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# CAPITAL PROSPER LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1003)

## MAJOR AND CONNECTED TRANSACTION

### SUMMARY

#### The Acquisition

The Board announced that the Purchaser, a wholly-owned subsidiary of the Company, had entered into a Sale and Purchase Agreement with the Vendors on 20 July 2004, pursuant to which the Purchaser agreed to acquire, and the Vendors agreed to sell, the entire issued share capital of GFT, subject to certain conditions.

#### Consideration for the Acquisition

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The Total Consideration is HK\$5 million, which will be satisfied as to HK\$2.5 million in cash and as to the balance of HK\$2.5 million by the issue of the Convertible Notes by the Company to the Vendors.

The consideration has been determined after arm's length negotiations and on commercial terms with reference to the net asset value and business potential and growth prospect of GFT.

#### Profit Guarantee

The Vendors jointly and severally, unconditionally and irrevocably, guaranteed to the Purchaser that the Guaranteed Profit shall not be less than the Total Consideration. In the event that the Guaranteed Profit falls short of the Total Consideration, the Vendors will pay the shortfall in cash to the Purchaser as compensation on or before the 7th Business Day from the issuance of the audited profit and loss accounts of GFT for the financial year ending 30 June 2006.

#### Major and Connected Transaction

Mr. Leung and Mr. Wong are directors and substantial shareholders of both the Company and GFT. The Acquisition constitutes a major transaction and connected transaction for the Company under the Listing Rules.

#### Independent Shareholders' Approval and Independent Financial Adviser

The Acