related expenses) amount to approximately HK$5.2 million (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) and approximately HK$5.8 million (assuming all outstanding Share Options are exercised and Warrants are converted before the Record Date) and will be borne by the Company. In the event that the Company proceeds to consummate the Proposed Acquisition, it is expected that the bulk of the Company's existing cash resources will be utilised. As the Company currently dose not have sufficient funding to finance the entire Proposed Acquisition, a portion of the proceeds from the Rights Issue will be utilised for such acquisition (if it happens). If not, the Company's cash resources would be augmented by the estimated net proceeds of approximately HK$215.0 million (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) or approximately HK$243.4 million (assuming all outstanding Share Options are exercised and Warrants are converted before the Record Date) for deployment of future investment opportunities.

As stated above, the Company currently does not have sufficient funding to finance the entire Proposed Acquisition. According to the announcement of the Company on 19 January 2007, the Proposed Acquisition would lapse if it could not materialise by 30 April 2007. We consider that it is prudent for the Company to raise sufficient funds to ensure its financial ability to complete of the Proposed Acquisition. We are of the view that it reasonable to offer higher discount rates for the Rights Issue to enhance the attractiveness to the shareholders as well as the underwriters for the success of the Rights Issue.

If the Proposed Acquisition does not materialise, the Company's cash resources would be augmented for deployment of future investment opportunities. We are of the view that the proceeds from the Rights Issue could improve the cash and working capital position of the Group while giving the Group the flexibility to make future possible investments if opportunities arise. Moreover, the overall improvement of the financial position as a results of the proceeds from the Rights Issue could place the Group in a better position to secure future bank borrowings, if required, for funding future investments, which is beneficial to the future development of the Group and therefore is in the interests of the Company and the Shareholders as a whole.

(IV) Terms for the Rights Issue

The Company proposes to raise long term equity capital of the Company by way of the Rights Issue, on the terms set out below:

Issue statistics (prepared on the basis of the Company's existing 1,693,587,340 Shares in issue, without taking into account any Shares which may be issued between the Latest Practicable Date and the Record Date)

Basis of the Rights Issue	Five (5) Rights Shares for every Share held on the Record Date
Number of Shares in issue	1,693,587,340 Shares as at the Latest Practicable Date
Number of outstanding Share Options	The Company had outstanding Share Options as at the Latest Practicable Date. The outstanding Share Options will lapse on 29 December 2012. Upon exercise of the rights attaching to the outstanding Share Options before the Record Date, 63,300,000 Shares would fall to be issued
Number of outstanding Warrants	The Company had outstanding Warrants as at the Latest Practicable Date. The outstanding Warrants will lapse on 18 May 2007. Upon exercise of the rights attaching to the outstanding Warrants before the Record Date , 160,000,000 Shares would fall to be issued
Number of Rights Shares	not less than 8,467,936,700 Rights Shares (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date) and not more than 9,584,436,700 Rights Shares (assuming all outstanding Share Options are exercised and Warrants are converted before the Record Date) Save for the outstanding Share Options and Warrants, the Company had 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$0.026 per Rights Share with par value of HK$0.01 each

Enlarged issued share capital upon completion of the Rights Issue (assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date)	HK$101,615,240.40 comprising 10,161,524,040 Shares
Enlarged issued share capital upon completion of the Rights Issue (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date)	HK$115,013,240.40 comprising 11,501,324,040 Shares

Assuming that no outstanding Share Options are exercised and no Warrants are converted before the Record Date, the 8,467,936,700 nil-paid Rights Shares proposed to be provisionally allotted represent: (a) five times of the Company's existing issued share capital; and (b) approximately 83.33% of the Company's issued share capital upon completion of the Rights Issue and as enlarged by the issue of the Rights Shares.

The subscription price for the Rights Shares is HK$0.026 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, an 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 represents:

(i) a discount of approximately 83.65% to the closing price of HK$0.159 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 80.88% to the closing price of HK$0.136 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 40.90% to the theoretical ex-rights price of HK$0.044 per Share, which is calculated on the basis of the closing price of HK$0.136 per Share on the Last Trading Day;

(iv) a discount of approximately 80.00% to the average of the closing prices per Share for the last 10 full trading days quoted on the Stock Exchange up to and including the Last Trading Day of approximately HK$0.130; and

(v) a discount of approximately 91.03% to the audited net tangible asset value per Share of the Group as at 31 July 2006 of HK$0.29.

The Shares have been trading at prices substantially below the net tangible asset value per Share. In terms of historical prices, closing prices of the Shares were on a downward trend where during the period from 26 July 2006 up to September 2006, closing prices per Share had traded between a high of HK$0.193 on 26 July 2006 and a low of HK$0.083 on 1 September 2006. From 4 September 2006 to 19 January 2007, the Shares had been traded in a narrow band between the lowest and highest closing prices of HK$0.087 to HK$0.141 respectively.

The subscription price for the Rights Shares was determined after arm's length negotiations between the Company and the Underwriter. Making reference to the size of the Rights Issue, the historical market trading statistics of the Shares, the Underwriter indicated that it was willing to underwrite the Rights Shares at prices not higher than HK$0.026 per Rights Share.

The Directors acknowledged the substantial amounts of the relevant discounts to the relative share values as indicated above. After taking into consideration the reasons for the Rights Issue as stated in the paragraph headed "Reasons for the Rights Issue and use of proceeds" in the Board Letter, the Directors consider the terms of the Rights Issue, including the subscription price, in the context of the Company's long-term growth objectives, to be fair and reasonable and in the best interests of the Company and the Shareholders.

We have reviewed and included, so far as we are aware, all the rights issues and open offers (with mechanism and structure similar to rights issues) announced during the last 12 months prior to the date of the Announcement, being the period from 27 January 2006 up to and including the date of the Announcement, by the companies listed on the Stock Exchange. For the purpose of fair comparison, a full 12-month period is included to eliminate the seasonal factors of the market for rights issues and open offers, if any. We are mindful of the fact that the pricing of a rights issue and/or open offer may vary under different stock market condition as well as for companies with different financial standing and business performance. Nevertheless, we consider that a broader comparison of rights issues and open offers announced recently would provide a more general reference for the reasonableness of the pricing of the Rights Issue and that it is appropriate and relevant. The terms of all the rights issues and open offers conducted by the main board listed companies (the "Comparables") are summarized as below:

Company name (Stock Code)	Date of Announcement	Offer Ratio	Premium/ (Discount) of subscription price over/to closing price of shares on the last trading day *(%)*	Premium/ (Discount) of subscription price over/to theoretical ex-right price *(%)*	Premium/ (Discount) of subscription price over/to the latest available net asset value per share *(%)*	Underwriting commission *(%)*
South Sea Petroleum Holdings Limited (76)	27/1/2006	1 for 2	(41.18)	(31.03)	(52.83)	2.5
Fortuna Int'l Holdings Limited (530)	27/1/2006	2 for 1	(90.00)	(75.00)	(92.0)	1.0
Climax Int'l Company Limited (439)	3/2/2006	1 for 2	(41.18)	(31.51)	(64.3)	2.5
Earnest Investments Holdings Limited (339)	23/2/2006	8 for 1	(90.70)	(52.40)	(96.80)	1.5

Company name (Stock Code)	Date of Announcement	Offer Ratio	Premium/ (Discount) of subscription price over/to closing price of shares on the last trading day *(%)*	Premium/ (Discount) of subscription price over/to theoretical ex-right price *(%)*	Premium/ (Discount) of subscription price over/to the latest available net asset value per share *(%)*	Underwriting commission *(%)*
Asia Orient Holdings Limited (214)	10/2/2006	1 for 2	(38.82)	(29.73)	(79.5)	2.0
Uni-Bio Science Group Limited (690)	15/2/2006	2 for 1	(18.03)	(6.89)	19.0	2.0
Public Financial Holdings Limited (626)	17/2/2006	1 for 2	(7.59)	(5.19)	137.0	N/A
SYSCAN Technology Holdings Limited (8083)	28/2/2006	3 for 1	(58.90)	(26.83)	(96.52)	1.0
Heng Tai Consumables Group Limited (197)	1/3/2006	2 for 5	(47.55)	(39.52)	10.3	2.5
Hua Xia Healthcare Holdings Limited (8143)	2/3/2006	1 for 2	(68.42)	(59.18)	(13.04)	2.5
Chuang's China Investments Limited (298)	6/3/2006	1 for 4	(10.11)	(8.26)	(69.7)	2.0
Easyknit Int'l Holdings Limited (1218)	8/3/2006	1 for 2	(15.49)	(11.11)	(84.6)	1.0
Tomorrow Int'l Holdings Limited (760)	8/3/2006	5 for 4	(49.46)	(23.72)	(89.7)	2.5
Asia Standard Hotel Group Limited (292)	23/3/2006	1 for 2	(42.68)	(33.33)	(50.00)	1.0
Wing Hing Int'l (Holdings) Limited (621)	29/3/2006	1 for 2	(36.31)	(27.54)	(76.53)	N/A
Wah Yuen Holdings Limited (2349)	7/4/2006	3 for 2	(50.74)	(29.18)	(83.8)	3.0
Great Wall Cybertech Limited (689)	21/4/2006	9 for 5	(94.00)	(84.83)	N/A	2.5
China National Resources Development Holdings Limited (661)	26/4/2006	1 for 2	(28.57)	(21.05)	279.3	2.5
Apex Capital Limited (905)	27/4/2006	1 for 2	(15.66)	(11.39)	6.1	N/A
See Corporation Limited (491)	27/4/2006	5 for 1	(79.41)	(39.13)	(84.3)	5.0
Green Energy Group Limited (979)	28/4/2006	3 for 1	(63.86)	(30.64)	4,185.71	2.0
Anex Int'l Holdings Limited (723)	3/5/2006	1 for 1	(19.35)	(10.71)	(49.2)	5.0
Shanghai Merchants Holdings Limited (1104)	11/5/2006	2 for 1	(61.54)	(34.77)	88.7	2.0
Pacific Plywood Holdings Limited (767)	18/5/2006	1 for 1	(89.13)	(80.39)	(92.33)	2.5
FX Creation International Holdings Limited (8136)	26/5/2006	1 for 2	(79.31)	(71.83)	135.29	2.5
Carico Holdings Limited (729)	7/6/2006	1 for 1	(51.61)	(34.78)	3.5	1.5
Skyfame Realty (Holdings) Limited (59)	7/6/2006	13 for 40	(28.00)	(22.41)	291.3	2.0
Paladin Limited (495)	8/6/2006	1 for 2	(12.3)	N/A	N/A	2.0
IDT Int'l Limited (167)	16/6/2006	1 for 5	(37.50)	(33.33)	(23.3)	2.0
Poly (Hong Kong) Investments Limited (119)	22/6/2006	1 for 2	(3.57)	(2.17)	(56.5)	2.5
Kiu Hung Int'l Holdings Limited (381)	6/7/2006	7 for 20	(70.59)	(64.03)	11.1	2.5

Company name (Stock Code)	Date of Announcement	Offer Ratio	Premium/ (Discount) of subscription price over/to closing price of shares on the last trading day (%)	Premium/ (Discount) of subscription price over/to theoretical ex-right price (%)	Premium/ (Discount) of subscription price over/to the latest available net asset value per share (%)	Underwriting commission (%)
Greater China Technology Group Limited (8032)	13/7/2006	3 for 2	(66.67)	(44.44)	(82.14)	2.5
Frasers Property (China) Limited (535)	20/7/2006	1 for 2	(39.39)	(30.23)	(50.0)	2.5
Magnum Int'l Holdings Limited (305)	28/7/2006	1 for 2	(75.54)	(67.31)	(9.6)	1.25
Xin Corporation Limited (1141)	17/8/2006	3 for 1	(42.6)	(15.5)	N/A	2.5
Chinney Alliance Group Limited (385)	21/8/2006	3 for 2	4.2	1.6	(74.7)	2.0
Sino Technology Investments Co. Ltd. (1217)	23/8/2006	1 for 2	(50.0)	(40.0)	(71.4)	3.0
Easyknit Int'l Holdings Limited (1218)	30/8/2006	3 for 1	(68.18)	(35.19)	(95.50)	1.0
Tak Shun Technology Group Limited (1228)	12/9/2006	2 for 5	(58.68)	(50.50)	(79.92)	2.0
Cheuk Nang (Holdings) Limited (131)	22/9/2006	1 for 1	(17.4)	(9.5)	(80.9)	2.5
Century Legend (Holdings) Limited (79)	22/9/2006	1 for 2	(71.8)	(63.0)	(65.1)	2.5
Asia Standard Int'l Group Limited (129)	26/9/2006	1 for 3	(24.9)	(19.9)	(74.3)	2.0
Cosmopolitan Int'l Holdings Limited (120)	4/10/2006	2 for 1	(41.86)	(19.35)	(64.03)	2.5
Shanghai Merchants Holdings Limited (1104)	27/10/2006	1 for 1	(26.8)	(15.5)	N/A	2.0
Celestial Asia Securities Holdings Limited (1049)	11/10/2006	1 for 2	(27.3)	(20.0)	(34.0)	2.5
Daqing Petroleum and Chemical Group Ltd (362)	23/11/2006	1 for 2	(27.71)	(20.42)	(44.13)	2.5
Sunlink Int'l l Holdings Limited (2336)	7/12/2006	1 for 5	(85.2)	(67.3)	N/A	2.5
Hua Xia Healthcare Holdings Limited (8143)	14/12/2006	1 for 2	(67.35)	(57.89)	N/A	2.5
Kowloon Development Company Limited (34)	19/12/2006	1 for 2	(14.07)	(9.86)	(41.98)	1.5
	Highest premium/(Lowest Discount)		**4.20**	**1.60**	**4,185.71**	**5.0**
	Lowest premium/(Highest Discount)		**(94.00)**	**(84.83)**	**(96.8)**	**1.0**
	Mean		**(45.77)**	**(33.67)**	**70.81**	**2.24**
	median		**(42.68)**	**(31.27)**	**(64.03)**	**2.5**
	The Company	**5 for 1**	**(80.88)**	**(40.90)**	**(91.03)**	**2.0**

Source: The Stock Exchange of Hong Kong Limited

As noted from the above table,

1. the subscription prices to the closing prices on the last trading day prior to the dates of announcements of the Comparables ranged from a premium of approximately 4.2% to a discount of approximately 94.0% (the "First Relevant Range"), with the mean and median at discounts of approximately 45.77% and 42.68% respectively. The discount of the subscription price of the Rights Issue to the closing price of the Shares on the Last Trading Day is approximately 80.88%, which is deeper than mean and median but falls within the First Relevant Range of the Comparables;

2. the subscription prices to the theoretical ex-rights prices per share based on the last trading day prior to the dates of the announcements in relation to the Comparables ranged from a premium of approximately 1.6% to a discount of approximately 84.83% (the "Second Relevant Range"), with the mean and median at discounts of approximately 33.67% and 31.27% respectively. The discount of the subscription price of the Rights Issue to the theoretical ex-rights price per Share of approximately 40.90% based on the closing price of the Shares on the Last Trading Day is deeper than the mean and median but falls within the Second Relevant Range of the Comparables; and

3. the subscription prices to the net asset value per share of the Comparables ranged from a premium of approximately 4,186% to a discount of approximately 96.8% (the "Third Relevant Range"), with the mean at a premium of approximately 70.81% and the median at a discount of approximately 64.03%. The discount of the subscription price of the Rights Issue to the net asset value per Share of approximately 91.03% is deeper than the mean and median and falls within the Third Relevant Range.

The discounts of the subscription price of the Rights Issue fall within the First Relevant Range, the Second Relevant Range and the Third Relevant Range. As also shown in the above table, other than the rights issue of Earnest Investments Holdings Limited with offer ratio of 8 for 1 and the rights issue of See Corporation Limited with offer ratio of 5 for 1 (which has the same offer ratio of the Rights Issue), other rights issues of the Comparables involved smaller offer ratio.

We are of the view that it is common to offer higher discount rates for the rights issues involved heavy calls (i.e. higher offer ratio) on shareholders in order to enhance the attractiveness to the shareholders as well as the underwriters. Despite the fact that the subscription price of the Rights Issue to the net asset value per Share represents a relatively deeper discount to the relevant mean and median of that of the Comparables, all Qualifying Shareholders who take up their entitlements in full under the Rights Issue are entitled with the same discount. The nil-paid Rights Shares will be traded on the Stock Exchange.

The underwriting commission rates of the Comparables ranged from 1.0% to 5.0% (the "Fourth Relevant Range"), with the mean and median of approximately 2.24% and 2.5% respectively. The underwriting commission of the Right Issue, being 2.0%, is lower than the mean and median as well as falls within the Forth Relevant Range of the Comparables. On the above basis, we are of the view that the underwriting commission of the Right Issue is in the interest of the Company and the Shareholders as a whole.

We consider that the subscription price and the underwriting commission of the Rights Issue are on normal commercial terms and are generally in line with that of the Comparables and are fair and reasonable so far as the Independent Shareholders are concerned.

(V) Effect on shareholding interests of the Shareholders

Being set out in the section headed "Shareholding in the Company" in the Board Letter, immediately after completion of the Rights Issue, (i) the shareholding of the existing Independent Shareholders will be substantially diluted from 77.48% to 12.91% (assuming no outstanding Share Options are exercised or Warrants are converted before the Record Date); and (ii) the shareholding of the existing Independent Shareholders will be substantially diluted from 77.68% to 12.95% (assuming all outstanding Share Options are exercised or Warrants are converted before the Record Date) . For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

Shareholders who do not take up their entitlements in full will have the opportunity to realise their nil-paid Rights Shares on the market, subject to market conditions. The nil-paid Rights Shares will be traded on the Stock Exchange.

Taking into consideration the foregoing, we consider that as the Qualifying Shareholders can choose to participate in the Rights Issue or, if they are unwilling or unable to do so, to dispose of their entitlements nil-paid in the market at a premium if one can be obtained, the Rights Issue is an equitable method for all the Qualifying Shareholders to raise new equity capital for the Company. The Rights Issue is a fair and reasonable method to raise funds, as the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company.

(VI) Financial effects of the Rights Issue

(a) Net tangible assets

The deep discount of the subscription price of approximately to the net tangible asset value per Share presents an opportunity for the Qualifying Shareholders to take up the Rights Shares at a more attractive price while providing the Company with the funding which is in the interest of the Company and the Shareholders as a whole of concern.

The subscription price for the Rights Shares is HK$0.026 per Rights Share represents a discount of approximately 91.03% to the audited net tangible asset value per Share of HK$0.29 as at 31 July 2006. The effect on the unaudited pro forma consolidated net tangible assets of the Group immediately after completion of the Rights Issue are set out on page 103 in Appendix II to this circular.

We consider that the decrease in adjusted consolidated net tangible asset value per Share immediately after the Rights Issue is not prejudicial to any Qualifying Shareholder due to the fact that the impact is equally to all the Qualifying Shareholders and that the Qualifying Shareholder can take up his entitlements to the Rights Shares at the subscription price of HK$0.026 per Rights Share which is at a discount to the adjusted consolidated net tangible asset value per Share. We are of the view that the discount to the adjusted consolidated net tangible asset value per Share is fair and reasonable as the Independent Shareholders are concerned.

(b) Gearing ratio and working capital

The gearing ratio (calculated as total liabilities divided by shareholders' equity) of the Group as at 31 July 2006 was approximately 0.066. Based on the audited accounts as at 31 July 2006, the gearing ratio of the Group immediately after the Rights Issue will be improved in both cases of no conversion of the Warrants and full conversion of the Warrants on or before the Record Date.

The cash position and working capital (before any specific investments made) of the Group immediately after the Rights Issue will be increased by the same amount of the actual net proceeds of the Rights Issue.

(VII) Termination of the Underwriting Agreement

It also should be noted that the Rights Issue would not proceed if the Underwriters exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriters such termination rights are included in the Board Letter. We consider such provisions are in normal commercial terms and in line with the market practice.

RECOMMENDATION

We have taken into consideration of the above principal factors and reasons, in particular:

- the requirement of sufficient funds to ensure the completion of the Proposed Acquisition (if it happens);
- the net proceeds from the Rights Issue will improve the working capital position of the Group and provide the Company sufficient cash for future possible investments, including but not limited to the Proposed Acquisition;
- the Rights Issue would enlarge the capital base of the Company;
- the Rights Issue would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future growth and development of the Group; and

- the discounts represented by the subscription price of the Rights Issue to the closing price of the Shares and to the theoretical ex-rights price the Shares fall within the First Relevant Range, the Second Relevant Range and Third Relevant Range.

We are of the view that the terms of Rights Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Menlo Capital Limited
Michael Leung
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 31 July 2006.

Results

	For the year ended 31 July		
	2004	**2005** (restated)	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	22,622	25,713	408,852
Profit/(Loss) before taxation	(2,880)	6,849	40,566
Taxation	(2)	(210)	(11,584)
Profit/(Loss) before minority interests	(2,882)	6,398	28,900
Minority interests	21	241	82
Net profit/(loss) for the year	(2,861)	6,639	28,982

Financial position

	For the year ended 31 July		
	2004	**2005** (restated)	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	120,842	182,993	522,647
Total liabilities	(19,621)	(22,562)	(32,468)
Minority interests	(885)	(1,126)	(1,218)
Shareholders' funds	100,336	159,305	488,961

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 JULY 2006

The financial information set out below is an extract from pages 19 to 74 of the annual report of the Company for the financial year ended 31 July 2006. 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 31 July 2006.

Consolidated Income Statement

For the year ended 31st July, 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000* *(as restated)*
Revenue	*7*	408,852	25,713
Direct cost on property rental		(1,680)	(1,557)
Direct cost of sales of properties		—	(8,808)
Direct cost on estate agency services		(2,799)	(2,437)
Direct cost on investments held for trading sold		(401,248)	(9,580)
Reversal of allowance for properties held for sale		—	487
Gross profit		3,125	3,818
Other income		10,987	1,320
Decrease in fair value of investment properties		(19,768)	—
Surplus on revaluation of investment properties		—	8,860
Administrative expenses		(19,184)	(11,602)
Gain on disposal of investment properties		—	1,383
Amortisation of goodwill		—	(226)
Changes in fair value of investments held for trading		66,739	—
Unrealised holding gain on trading securities		—	4,958
Changes in fair value of derivative financial instruments		(765)	(854)
Finance costs	*8*	(568)	(808)
Profit before taxation	*9*	40,566	6,849
Taxation	*12*	(11,584)	(210)
Profit for the year		28,982	6,639
Attributable to:			
Equity holders of the Company		28,900	6,398
Minority interests		82	241
		28,982	6,639
Earnings per share	*13*		
Basic		2.60 cents	3.19 cents
Diluted		2.52 cents	3.16 cents

Consolidated Balance Sheet
At 31st July, 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000 (as restated)*
Non-current assets			
Investment properties	*14*	34,568	27,160
Property, plant and equipment	*15*	814	399
Deferred tax assets	*34*	49	6
Goodwill	*16*	4,193	4,193
Investments in securities	*18*	—	8,932
Available-for-sale investments	*19*	116,250	—
		155,874	40,690
Current assets			
Properties held for sale	*20*	206	27,382
Derivative financial instruments	*21*	283	660
Trade and other receivables	*22*	13,455	9,636
Investments in securities	*18*	—	24,054
Investments held for trading	*23*	101,826	—
Certificate of deposit	*24*	8,996	—
Promissory note receivables	*25*	4,000	10,000
Taxation recoverable		75	—
Pledged bank deposit	*26*	614	—
Bank balances and cash	*26*	237,318	70,571
		366,773	142,303
Current liabilities			
Trade and other payables	27	12,803	10,435
Derivative financial instruments	*21*	1,163	775
Taxation payable		11,595	87
Bank borrowings — due within one year	*28*	903	887
Bank overdrafts		84	484
		26,548	12,668
Net current assets		340,225	129,635
Total assets less current liabilities		496,099	170,325
Non-current liabilities			
Bank borrowings — due after one year	*28*	5,920	6,793
Convertible note payables	*30*	—	3,101
		5,920	9,894
		490,179	160,431
Capital and reserves			
Share capital	*31*	338,717	52,544
Reserves		150,244	106,761
Equity attributable to equity holders of the Company		488,961	159,305
Minority interests		1,218	1,126
		490,179	160,431

Balance Sheet
*At **31st** July, 2006*

	NOTES	2006 HK$'000	2005 HK$'000 (as restated)
Non-current assets			
Investments in subsidiaries	17	10	—
Amounts due from subsidiaries	17	—	139,349
		10	139,349
Current assets			
Properties held for sale	20	206	206
Amounts due from subsidiaries	17	268,688	—
Other receivables	22	173	3
Promissory note receivables	25	4,000	10,000
Bank balances and cash	26	195,764	1
		468,831	10,210
Current liabilities			
Other payables	27	562	627
Amount due to a subsidiary	29	28,780	—
		29,342	627
Net current assets		439,489	9,583
Total assets less current liabilities		439,499	148,932
Non-current liabilities			
Amount due to a subsidiary	29	—	700
Convertible note payables	30	—	3,101
		—	3,801
		439,499	145,131
Capital and reserves			
Share capital	31	338,717	52,544
Reserves	33	100,782	92,587
		439,499	145,131

Consolidated Statement of Changes in Equity

For the year ended 31st July, 2006

	Attributable to equity holders of the Company											
	Share capital	**Share premium**	**Capital reserve**	**Warrants reserve**	**Share options reserve**	**Capital reduction reserve**	**Capital redemption reserve**	**Convertible notes equity reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 31st July, 2004 — originally stated	32,694	19,258	157	—	—	170,583	268	—	(122,624)	100,336	—	100,336
Effect of changes in accounting policies *(see note 3)*	—	(48)	—	—	—	—	—	166	21	139	885	1,024
Balance at 31st July, 2004 and 1st August, 2004 — as restated	32,694	19,210	157	—	—	170,583	268	166	(122,603)	100,475	885	101,360
Profit for the year and recognised income for the year	—	—	—	—	—	—	—	—	6,398	6,398	241	6,639
Recognition of equity component of convertible notes	—	—	—	—	—	—	—	1,043	—	1,043	—	1,043
Conversion of convertible notes *(note 31a)*	13,350	22,388	—	—	—	—	—	(1,117)	—	34,621	—	34,621
Issue of shares on private placement *(note 31b)*	6,500	10,725	—	—	—	—	—	—	—	17,225	—	17,225
Expenses incurred in connection with issue of shares	—	(457)	—	—	—	—	—	—	—	(457)	—	(457)
Balance at 31st July, 2005	52,544	51,866	157	—	—	170,583	268	92	(116,205)	159,305	1,126	160,431
Profit for the year and recognised income for the year	—	—	—	—	—	—	—	—	28,900	28,900	82	28,982
Issue of shares on rights issue *(note 31c)*	210,176	—	—	—	—	—	—	—	—	210,176	—	210,176
Conversion of convertible notes *(note 31d)*	2,211	1,009	—	—	—	—	—	(92)	—	3,128	—	3,128
Issue of shares on private placement *(note 31f)*	52,800	264	—	—	—	—	—	—	—	53,064	—	53,064
Issue of warrants *(note 31g)*	—	—	—	13,247	—	—	—	—	—	13,247	—	13,247
Exercise of warrants *(note 31g)*	20,986	5,247	—	(5,247)	—	—	—	—	—	20,986	—	20,986
Expenses incurred in connection with issue of shares	—	(5,806)	—	—	—	—	—	—	—	(5,806)	—	(5,806)
Recognition of equity-settled share-based payments *(note 32)*	—	—	—	—	5,961	—	—	—	—	5,961	—	5,961
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	—	—	—	10	10
Balance at 31st July, 2006	338,717	52,580	157	8,000	5,961	170,583	268	—	(87,305)	488,961	1,218	490,179

Consolidated Cash Flow Statement
For the year ended 31st July, 2006

	2006	2005
	HK$'000	*HK$'000*
		(as restated)
OPERATING ACTIVITIES		
Profit before taxation	40,566	6,849
Adjustments for:		
Decrease in fair value of investment properties	19,768	—
Share-based payment expenses	5,961	—
Depreciation	639	87
Interest expense	568	808
Changes in fair value of derivative financial instruments	765	854
Amortisation of goodwill	—	226
Allowance for bad and doubtful debts	—	40
Changes in fair value of investments held for trading	(66,739)	—
Interest income	(5,650)	(993)
Surplus on revaluation of investment properties	—	(8,860)
Gain on disposal of investment properties	—	(1,383)
Unrealised holding gain on trading securities	—	(4,958)
Reversal of allowance for properties held for sale	—	(487)
Operating cash flows before movements in working capital	(4,122)	(7,817)
Decrease in properties held for sale	—	8,685
Increase in trade and other receivables	(3,819)	(3,395)
Increase in investments held for trading	(11,033)	—
Increase in trading securities	—	(10,704)
Increase in trade and other payables	2,368	3,174
Cash used in operations	(16,606)	(10,057)
Hong Kong Profits Tax paid	(194)	(132)
NET CASH USED IN OPERATING ACTIVITIES	(16,800)	(10,189)
INVESTING ACTIVITIES		
Purchase of available-for-sale investments	(116,250)	—
Advances to third parties	(55,000)	—
Purchase of property, plant and equipment	(1,054)	(382)
Increase in pledged bank deposit	(614)	—
Repayment of advances to third parties	55,000	—
Repayment of promissory note receivables	6,000	12,000
Interest received	5,586	993
Proceeds from disposal of investment properties	—	2,863
Purchase of other securities	—	(8,932)
Deposits paid for options	—	(739)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(106,332)	5,803

	2006	2005
	HK$'000	*HK$'000*
		(as restated)
FINANCING ACTIVITIES		
Proceeds from issue of shares	263,240	17,225
Proceeds from exercise of warrants	20,986	—
Proceeds from issue of warrants	13,247	—
Capital contribution from a minority shareholder	10	—
Expenses paid in connection with the issue of shares	(5,806)	(457)
Repayment of bank loans	(857)	(1,531)
Interest paid	(541)	(398)
Proceeds from issue of convertible notes	—	35,631
NET CASH FROM FINANCING ACTIVITIES	290,279	50,470
INCREASE IN CASH AND CASH EQUIVALENTS	167,147	46,084
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	70,087	24,003
CASH AND CASH EQUIVALENTS CARRIED FORWARD	237,234	70,087
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	237,318	70,571
Bank overdrafts	(84)	(484)
	237,234	70,087

Notes to the Financial Statements

For the year ended 31st July, 2006

1. GENERAL

The Company is a public listed limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is Unit 1901, 19/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wan Chai, Hong Kong.

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 17.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business Combinations

HKFRS 3 "Business Combinations" is effective for business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combinations between the period from 1st January, 2005 to 31st July, 2005. On 1st August, 2005, the Group has applied the relevant transitional provision of HKFRS 3. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1st August, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st August, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$339,000 with a corresponding decrease in the cost of goodwill (see note 16). The Group has discontinued amortising such goodwill from 1st August, 2005 onwards and such goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to convertible notes issued by the Company that contain an early redemption option, a liability component and an equity component. Previously, convertible notes were classified as liability on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument to separate the compound financial instrument into liability component and equity component on initial recognition and to account for these components separately. HKAS 39 requires derivative embedded in a non-derivative host contract to be accounted as separate derivative when its economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, the early redemption option derivative and liability component are recognised at fair value. The carrying amount of the equity component is then determined by deducting the fair value of financial liability (including the early redemption option) from the fair value of the compound financial instrument as a whole. Issue costs are apportioned between the components of the convertible notes based on their relative fair value at the date of issue. The portion relating to the derivative is charged directly to profit or loss. In subsequent periods, the liability component is measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid is added to the carrying amount of the liability component. The early redemption option derivative is subsequently measured at fair value at each balance sheet date. Because HKAS 32 requires retrospective application, comparative figures in relation to the separation of the liability component (including the early redemption option) and the equity component have been restated. Comparative profit for 2005 has been restated in order to reflect the increase in effective interest on the liability component (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Classification and measurement of financial assets and financial liabilities *(Cont'd)*

By 31st July, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st August, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st August, 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. Held-to-maturity securities of HK$8,932,000 classified under non-current assets have been reclassified to "loan and receivables" as the certificate of deposit are not quoted in an active market. Trading securities of HK$24,054,000 classified under current assets were reclassified to investments held for trading (see note 3 for financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1st August, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no effect on the Group's profit for both years.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Derivatives and hedging

By 31st July, 2005, the derivatives which represent futures and options held for trading purposes are re-measured to their fair values. Fair values are obtained by reference to quoted market prices or independently sourced rates, using valuation models. The gain or loss arising is recognised in the income statement. Unrealised gains and losses on trading derivatives that are marked to market are included under current assets and current liabilities, respectively.

From 1st August, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise. The adoption of HKAS 39 has had no effect on the Group's profit for both years.

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st August, 2005. In relation to share options granted before 1st August, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st August, 2005. As there were no share options that were granted after 7th November, 2002 and remained unvested on 1st August, 2005, comparative figures for 2005 have not been restated (see note 3 for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st August, 2005 onwards. Accordingly, property interest held for undetermined use/capital appreciation purpose amounted to HK$27,176,000 is reclassified from properties held for sale to investment properties. The adoption of HKAS 40 has had no effect on the Group's profit for both years.

Deferred Taxes related to Investment Properties

In previous years , deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current period, the Group has applied HKAS — INT 21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS — INT 21, this change in accounting policy has been applied retrospectively. The change in accounting policy has no significant impact on the comparative figures of the Group.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting polices described in note 2 on the results of the Group for the current and prior years are as follows:

	Effect of adopting	**2006**	**2005**
		HK$'000	*HK$'000*
Decrease in amortisation of goodwill	HKFRS 3	226	—
Increase in share-based payments expenses	HKFRS 2	(5,961)	—
(Increase) decrease in effective interest on the liability component of convertible notes	HKAS 32	(27)	496
(Decrease) increase in profit for the year		(5,762)	496

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of the new HKFRSs to the Group's and the Company's balance sheet as at 31st July, 2005 and 1st August, 2005 are summarised below:

	As at 31st July, 2005 *(as originally stated)*	*Adjustments*	As at 31st July, 2005 *(as restated)*	*Adjustments*	As at 1st August, 2005 *(as restated)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
Balance sheet items					
Impact of HKAS 32 and HKAS 39					
Investments in securities	32,986	—	32,986	(32,986)	—
Certificate of deposit	—	—	—	8,932	8,932
Investments held for trading	—	—	—	24,054	24,054
Convertible note payables	(3,220)	119	(3,101)	—	(3,101)
Impact of HKAS 40					
Properties held for sale	27,382	—	27,382	(27,176)	206
Investment properties	27,160	—	27,160	27,176	54,336
Total effects on assets and liabilities	84,308	119	84,427	—	84,427
Accumulated losses	(116,722)	517	(116,205)	—	(116,205)
Share premium	52,356	(490)	51,866	—	51,866
Convertible notes equity reserve	—	92	92	—	92
Minority interests	—	1,126	1,126	—	1,126
Total effects on equity	(64,366)	1,245	(63,121)	—	(63,121)
Minority interests	1,126	(1,126)	—	—	—
THE COMPANY					
Balance sheet items					
Impact of HKAS 32 and HKAS 39					
Convertible note payables and total effects on liabilities	(3,220)	119	(3,101)	—	(3,101)
Accumulated losses	(132,866)	517	(132,349)	—	(132,349)
Share premium	52,356	(490)	51,866	—	51,866
Convertible notes equity reserve	—	92	92	—	92
Total effects on equity	(80,510)	119	(80,391)	—	(80,391)

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The financial effects of the application of the new HKFRSs to the Group's and the Company's equity on 1st August, 2004 are summarised below:

	As originally stated	Adjustments	As restated
The Group	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated losses	(122,624)	21	(122,603)
Convertible notes equity reserve	—	166	166
Share premium	19,258	(48)	19,210
Minority interests	—	885	885
Total effects in equity	(103,366)	1,024	(102,342)
Minority interests	885	(885)	—
THE COMPANY			
Accumulated losses	(130,287)	21	(130,266)
Convertible notes equity reserve	—	166	166
Share premium	19,258	(48)	19,210
Total effects in equity	(111,029)	139	(110,890)

The Group has not early adopted the following new standards, amendments or interpretations that have been issued but are not effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group except for HKAS 39 & HKFRS 4 (Amendments) on financial guarantee contracts which require financial guarantees to be initially measured at fair value by the Company. The Company is still not in a position to reasonably estimate the impact that may arise from the financial guarantee contracts under the HKAS 39 and HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS — INT 4	Determining whether an arrangement contains a lease[2]
HKFRS — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 "Financial reporting in hyperinflationary economies"[4]
HK(IFRIC) — INT 8	Scope of HKFRS 2[5]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[6]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[7]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.
5 Effective for annual periods beginning on or after 1st May, 2006.
6 Effective for annual periods beginning on or after 1st June, 2006.
7 Effective for annual periods beginning on or after 1st November, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited (the "Listing Rules") and by the Companies Ordinance.

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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of subsidiaries prior to 1st January, 2005, the Group has discontinued amortisation from 1st August, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

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

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

Property, plant and equipment *(Cont'd)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, certificate of deposit, promissory note receivables, pledged bank deposit and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories set out above. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment loss on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bank borrowings and convertible note payables (the debt component of convertible note) are subsequently measured at amortised cost using the effective interest method.

Convertible notes

The convertible notes issued by the Company contain financial liability, equity and embedded derivative components. The equity component represents the embedded call option for the holder to convert the notes into equity. The embedded derivative component represents the options to redeem the convertible notes prior to their maturity.

(a) Application of HKAS 32 on convertible notes

Upon the application of HKAS 32 by the Group, the convertible notes are classified separately into the respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component is included in equity as equity component of the convertible notes.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised in which case the balance stated in convertible notes equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Convertible notes (Cont'd)

(a) Application of HKAS 32 on convertible notes

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

(b) Application of HKAS 39 on convertible notes

Upon the application of HKAS 39 by the Group, the embedded derivative component is recognised in the financial statements on a prospective basis from 1st August, 2005 at fair value with changes in fair value recognised in profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when they are distinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

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

Financial instruments *(Cont'd)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are classified as financial assets or financial liabilities at fair value through profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Revenue recognition

Revenue are measured at the fair value of the consideration received or receivable.

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.

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

Revenue recognition *(Cont'd)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount.

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 expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 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 income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated 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 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.

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.

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

Taxation *(Cont'd)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is 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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held on share options reserve.

4. 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 expenses as they fall due.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements in the next financial year are disclosed below:

Investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 4. The fair value of the investment properties is determined by Norton Appraisals Limited and Network Real Estate Appraisal Inc., being independent qualified professional valuers, and the fair value of investment properties as at the respective year end was set out in note 14. Such valuations were based on certain assumptions, which were subject to uncertainty. In making the judgment, considerations has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Estimated impairment on available-for-sale investments

Management reviews the recoverability of the Group's available-for-sale investments with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceeds their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments is required, the Group takes into consideration the current market environment and the present value of future cash flow expected to receive. Impairment is recognised based on the higher of estimated future cash flow and estimated market value. If the market environment/circumstances changes significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments, additional impairment loss may be required.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st July, 2006, the carrying amount of goodwill is HK$4,193,000. Details of the recoverable amount calculation are disclosed in note 16.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Income taxes

As at 31st July, 2006, a deferred tax asset of HK$1,516,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, additional deferred tax assets may be recognised or a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the year in which such as reversal takes places.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, investments held for trading, promissory note receivables, trade and other receivables, trade and other payables, bank borrowings and bank balances. Details of these financial instruments are disclosed in the respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain derivative financial instruments of the Group are denominated in foreign currencies such as Japanese yen and United States dollar. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31st July, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid fund is limited because the counterparties are banks with good reputation.

Interest rate risk

The Group's cash flows are subject to changes in market interest rates as the Group has interest-bearing bank borrowings and bank deposits. Bank borrowings at variable rates expose the Group to cash flow interest rate risk. Bank deposits at fixed rates expose the Group to fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure closely and will consider hedging significant interest rate exposure should the need arises.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Price risk

The Group is exposed to equity security price risk through its investment in available-for-sale investments and investments held for trading. Management manages this exposure by maintaining a portfolio of investments with different risk profiles except for the available-for-sale investments.

7. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS

Revenue and business segments

For management purposes, the Group is currently organised into four operating divisions — property rental, financial investment, property sale and estate agency. 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
Property sale	—	sale of properties held for sale
Estate agency	—	provision of estate agency services

Segment information about these businesses is presented below:

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
INCOME STATEMENT						
For the year ended 31st July, 2006						
REVENUE						
External sales	411	402,908	—	5,533	—	408,852
SEGMENT RESULT	(21,448)	72,593	—	288	—	51,433
Unallocated corporate income						1,135
Unallocated corporate expenses						(11,434)
Finance costs						(568)
Profit before taxation						40,566
Taxation						(11,584)
Profit for the year						28,982

7. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Revenue and business segments *(Cont'd)*

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
BALANCE SHEET						
At 31st July, 2006						
ASSETS						
Segment assets	34,731	118,043	206	10,678	—	163,658
Unallocated corporate assets						358,989
Consolidated total assets						522,647
LIABILITIES						
Segment liabilities	9,430	1,223	—	3,162	—	13,815
Unallocated corporate liabilities						18,653
Consolidated total liabilities						32,468

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION						
For the year ended 31st July, 2006						
Capital additions	—	—	—	1,036	18	1,054
Depreciation	—	—	—	536	103	639
Decrease in fair value of investment properties	19,768	—	—	—	—	19,768
Increase in fair value of investments held for trading	—	66,739	—	—	—	66,739

7. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Revenue and business segments *(Cont'd)*

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(as restated)
INCOME STATEMENT						
For the year ended 31st July, 2005						
REVENUE						
External sales	472	10,251	10,050	4,940	—	25,713
SEGMENT RESULT	6,387	1,421	(786)	862	—	7,884
Unallocated corporate income						105
Unallocated corporate expenses						(332)
Finance costs						(808)
Profit before taxation						6,849
Taxation						(210)
Profit for the year						6,639

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(as restated)
BALANCE SHEET						
At 31st July, 2005						
ASSETS						
Segment assets	27,303	36,709	27,382	10,445	—	101,839
Unallocated corporate assets						81,154
Consolidated total assets						182,993
LIABILITIES						
Segment liabilities	5,197	775	2,500	2,608	—	11,080
Unallocated corporate liabilities						11,482
Consolidated total liabilities						22,562

7. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Revenue and business segments *(Cont'd)*

	Property rental	Financial investment	Property sale	Estate agency	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
						(as restated)
OTHER INFORMATION						
For the year ended 31st July, 2005						
Capital additions	—	—	—	124	258	382
Depreciation	—	—	—	79	8	87
Write back of allowance for properties held for sale	—	—	487	—	—	487
Gain on disposal of investment properties	1,383	—	—	—	—	1,383
Allowance for bad and doubtful debts	40	—	—	—	—	40
Amortisation of goodwill arising on acquisition of subsidiaries	—	—	—	226	—	226

Geographical segments

The Group's current operations are mainly located in Hong Kong, Macau and Japan. The Group's property rental businesses are carried out in Hong Kong. Financial investment division, property sale division and estate agency division are all located in Hong Kong.

Segment information about these geographic markets is presented below:

	Revenue by geographical market	
	2006	**2005**
	HK$'000	*HK$'000*
Hong Kong	408,852	25,713

7. REVENUE, BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Revenue and business segments *(Cont'd)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	399,020	155,811	1,054	382
Macau	116,280	—	—	—
Japan	7,298	27,176	—	—
	522,598	182,987	1,054	382

8. FINANCE COSTS

	2006	**2005**
	HK$'000	*HK$'000*
		(as restated)
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	36	23
Convertible notes	44	437
	80	460
Borrowings not wholly repayable within five years:		
Bank borrowings	488	348
	568	808

9. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration	9,673	2,342
Other staff costs	3,451	3,526
Retirement benefit scheme contributions, excluding directors	143	204
Total employee benefit expenses	13,267	6,072
Auditors' remuneration:		
Current year	825	680
Underprovision in prior years	164	49
Allowance for bad and doubtful debts	—	40
Depreciation	639	87
Bank and other interest income	(5,650)	(616)
Dividend income from investments held for trading	(4,822)	—
Interest income on promissory note receivables	—	(93)
Interest income on trading securities	—	(284)
Dividend income from trading securities	—	(205)
Realised loss on trading in options	739	—
Realised (gain) loss from investments held for trading	(921)	1,107

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2005: fourteen) directors are as follows:

2006

	Mr. Chu Nin Yiu, Stephen	Mr. Chu Nin Wai, David	Mr. Lau Chi Kan, Michael	Mr. Leung Kam Fai	Mr. Wong Kwong Fat	Mr. Li Sze Kuen, Billy	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	150	150	150	450
Other emoluments							
— Salaries and other benefits	3,250	—	—	—	—	—	3,250
— Retirement benefit scheme contributions	12	—	—	—	—	—	12
— Share-based payment expense	1,987	1,987	1,987	—	—	—	5,961
	5,249	1,987	1,987	150	150	150	9,673

10. DIRECTORS' EMOLUMENTS *(Cont'd)*

2005

	Mr. Chu Nin Yiu, Stephen	Mr. Choo Yeow Ming	Mr. Chu Nin Wai, David	Mr. Lau Chi Kan, Michael	Mr. Ng Kai Man, Luke	Ms. Ma Wai Man, Catherine	Mr. Chow Hou Man	Mr. Leung Kam Fai	Mr. Wong Kwong Fat	Mr. Li Sze Kuen, Billy	Ms. Ng Yuk Yee, Feona	Mr. Sin Chi Fai	Mr. Mui, Frank H.	Mr. Li Chok Sun, Sean	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	–	500	–	–	–	–	–	–	–	–	25	75	100	–	700
Other emoluments															
– Salaries and other benefits	750	–	–	–	288	396	165	–	–	–	–	–	–	–	1,599
– Retirement benefit scheme contributions	3	–	–	–	12	20	8	–	–	–	–	–	–	–	43
	753	500	–	–	300	416	173	–	–	–	25	75	100	–	2,342

During the years ended 31st July, 2006 and 2005, no directors waived any emoluments.

11. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, one (2005: three) was directors of the Company whose emoluments was included in note 10 above. The emoluments of the remaining four (2005: two) employees were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	1,620	810
Retirement benefit scheme contributions	48	12
	1,668	822

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil).

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

12. TAXATION

	2006	**2005**
	HK$'000	*HK$'000*
The charge comprises:		
Current tax	11,627	199
Deferred tax	(43)	11
	11,584	210

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

12. TAXATION *(Cont'd)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
		(as restated)
Profit before taxation	40,566	6,849
Tax at the Hong Kong Profits Tax rate of 17.5%	7,099	1,199
Tax effect of expenses not deductible for tax purpose	4,888	1,377
Tax effect of income not taxable for tax purpose	(1,658)	(2,872)
Tax effect of tax losses not recognised	1,348	776
Utilisation of tax losses previously not recognised	(93)	(270)
Taxation for the year	11,584	210

13. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
		(as restated)
Earnings:		
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to equity holders of the Company	28,900	6,398
Interest on convertible notes	44	437
Earnings for the purpose of diluted earnings per share	28,944	6,835

	2006	2005
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,112,306,128	200,585,146
Effect of dilutive potential ordinary shares:		
— convertible notes	2,847,922	15,745,198
— warrants	32,211,109	—
— share options	785,089	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,148,150,248	216,330,344

13. EARNINGS PER SHARE *(Cont'd)*

The weighted average number of ordinary shares for the year ended 31st July, 2005 for the purpose of calculating the basic and diluted earnings per share has been adjusted to reflect the effects of share consolidation, rights issue and share subdivision as set out in note 31.

The following table summarises the impact on basic and diluted earnings per share as a result of:

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	2006	**2005**	**2006**	**2005**
	HK cents	*HK cents*	*HK cents*	*HK cents*
Figures before adjustment	3.12	2.94	3.02	2.79
Adjustments arising from changes in accounting policies *(see note 3)*	(0.52)	0.25	(0.50)	0.37
Restated	2.60	3.19	2.52	3.16

14. INVESTMENT PROPERTIES

	THE GROUP	**THE COMPANY**
	HK$'000	*HK$'000*
AT VALUATION/FAIR VALUE		
At 1st August, 2004	19,780	1,480
Disposals	(1,480)	(1,480)
Surplus on revaluation	8,860	—
At 31st July, 2005 — originally stated	27,160	—
Transfer from properties held for sale	27,176	—
At 1st August, 2005 — as restated	54,336	—
Decrease in fair value	(19,768)	—
At 31st July, 2006	34,568	—

14. INVESTMENT PROPERTIES *(Cont'd)*

The carrying value of investment properties shown above comprises:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Investment properties in Hong Kong:		
Long lease	1,800	1,530
Medium-term lease	25,470	25,630
Investment properties outside Hong Kong:		
Freehold land	7,298	—
	34,568	27,160

During the year, several pieces of freehold land with carrying value amounting to HK$27,176,000 situated in Japan were classified from properties held for sale to investment properties due to change in intention on 1st August, 2005.

All of the Group's property interests held under operating leases to earn rentals or for undetermined use/ capital appreciation are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at 31st July, 2006 have been arrived at on the basis of valuation carried out on that date by Norton Appraisals Limited and Network Real Estate Appraisal Inc., independent qualified professional valuers not connected with the Group. Norton Appraisals Limited and Network Real Estate Appraisal Inc. have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to HKIS Valuation Standards on Properties/Japanese Real Estate Appraisal, was arrived at by reference to market evidence of transaction prices for similar properties.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Total *HK$'000*
THE GROUP			
COST			
At 1st August, 2004	376	220	596
Additions	140	242	382
Disposals	(376)	—	(376)
At 31st July, 2005	140	462	602
Additions	808	246	1,054
At 31st July, 2006	948	708	1,656
DEPRECIATION			
At 1st August, 2004	364	128	492
Provided for the year	23	64	87
Eliminated on disposals	(376)	—	(376)
At 31st July, 2005	11	192	203
Provided for the year	418	221	639
At 31st July, 2006	429	413	842
CARRYING VALUES			
At 31st July, 2006	519	295	814
At 31st July, 2005	129	270	399

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum.

Leasehold improvements	Over the term of the relevant lease or $33\frac{1}{3}$%, whichever is shorter
Furniture, fixtures and equipment	20%

16. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1st August, 2004 and 31st July, 2005	4,532
Elimination of accumulated amortisation upon the application of HKFRS 3	(339)
At 31st July, 2006	4,193
AMORTISATION AND IMPAIRMENT	
At 1st August, 2004	113
Provided for the year	226
At 31st July, 2005	339
Elimination of accumulated amortisation upon the application of HKFRS 3	(339)
At 31st July, 2006	—
CARRYING VALUES	
At 31st July, 2006	4,193
At 31st July, 2005	4,193

Until 31st July, 2005, the amortisation period adopted by the Group for goodwill was 20 years.

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to one cash generating unit ("CGU") which is estate agency segment.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the Group covering a ten-year period from the balance sheet date and discount rate of 6%. The cash flows beyond the 5-year period are extrapolated using a zero growth rate. The growth rate is based on the relevant industry growth forecast. A key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and the management's expectations for the market development. According to that calculation, the discounted recoverable amount is higher than the carrying amount of the CGU, including the related goodwill and net asset value. Management determines that there is no impairment of the cash generating unit containing goodwill as at 31st July, 2006.

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries:		
Unlisted shares, at cost, less impairment losses recognised	10	—

The amounts due from subsidiaries are unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, the fair values of the amounts due from subsidiaries at 31st July, 2006 approximate their corresponding carrying amounts.

In the opinion of the directors, the amounts due from subsidiaries at 31st July, 2005 would not be repayable within twelve months from the balance sheet date and therefore shown under non-current assets.

The carrying amount of investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

Details of the Company's principal subsidiaries at 31st July, 2006 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 Directly %	Indirectly %	Principal activities
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 ("Century 21")	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	British Virgin Islands	US$10	—	80	Investment holding
Evergood Management Limited	Hong Kong	HK$2	100	—	Investment holding

17. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Hegel Trading Limited	Hong Kong	HK$2	100	—	Property investment
High Cheong Developments Limited	British Virgin Islands	US$1	100	—	Investment holding
Silver Tower Limited	Hong Kong	HK$2	—	100	Property investment and trading of securities
Top Mount Limited	Hong Kong	HK$2	—	100	Investment holding
Top Universal Management Limited	Hong Kong	HK$2	100	—	Investment holding
Shiny Rising Limited	Hong Kong	HK$1	100	—	Provision of corporate treasury services
Fame Asset Limited	Hong Kong	HK$1	100	—	Provision of corporate management services

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.

18. INVESTMENTS IN SECURITIES

Investments in securities as at 31st July, 2005 are set out below. Upon the application of HKAS 39 on 1st August, 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (see note 3 for details).

	THE GROUP			
	Held-to-maturity securities *HK$'000*	**Trading securities** *HK$'000*	**Other securities** *HK$'000*	**Total** *HK$'000*
Equity securities:				
Listed				
At cost	—	19,754	—	19,754
Unrealised holding gain	—	4,300	—	4,300
	—	24,054	—	24,054
Debt securities:				
Unlisted				
At cost	8,932	—	—	8,932
Total:				
Listed				
Hong Kong	—	24,054	—	24,054
Unlisted				
Hong Kong	8,932	—	—	8,932
	8,932	24,054	—	32,986
Market value of listed securities	—	24,054	—	24,054
Carrying amount analysed for reporting purposes as:				
Non-current	8,932	—	—	8,932
Current	—	24,054	—	24,054
	8,932	24,054	—	32,986

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st July, 2006 comprises:

	The Group
	HK$'000
Unlisted equity securities	116,250

The above unlisted investments represents investments in unlisted equity securities issued by private entities incorporated in Macau. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair values estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

20. PROPERTIES HELD FOR SALE

	THE GROUP		**THE COMPANY**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Properties in Hong Kong	206	206	206	206
Properties in Japan	—	27,176	—	—
	206	27,382	206	206

At 31st July, 2005, included in properties of the Group above are properties in Japan of HK$27,176,000 carried at net realisable value. On 1st August, 2005, the properties in Japan were classified from properties held for sale to investment properties due to change in intention.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP			
	2006		**2005**	
	Assets	Liabilities	Assets	Liabilities
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Futures	283	1,163	—	775
Options	—	—	660	—
	283	1,163	660	775

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

Futures:

The Group has entered futures trading during the year and the major term of the futures are set out below:

	Notional amount	Maturity
At 31st July, 2006		
Japanese Yen futures	Yen 375 million	September 2006
H-Share index futures	HK$69 million	August 2006
At 31st July, 2005		
Japanese Yen futures	Yen 1,250 million	September 2005

Options:

The Group has entered options trading during the year and the major terms of the options are set out below:

	Notional amount	Maturity
At 31st July, 2005	Yen 1,120 million	August 2005

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market price for equivalent instruments at the balance sheet date.

22. TRADE AND OTHER RECEIVABLES

At 31st July, 2006, the balance of trade and other receivables of the Group included trade receivables of HK$2,824,000 (2005: HK$3,043,000). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
0 to 60 days	662	756
61 to 90 days	208	242
91 days or above	1,954	2,045
	2,824	3,043

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

In the opinion of the directors, the fair values of the Group's trade and other receivables and the Company's other receivables at 31st July, 2006 approximate their corresponding carrying amounts.

23. INVESTMENTS HELD FOR TRADING

Investments held for trading of the Group at 31st July, 2006 represents equity securities listed in Hong Kong. The fair values of investments held for trading are determined based on the quoted market bid prices available on the relevant exchange.

24. CERTIFICATE OF DEPOSIT

	THE GROUP
	2006
	HK$'000
Fixed-rate certificate of deposit	**8,996**

The certificate of deposit is unsecured, bears interest at 2.33% per annum and matures within one year. The fair value of the Group's certificate of deposit at the balance sheet date approximates its carrying amount.

25. PROMISSORY NOTE RECEIVABLES

	THE GROUP AND THE COMPANY	
	2006	**2005**
	HK$'000	*HK$'000*
Principal	4,000	10,000

The unquoted promissory note receivables are unsecured, bear interest at 5% per annum and repayable on demand. In the opinion of the directors, the fair value of the amount at 31st July, 2006 approximates its carrying amount.

26. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH

Pledged bank deposit of the Group represents deposit pledged to a bank to secure banking facilities granted to the Group. The deposit carries fixed interest rate ranging from 1.75% to 2.85% per annum. The pledged bank deposit will be released upon the release of relevant banking facilities. The fair value of the Group's pledged bank deposit at 31st July, 2006 approximates its carrying value.

Bank balances and cash of the Group and the Company comprise bank balances and cash held and short-term bank deposits that are interest-bearing at market interest rate and are with maturity of three months or less. The Group's and the Company's bank deposits carry fixed interest rates ranged from 1.25% to 4.33% (2005: 0.12% to 2.90%) per annum and 1.85% to 4.33% (2005: 0.12% to 0.17%) per annum, respectively. The fair values of bank balances at 31st July, 2006 approximate their corresponding carrying values.

27. TRADE AND OTHER PAYABLES

At 31st July, 2006, the balance of trade and other payables of the Group included trade payables of HK$618,000 (2005: HK$1,182,000). An aged analysis of trade payables is as follows:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
0 to 60 days	246	282
61 to 90 days	92	98
91 days or above	280	802
	618	1,182

In the opinion of the directors, the fair values of the Group's trade and other payables and the Company's other payables at 31st July, 2006 approximate their corresponding carrying amounts.

28. BANK BORROWINGS

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Unsecured bank loan	25	—
Secured bank loan	6,798	7,680
	6,823	7,680

Bank borrowings are repayable as follows:

Within one year or upon demand	903	887
More than one year but not exceeding two years	970	939
More than two years but not exceeding three years	1,031	994
More than three years but not exceeding four years	1,107	1,040
More than four years but not exceeding five years	1,189	1,101
More than five years	1,623	2,719
	6,823	7,680
Less: Current portion shown under current liabilities	(903)	(887)
	5,920	6,793

28. BANK BORROWINGS *(Cont'd)*

The secured bank loan carries interest at Hong Kong best lending rate less 1% for both years. It is secured by investment properties held by the Group with carrying value at 31st July, 2006 of HK$24,700,000 (2005: HK$25,000,000).

In the opinion of the directors, the fair values of the Group's bank borrowings estimated by discounting their future cash flows at the prevailing market rate at 31st July, 2006 for similar borrowings approximate their corresponding carrying amounts.

29. AMOUNT DUE TO A SUBSIDIARY

The amount is unsecured, interest free and has no fixed terms of repayment. In the opinion of the directors, the fair value of the amount due to a subsidiary at 31st July, 2006 approximates its carrying amount.

30. CONVERTIBLE NOTE PAYABLES

On 16th October, 2003, the Company issued HK$8,000,000 2% unsecured redeemable convertible notes due 2005 ("Convertible Notes due 2005"). The convertible notes carried interest at 2% per annum and were redeemable on 15th October, 2005. The holders of the convertible notes had 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. The convertible notes were fully converted into ordinary shares of the Company during the year ended 31st July, 2005.

On 7th March, 2005, the Company issued HK$36,400,000 2% unsecured redeemable convertible notes due 2006 at a conversion price of HK$0.028 per share (subject to adjustment) ("Convertible Notes due 2006"). The convertible notes carry interest at 2% per annum, will mature on 7th September, 2006 and are freely transferable. 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 7th March, 2005 to 7th September, 2006. The convertible notes were fully converted into ordinary shares of the Company during the year ended 31st July, 2006.

Upon the application of HKAS 32, the two convertible notes were split between the liability and equity elements, on a retrospective basis (see note 3 for the financial impact). The equity element is presented in equity heading "Convertible notes equity reserve". The effective interest rates of the liability component of Convertible Notes due 2005 and Convertible Notes due 2006 are 6.05% and 5.50% per annum, respectively.

In accordance with HKAS 39, the early redemption element at the option of the noteholders of the convertible notes prior to maturity represents an embedded derivative instrument which is not closely related to the notes and hence, should be accounted for separately. The directors had assessed the fair value of the early redemption right and consider the fair value is insignificant.

30. CONVERTIBLE NOTE PAYABLES *(Cont'd)*

The movement of the liability component of the convertible notes for the year is set out below:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Liability component at 1st August	3,101	2,861
Issue of convertible notes	—	34,589
Conversion during the year	(3,128)	(34,621)
Interest charged	44	299
Interest paid	(17)	(27)
Liability component at 31st July	—	3,101

The principal amount of the convertible notes converted during the current year was HK$3,220,000 (2005: HK$33,180,000).

31. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares		
Authorised:		
At 1st August, 2004 and 31st July, 2005, at HK$0.01 each	12,250,000,000	122,500
Capital reorganisation		
— Share consolidation *(note c (i))*	(12,127,500,000)	—
— Increase during the year *(note c (ii))*	1,877,500,000	1,877,500
	2,000,000,000	2,000,000
— Share subdivision *(note e)*	8,000,000,000	—
At 31st July, 2006, at HK$0.20 each	10,000,000,000	2,000,000
Issued and fully paid:		
At 1st August, 2004, at HK$0.01 each	3,269,398,668	32,694
Conversion of convertible notes *(note a)*	1,335,000,000	13,350
Issue of shares on private placement on 19th January, 2005 *(note b)*	650,000,000	6,500
At 31st July, 2005, at HK$0.01 each	5,254,398,668	52,544
Capital reorganisation		
— Share consolidation *(note c (i))*	(5,201,854,682)	—
— Issue of shares on rights issue *(note c)*	210,175,944	210,176
Conversion of convertible notes *(note d)*	2,211,538	2,211
Capital reorganisation		
— Share subdivision *(note e)*	1,059,725,872	—
Issue of shares on private placement on 30th June, 2006 *(note f)*	264,000,000	52,800
Exercise of warrants *(note g)*	104,930,000	20,986
At 31st July, 2006, at HK$0.20 each	1,693,587,340	338,717

31. SHARE CAPITAL *(Cont'd)*

Notes:

(a) On 30th January 2005, the HK$3,000,000 2% unsecured 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 ranked pari passu with the existing shares in all respects.

In April and June 2005, HK$33,180,000 2% unsecured redeemable convertible notes due 2006 were converted into 1,185,000,000 ordinary shares of HK$0.01 each of the Company at a conversion price of HK$0.028 per share. The new shares ranked pari passu with the existing shares in all aspects.

(b) On 5th January, 2005, arrangement was made for private placement 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 14.52% to the closing market price of HK$0.0310 per share on 30th December, 2005. The net proceeds would be 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 ranked pari passu with other shares in issue in all respects.

(c) Pursuant to a circular dated 12th September, 2005, a prospectus dated 30th September, 2005 and resolutions passed on 29th September, 2005, a capital reorganisation (the "Capital Reorganisation") was approved with effect from 29th September, 2005, which involved:

(i) every 100 issued and unissued shares of HK$0.01 each in the share capital of the Company were consolidated into one new ordinary share of HK$1.00 each (the "Consolidated Share(s)") in the share capital of the Company (the "Share Consolidation"). As at 9th September, 2005, 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 HK$52,544,000 comprising 5,254,398,668 shares were issued and fully paid. On this basis, immediately after the Share Consolidation, the authorised share capital of the Company comprised 52,543,986 issued Consolidated Shares and 69,956,014 unissued Consolidated Shares of HK$1.00 each; and

(ii) immediately after the Share Consolidation, the authorised share capital of the Company was increased to HK$2,000,000,000 divided into 2,000,000,000 Consolidated Shares of HK1.00 each, in which 1,877,500,000 shares were created.

In addition, the Company issued 210,175,944 shares at a subscription price of HK$1.00 each in the capital of the Company, by way of rights issue in the proportion of four rights shares per one existing share to the shareholders ("Rights Shares") whose names appeared on the Company's register at the close of business on 21st September, 2005. The transaction was completed on 20th October, 2005. The net proceeds of approximately HK$206 million will be used as to approximately HK$200 million for investments in the property sector in general, both in Hong Kong and Macau, in order to expand the property portfolio; and as to the balance of approximately HK$6 million as general working capital of the Company. The Rights Shares, credited as fully paid, rank pari pass in all respects with the then existing issued shares. As a result of the rights issue, the total number of shares in issue was 262,719,930.

31. SHARE CAPITAL *(Cont'd)*

Notes: (Cont'd)

(d) In November 2005, the 2% redeemable convertible notes due 2006 with principal amount of HK$3,220,000 were converted into 2,211,538 ordinary shares of HK$1.00 each of the Company at a conversion price of HK$1.456 per share. The new shares rank pari passu with the then existing shares in all respects.

(e) Pursuant to an announcement dated 9th November, 2005 and an ordinary resolution passed on 20th December, 2005, a share subdivision was approved with effect from 21st December, 2005 in which each of the existing issued and unissued shares of HK$1.00 each in the share capital of the Company would be subdivided into five shares of HK$0.20 each (the "Subdivided Shares") (the "Share Subdivision"). As at 25th November, 2005, the authorised share capital of the Company was HK$2,000,000,000 divided into 2,000,000,000 Consolidated Shares, of which 264,931,468 Consolidated Shares were issued and fully paid. On this basis, immediately after the Share Subdivision, the authorised share capital of the Company comprised of 1,324,657,340 issued Subdivided Shares and 8,675,342,660 unissued Subdivided Shares of HK$0.20 each.

(f) On 30th June, 2006, arrangement was made for private placement to independent investors of 264,000,000 new shares of the Company of HK$0.20 each at placing price of HK$0.201 per share, representing a discount of approximately 1.95% to the closing market price of HK$0.205 per share on 30th June, 2006. The net proceeds of approximately HK$51,855,000 will be used as additional general working capital and funding to finance the acquisition of properties, property development or other potential investment as and when opportunities arise. The 264,000,000 new shares were issued under the general mandate granted to the directors at the extraordinary general meeting of the Company held on 16th June, 2006. The new shares ranked pari passu with other shares in issue in all aspects.

(g) On 19th May, 2006, the Company issued 264,930,000 warrants at a price of HK$0.05 per warrant. The exercise price of the warrants is HK$0.20 per share (subject to adjustment), and the warrants can be exercised by warrant holders on or before 18th May, 2007. Total consideration received from the issue of warrants amounted to HK13,247,000 which has been credited to reserves.

On 19th July, 2006, 104,930,000 warrants issued on 19th May, 2006 were converted into 104,930,000 ordinary shares of HK$0.20 each of the Company at a subscription price of HK$0.20 per share. The new shares rank pari passu with the then existing shares in all aspects.

At 31st July, 2006, the Company had outstanding 160,000,000 warrants to be exercised at any time on or before 18th May, 2007. Exercise in full of such warrants would result in the issue of approximately 160,000,000 additional ordinary shares of HK$0.20 each.

Details of the changes in the share capital of the Company after the balance sheet date are disclosed in note 40.

32. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed on 30th December, 2002, the existing share option scheme was adopted (the "Scheme") for the primary purpose of providing incentives to directors, employees and eligible participants. The Scheme will expire on 29th December, 2012.

Under the Scheme, the Board of Directors of the Company (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 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 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 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 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, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 46,500,000 (2005: 6,210,000, after adjusting for the effects of Share Consolidation and Share Subdivision), representing 2.7% of the shares of the Company in issue at that date. Total consideration of HK$3 (2005: Nil) was received by the Company during the year ended 31st July, 2006 on acceptance of the grants. The share options are fully vested upon issue.

The following table discloses movements in such holdings during the year:

Date of grant	**Exercisable period**	**Exercise price**	**Outstanding at 1.8.2005**	**Granted during the year**	**Cancelled during the year**	**Outstanding at 31.7.2006**
		HK$	*(note)*		*(note)*	
20.11.2003	20.11.2003 — 29.12.2012	0.468 *(note)*	2,080,000	—	(2,080,000)	—
17.3.2004	17.3.2004 — 29.12.2012	0.480 *(note)*	4,130,000	—	(4,130,000)	—
17.7.2006	17.7.2006 — 29.12.2012	0.210	—	46,500,000	—	46,500,000
			6,210,000	46,500,000	(6,210,000)	46,500,000

32. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

Date of grant	Exercisable period	Exercise price HK$ *(note)*	Outstanding at 1.8.2004 *(note)*	Granted during the year	Cancelled during the year *(note)*	Outstanding at 31.7.2005
20.11.2003	20.11.2003 — 29.12.2012	0.468	2,080,000	—	—	2,080,000
17.3.2004	17.3.2004 — 29.12.2012	0.480	4,180,000	—	(50,000)	4,130,000
			6,260,000	—	(50,000)	6,210,000

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

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.8.2005 *(note)*	Granted during the year	Cancelled during the year *(note)*	Outstanding at 31.7.2006
20.11.2003	20.11.2003 — 29.12.2012	0.468 *(note)*	1,040,000	—	(1,040,000)	—
17.3.2004	17.3.2004 — 29.12.2012	0.480 *(note)*	3,055,000	—	(3,055,000)	—
17.7.2006	17.7.2006 — 29.12.2012	0.210	—	46,500,000	—	46,500,000
			4,095,000	46,500,000	(4,095,000)	46,500,000

Date of grant	Exercisable period	Exercise price HK$ *(note)*	Outstanding at 1.8.2004 *(note)*	Granted during the year	Cancelled during the year	Outstanding at 31.7.2005
20.11.2003	20.11.2003 — 29.12.2012	0.468	1,040,000	—	—	1,040,000
17.3.2004	17.3.2004 — 29.12.2012	0.480	3,055,000	—	—	3,055,000
			4,095,000	—	—	4,095,000

Note: Exercise prices for the share options and the number of share options granted on 20th November, 2003 and 17th March, 2004 have been adjusted from HK$0.0234 and HK$0.0240, respectively, to HK$0.468 and HK$0.480, respectively, due to the Share Consolidation and Share Subdivision of the ordinary shares of the Company occurred during the year ended 31st July, 2006.

32. SHARE-BASED PAYMENT TRANSACTIONS *(Cont'd)*

Share options granted on 20th November, 2003 and 17th March, 2004 had been cancelled in November 2005 and January 2006 after the relevant directors resigned during the year ended 31st July, 2005.

During the year ended 31st July, 2006, options were granted on 17th July, 2006. The estimated fair value of the options granted on this date is HK$5,961,000. This fair value was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

Weighted average share price	HK$0.198
Exercise price	HK$0.210
Expected volatility	100.0%
Expected life	3.23 years
Risk-free rate	4.6%
Expected dividend yield	0.0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expenses of HK$5,961,000 for the year ended 31st July, 2006 in relation to the share options granted by the Company.

33. SHARE PREMIUM AND RESERVES

	Share premium	Capital reserve	Warrants reserve	Share options reserve	Capital reduction reserve	Capital redemption reserve	Convertible notes equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY									
At 31st July, 2004									
— originally stated	19,258	2,127	—	—	170,583	268	—	(130,287)	61,949
Effect of changes in accounting policies *(see note 3)*	(48)	—	—	—	—	—	166	21	139
At 31st July, 2004 and 1st August, 2004 — as restated	19,210	2,127	—	—	170,583	268	166	(130,266)	62,088
Loss for the year and recognised expenses for the year	—	—	—	—	—	—	—	(2,083)	(2,083)
Recognition of equity component of convertible notes	—	—	—	—	—	—	1,043	—	1,043
Conversion of convertible notes *(note 31a)*	22,388	—	—	—	—	—	(1,117)	—	21,271
Issue of shares on private placement *(note 31b)*	10,725	—	—	—	—	—	—	—	10,725
Expenses incurred in connection with issue of shares	(457)	—	—	—	—	—	—	—	(457)
At 31st July, 2005	51,866	2,127	—	—	170,583	268	92	(132,349)	92,587
Loss for the year and recognised expenses for the year	—	—	—	—	—	—	—	(6,388)	(6,388)
Conversion of convertible notes *(note 31d)*	1,009	—	—	—	—	—	(92)	—	917
Issue of shares on private placement *(note 31f)*	264	—	—	—	—	—	—	—	264
Issue of warrants *(note 31g)*	—	—	13,247	—	—	—	—	—	13,247
Exercise of warrants *(note 31g)*	5,247	—	(5,247)	—	—	—	—	—	—
Expenses incurred in connection with issue of shares	(5,806)	—	—	—	—	—	—	—	(5,806)
Recognition of equity-settled share-based payments *(note 32)*	—	—	—	5,961	—	—	—	—	5,961
At 31st July, 2006	52,580	2,127	8,000	5,961	170,583	268	—	(138,737)	100,782

33. SHARE PREMIUM AND RESERVES *(Cont'd)*

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.

34. 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 *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
THE GROUP			
At 1st August, 2004	1,248	(1,265)	(17)
Charge (credit) to income statement	102	(91)	11
At 31st July, 2005	1,350	(1,356)	(6)
Charge (credit) to income statement	117	(160)	(43)
At 31st July, 2006	1,467	(1,516)	(49)
THE COMPANY			
At 1st August, 2004	56	(56)	—
(Credit) charge to income statement	(56)	56	—
At 31st July, 2005 and 31st July, 2006	—	—	—

At 31st July, 2006, the Group and the Company had unused tax losses of HK$59,402,000 (2005: HK$51,575,000) and HK$14,572,000 (2005: HK$11,323,000), respectively, available to offset against future profits and deductible temporary differences of HK$285,000 (2005: HK$258,000) and HK$11,000 (2005: HK$15,000), respectively, in respect of depreciation. A deferred tax asset of the Group has been recognised in respect of HK$8,663,000 (2005: HK$7,751,000) of such tax losses. At 31st July, 2005, a deferred tax asset of the Company had been recognised in respect of HK$324,000 of such losses. No deferred tax assets of the Group and the Company have been recognised in respect of the remaining unused tax losses of HK$50,739,000 (2005: HK$43,824,000) and HK$14,572,000 (2005: HK$10,999,000), respectively, and the deductible temporary differences due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

35. PLEDGE OF ASSETS

At 31st July, 2006, investment properties of HK$24,700,000 (2005: HK$25,000,000) and bank deposit of HK$614,000 (2005: Nil) of the Group had been pledged to banks to secure credit facilities to the extent of HK$10,600,000 (2005: HK$10,000,000) granted to the Group of which HK$6,798,000 (2005: HK$7,680,000) was utilised by the Group.

36. 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. Since the Defined Contribution Schemes were terminated on 1st December, 2000, forfeited contributions in respect of unvested benefits of employees leaving the Group under the Defined Contribution Schemes cannot be used to reduce ongoing contributions. The Group did not have forfeited contributions for both years.

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, 2006, contributions of the Group under the MPF Scheme amounted to HK$155,000 (2005: HK$247,000).

37. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases for premises during the year was HK$801,000 (2005: HK$446,000).

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	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,101	1,237
In the second to third year inclusive	—	1,066
	1,101	2,303

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 two years.

The Group as lessor

Property rental income earned by the Group during the year was HK$411,000 (2005: HK$472,000) before deduction of outgoings of HK$307,000 (2005: HK$205,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 2% (2005: 2%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of two years.

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	307	203
In the second to third year inclusive	98	84
	405	287

The Company did not have any significant commitments and arrangement either as a lessor or a lessee at the balance sheet date.

38. CONTINGENT LIABILITIES

At 31st July, 2006, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary which were utilised amounting to HK$6,906,000 (2005: HK$8,164,000).

39. RELATED PARTY DISCLOSURES

(a) During the year ended 31st July, 2005, the Group reimbursed HK$2,578,000 for administrative expenses with CSI Investment Limited ("CSI"). Mr. Choo Yeow Ming, Ms. Ma Wai Man, Catherine and Mr. Chow Hou Man, the directors of the Company who resigned as directors during the year ended 31st July, 2005, were also directors of CSI. CSI is a subsidiary of Capital Strategic Investment (BVI) Limited, which was a subsidiary of Capital Strategic Investment Limited ("Capital Strategic"), a listed company of the Stock Exchange and was a former substantial shareholder of the Company. The amounts were negotiated by reference to prevailing market rates. During the year ended 31st July, 2006, there was no related party transaction between the Group and Capital Strategic.

(b) At 31st July, 2005, Capital Strategic had given a corporate guarantee to a bank in respect of banking facilities granted by the bank to Century 21, a wholly owned subsidiary of the Company. The guarantee had been released during the year.

40. POST BALANCE SHEET EVENT

Pursuant to a circular dated 14th August, 2006 and a special resolution passed on 6th September, 2006, an adjustment of the nominal value of ordinary shares of the Company by way of capital reduction ("Capital Reduction") has been approved. The Capital Reduction involved the reduction of the nominal value of each of the issued ordinary share from HK$0.20 to HK$0.01 by cancelling paid up capital to the extent of HK$0.19 on each share, and the crediting of the amount of approximately HK$321,781,000 arising from the Capital Reduction to the share premium account of the Company. Immediately after the Capital Reduction becoming effective, the authorised share capital and the issued share capital of the Company have been changed to HK$100,000,000 and HK$16,936,000, respectively.

3. INDEBTEDNESS

Borrowings and debts

At the close of business on 31 January 2007, 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$6.43 million, comprising (i) secured bank borrowings of HK$6.36 million of which approximately HK$0.93 million are repayable within one year and approximately HK$5.43 million are repayable after one year; (ii) obligations under finance leases of approximately HK$0.02 million of which approximately HK$0.01 million are repayable within one year and approximately HK$0.01 million are repayable after one year, and (iii) secured corporate credit card payables of HK$0.05 million which are repayable within one year.

The bank borrowings of HK$6.36 million at the close of business on 31 January 2007 were secured by the Group's investment properties valued at HK$24.70 million as at 31 July 2006.

The corporate credit card payables of HK$0.05 million at the close of business on 31 January 2007 were secured by a fixed deposit of HK$0.60 million pledged to secure the banking facilities granted by a bank.

Contingent liabilities

At the close of business on 31 January 2007, the Group had no material contingent liabilities.

Litigation

Hegel Trading Limited ("Hegel"), a wholly-owned subsidiary of the Company, was served a writ of summons dated 4 January 2007 from Kanic Property Management Limited for a claim of approximately HK$11.47 million against Hegel, details of which are set out in section 8 headed "Litigation".

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 31 January 2007.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 January 2007 and up to the Latest Practicable Date.

4. 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.

1. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group 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 consolidated net tangible assets of the Group as if the Rights Issue had been completed on 31 July 2006.

The Unaudited Pro Forma Financial Information of the Group 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 Unaudited Pro Forma Financial Information of the Group is prepared based on the audited consolidated net assets of the Group as at 31 July 2006, extracted from the published annual report of the Group as set out in Appendix I to this circular and the adjustments described below.

	Audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 July 2006	**Less: Goodwill**	**Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 July 2006**	**Add: Estimated net proceeds from the Rights Issue**	**Unaudited pro forma consolidated net tangible assets of the Group attributable to equity holders after the Rights Issue**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Based on the subscription price of HK$0.026 per Rights Share assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date	488.961	(4,193)	484,768	215,000(1)	699,768
Based on the subscription price of HK$0.026 per Rights Share assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date	488,961	(4,193)	484,768	243,400(2)	728,168

1. UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP *(Cont'd)*

	Unaudited pro forma consolidated net tangible assets value per Share after the Rights Issue *(HK$)*
Based on the Shares after the Rights Issue assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date	0.069(3)
Based on the Shares after the Rights Issue assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date	0.063(4)

Notes:

1. The estimated net proceeds from the Rights Issue are based on the subscription price of HK$0.026 per Rights Share and 8,467,936,700 Rights Shares (based on 1,693,587,340 Shares in issue on the Record Date) 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$0.026 per Rights Share and 9,584,436,700 Rights Shares (calculated as 8,467,936,700 Rights Shares as referred to Note 1 above plus 1,116,500,000 Rights Shares expected to be issued under the assumption that all outstanding Share Options convertible into 63,300,000 Shares and all outstanding Warrants convertible into 160,000,000 Shares were converted and exercised before the Rights Issue) expected to be issued under the Rights Issue, after deducting the estimated expenses directly attributable to the Rights Issue.

3. Based on the 10,161,524,040 Shares (calculated as 1,693,587,340 Shares in issue on the Record Date plus 8,467,936,700 Rights Shares expected to be issued under the Rights Issue as referred to Note 1 above) in issue after the Rights Issue.

4. Based on the 11,501,324,040 Shares (calculated as 10,161,524,040 Shares as referred to note 3 above plus 1,339,800,000 Shares expected to be issued under the assumption that all outstanding Share Options convertible into 63,300,000 Shares and all outstanding Warrants convertible into 160,000,000 Shares were converted and exercised before the Rights Issue) in issue after the Rights Issue.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP TO THE DIRECTORS OF CAPITAL ESTATE LIMITED

Deloitte.
德勤

We report on the unaudited pro forma statement of consolidated net tangible assets ("Unaudited Pro Forma Financial Information") of Capital Estate Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 102 and 103 of Appendix II to this circular dated 16 February 2007 (the "Circular") in connection with the proposed rights issue on the basis of five rights shares for every existing share held (the "Rights Issue"), which has been prepared by the directors of the Company, for illustrative purpose only, to provide information about how the Rights Issue might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information included in Appendix II to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited 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") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited 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 Unaudited 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 July 2006 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 February 2007

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

(a) Share capital

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

		HK$
Authorised		
10,000,000,000	Shares	100,000,000.00

		HK$
Issued and fully paid or credited as fully paid		
1,693,587,340	Shares as at the Latest Practicable Date	16,935,873.40

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 respects with each other, including, in particular, as to dividends, voting rights and capital, and with all Shares in issue 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 may be settled through CCASS and Shareholders should consult their stockbrokers or other registered dealer of securities, bank managers, solicitors, professional accountants or other professional advisers for details of these settlement arrangements and how such arrangements may affect their rights and interests.

(b) Share Options

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

Grantee	Date of grant	Exercise period	Exercise price	Number of Shares to be allotted and issued upon exercise of the outstanding Share Options
			HK$	
Chu Nin Yiu, Stephen	17 July 2006	17 July 2006 to 29 December 2012	0.21	15,500,000
Chu Nin Wai, David	17 July 2006	17 July 2006 to 29 December 2012	0.21	15,500,000
Lau Chi Kan, Michael	17 July 2006	17 July 2006 to 29 December 2012	0.21	15,500,000
Staff	13 September 2006	13 September 2006 to 29 December 2012	0.15	16,800,000
			Total:	63,300,000

(c) Warrants

Warrants issued by the Company in amounts of subscription rights of HK$0.20 for each warrant entitling the holders thereof to subscribe up to an aggregate amount of HK$52,986,000 for new Shares at an initial subscription price of HK$0.20 per Share subject to adjustment, at any time from the date of issue on 19 May 2006 thereof up to 18 May 2007.

As at the Latest Practicable Date, the Company had outstanding Warrants to subscribe for 160,000,000 Shares at the subscription price of HK$0.20 per Share subject to adjustment.

Save for the Share Options and the Warrants 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 options as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS OF DIRECTORS

As the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Interest in issued Shares

Name of Director	Capacity	Number of issued ordinary Shares (long position)	Percentage of existing issued share capital of the Company
Chu Nin Yiu, Stephen	Interest in controlled corporation *(Note)*	381,396,500	22.52

Note: Mr. Chu Nin Yiu, Stephen is the executive chairman of the Company. The 381,396,500 Shares are beneficially owned by Supervalue Holdings Limited whose interest has been shown in the sub-section headed "Substantial Shareholders" below, which in turn is wholly-owned by Mr. Chu Nin Yiu, Stephen.

Interests in unissued Shares

Name of Director	Nature of Interest	Number of unissued ordinary Shares (long position)	Percentage of the Shares to be issued under the Rights Issue (assuming no outstanding Share Options are exercised or Warrants converted before the Record Date)
Chu Nin Yiu, Stephen	Interest in controlled corporation *(Note)*	1,906,982,500	22.52

Note: The 1,906,928,500 Shares are the Rights Shares which Supervalue Holdings Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Supervalue Holdings Limited is wholly owned by Mr. Chu Nin Yiu, Stephen.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules. Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO).

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 July 2006 (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.

4. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) are, 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 members of the Group as at the Latest Practicable Date:

Interest in issued Shares

Name of substantial Shareholder	Capacity	Number of issued Shares (long position)	Percentage of existing issued share capital of the Company
Supervalue Holdings Limited *(Note)*	Beneficial owner	381,396,500	22.52

Note: The 381,396,500 Shares are beneficially owned by Supervalue Holdings Limited, which in turn is wholly-owned by Mr. Chu Nin Yiu, Stephen.

Interests in unissued Shares

Name of substantial Shareholder	Nature of interest	Number of unissued ordinary Shares (long position)
Supervalue Holdings Limited *(Note 1)*	Beneficial owner	1,906,982,500
Get Nice Holdings Limited *(Note 2)*	Interest in controlled corporation	7,677,454,200
Get Nice Incorporated *(Note 2)*	Interest in controlled corporation	7,677,454,200
Honeylink Agents Limited *(Note 2)*	Interest in controlled corporation	7,677,454,200

Notes:

1. The 1,906,928,500 Shares are the Rights Shares which Supervalue Holdings Limited has undertaken to accept in respect of its pro rata entitlement under the Rights Issue. Supervalue Holdings Limited is wholly-owned by Mr. Chu Nin Yiu, Stephen.

2. The 7,677,454,200 Shares are the Rights Shares which the Underwriter has underwritten in respect of the Rights Issue (assuming all the outstanding Share Options are exercised and all Warrants are converted before the Record Date). The Underwriter is wholly owned by Get Nice Incorporated, which is in turn wholly owned by Get Nice Holdings Limited. Get Nice Holdings Limited is owned as to approximately 30.85% by Honeylink Agents Limited.

Save as disclosed above, the Directors or chief executive of the Company are not aware that there are any other persons (not being a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying Shares 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 any options in respect of such capital.

5. PARTICULARS OF DIRECTORS

Executive Directors

Chu Nin Yiu, Stephen, aged 49, is an executive Director, chairman of the Company. He was appointed to the Board in May 2005. He has over 25 years business and management experience in the electronics industry in Hong Kong, and was a director and shareholder of a company listed overseas principally engaged in the manufacture and distribution of electronic products. During the past 5 years, he has been focusing on property investment and development in Macau. Mr. Stephen Chu was a 1994 Awardee Member of Hong Kong Young Industrialists Council Limited, and a director of Tung Wah Group of Hospitals for the year 2001/02.

Chu Nin Wai, David, aged 52, is an executive Director, deputy chairman of the Company. He was appointed to the Board in May 2005. He has over 20 years' extensive experience in the electronic industry in Hong Kong an overseas, and also has experience in property development and investment. He is the elder brother of the executive chairman of the Company and the substantial shareholder of the Company, Mr. Chu Nin Yiu Stephen.

Lau Chi Kan, Michael, aged 50, graduated from Simon Frasier University, Vancouver, Canada in 1980 with a Bachelor of Arts degree in Economics. Mr. Lau joined the Board in May 2005 and has over 20 years' business and management experience in the clothing industry. He owns and manages a garment merchandising and trading company in Hong Kong and an apparel importing company in the U.S.. Mr. Lau is also the major shareholder of a number of companies in Hong Kong and overseas, which are engaged in garment manufacturing, importing, warehousing, apparel design or merchandising.

Independent Non-executive Directors

Li Sze Kuen, Billy, aged 60, was appointed to the Board in May 2005. He has extensive professional experience in audit and accounting, and is currently a director of a CPA firm in Hong Kong. Mr. Li is a member of the Canadian Institute of Chartered Accountants, and the Hong Kong Institute of Certified Public Accountants. He graduated from the University of Manitoba, Canada, with a Bachelor of Arts degree.

Wong Kwong Fat, aged 51, was appointed to the Board in June 2005. He is a seasoned manager of an insurance broking company in Hong Kong. He is responsible for staff management and training, the provision of individual financial advice to clients and the marketing of a wide range of products including life arid general insurance, package fund and mandatory provident fund. Mr. Wong has over 20 years' specialised knowledge and experience in the insurance industry, and is a Fellow Chartered Financial Practitioner of the Life Underwriter Association of Hong Kong.

Leung Kam Fai, aged 45, was appointed to the Board in June 2005. He is a solicitor of the High Court of Hong Kong. Mr. Leung currently is a partner solicitor in civil and criminal practice with Messrs. Patrick Wong & Co., Solicitors, and has extensive experience in litigation, conveyancing, commercial and probate matters. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree, and was awarded the Sir Man Kam Lo/Jardine Scholarship and Downey Book Prize in 1989. He also holds a Bachelor of Arts degree in Economics & Political Science from the University of Washington in the U.S.A. and a postgraduate certificate in laws from the University of Hong Kong.

6. CORPORATE INFORMATION

Registered office	Unit 1901, 19th Floor Asia Orient Tower Town Place 33 Lockhart Road Wan Chai Hong Kong
Company secretary	Hung Yat Ming CPA, CA
Authorised representatives	Chu Nin Yiu. Stephen Hung Yat Ming Unit 1901, 19th Floor Asia Orient Tower Town Place 33 Lockhart Road Wan Chai Hong Kong
Legal advisers to the Company	Richards Butler 20th Floor Alexandra House 16-20 Chater Road Hong Kong
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor One Pacific Place 88 Queensway Hong Kong

Share registrars and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong
	Wing Hang Bank, Limited 161 Queen's Road Central Hong Kong

7. 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 two years immediately preceding the date of this circular and are of may be material:

(a) an underwriting agreement dated 8 August 2005 entered into between the Company and the Underwriter in relation to the underwriting and certain other arrangements in respect of a rights issue of 210,175,944 rights shares of HK$1.00 each at HK$1.00 per rights share payable in full upon acceptance on the basis of four rights shares for every share held, at an underwriting commission of 1.5% of the aggregate subscription price of the rights shares underwritten by the Underwriter;

(b) an agreement dated 16 December 2005 entered into between Global Master Management Limited as vendor, Top Universal Management Limited (a wholly-owned subsidiary of the Company) as purchaser, and Sio Tak Hong as guarantor in relation to the acquisition of a 10% equity interest in Tin Fok Holding Company Limited which holds 100% interest in Hotel Fortuna for a consideration of HK$60 million;

(c) an agreement dated 3 April 2006 entered into between Grand Chance Consultants Limited as vendor, Evergood Management Limited (a wholly-owned subsidiary of the Company) as purchaser, and Sio Tak Hong as guarantor in relation to the acquisition of a 5% interest in the issued share capital of Sociedade de Investimento Imobiliario Pun Keng Van, SARL for a consideration of HK$56.25 million;

(d) a placing agreement dated 8 May 2006 entered into between the Company and the Underwriter as placing agent in relation to the placing of 264,930,000 Warrants at a price of HK$0.05 per Warrant;

(e) a placing and underwriting agreement dated 30 June 2006 entered into between the Company and the Underwriter as placing agent in relation to the placing of 264,000,000 Shares at a price of HK$0.201 per Share;

(f) a memorandum of understanding dated 19 January 2007 entered into between Tamulus Limited (a wholly-owned subsidiary of the Company) as purchaser and Sio Tak Hong and Si Tit Sang as potential vendors in relation to the possible acquisition of a 45% interest in the issued share capital of Fulvid Investment Company Limited and/or its related shareholders' loan for a consideration of not more than HK$330 million; and

(g) 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.

8. LITIGATION

Hegel Trading Limited ("Hegel"), a wholly-owned subsidiary of the Company, was served a writ of summons dated 4 January 2007 by Kanic Property Management Limited for a claim of approximately HK$11.47 million, being management and air-conditioning charges in arrears and interest thereon from January 2001 to October 2006 in respect of certain investment properties owned by Hegel. A statement of defense has been lodged by Hegel. As at the Latest Practicable Date, the parties were in negotiation for possible settlement of the matter.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and, so far as the Directors were aware, there was no litigation or claims of material importance was known to Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 July 2006, being the date to which the latest published audited accounts of the Group were made up.

10. 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 business of the Group as required to be disclosed pursuant to the Listing Rules.

11. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contracts 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).

12. EXPENSES

The estimated expenses in connection with the Rights Issue, including but not limited to financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK$5.2 million (assuming no outstanding Share Options are exercised and no Warrants are converted before the Record Date) and approximately HK$5.8 million (assuming all outstanding Share Options are exercised and all Warrants are converted before the Record Date) and will be borne by the Company.

13. QUALIFICATIONS OF EXPERTS AND CONSENTS

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

Name	Qualification
Menlo Capital	a corporation licensed to carry out business type in type 6 (advising on corporate finance) regulated activity under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of Menlo Capital and Deloitte Touche Tohmatsu has given and 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.

14. EXPERTS' INTERESTS IN ASSETS

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

(a) was not interested, directly or indirectly in any assets which have been, since 31 July 2006 (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.

15. MISCELLANEOUS

(a) The secretary and qualified accountant of the Company is Mr. Hung Yat Ming, CPA,CA.

(b) The registered office of the Company is at Unit 1901, 19th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wan Chai, Hong Kong.

(c) The 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) In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

16. 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 12 March 2007:

(a) the memorandum of association and articles of association of the Company;

(b) the irrevocable undertaking letter dated 25 January 2007;

(c) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(d) the annual reports of the Company for the two years ended 31 July 2006;

(e) the letter of advice from Menlo Capital, the text of which is set out on pages 29 to 42;

(f) the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Group dated 16 February 2007, the text of which is set out in Appendix II 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.

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 Boardroom 3 & 4, Mezzanine Level, Renaissance Harbour View Hotel, 1 Harbour Road, Wan Chai, Hong Kong on Monday, 12 March 2007 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the authorised share capital of the Company be increased from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each (the "Shares") to HK$2,000,000,000 divided into 200,000,000,000 Shares by the creation of an additional 190,000,000,000 Shares ("Capital Increase"); and

   (b) the directors of the Company be and are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things as they may deem necessary or desirable for or in connection with the completion of the Capital Increase and the matters contemplated thereunder.''

2. "**THAT** conditional on (a) 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 Capital Increase 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 25 January 2007 ("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 8,467,936,700 Shares and not more than 9,584,436,700 Shares ("Rights Shares") pursuant to an offer by way of rights to holders of Shares in the Company at HK$0.026 per Rights Share ("Rights Issue") in the proportion of five Rights Shares for every one Share held by holders of Shares ("Shareholders") whose names appear on the register of members of the Company on 12 March 2007 (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 has 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."

SPECIAL RESOLUTION

3. "**THAT** the addendum (the "Addendum") to the share option scheme of the Company adopted on 30 December 2002 ("Share Option Scheme") containing proposed amendments to paragraph 10 of the Share Option Scheme (a copy of which has been produced to this meeting and marked "C" and initialled by the chairman of the meeting for the purposes of identification) be and are hereby approved and adopted and the directors of the Company be and are hereby authorised to do all such acts and to enter into all such transactions, documents and agreements as may be necessary or expedient in order to give full effect to the Addendum and the Share Option Scheme (as amended by the Addendum)."

By Order of the Board
Chu Nin Yiu, Stephen
Executive Director

Hong Kong, 16 February 2007

Registered office:
Unit 1901, 19th Floor
Asia Orient Tower, Town Place
33 Lockhart Road
Wan Chai
Hong Kong

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 member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority shall be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than forth-eight (48) hours before the time for holding the meeting or adjourned meeting (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after expiration of twelve months from the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve months from such date.

5. Delivery of an instrument appointing a proxy shall not preclude a member form attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. Where there are joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any 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.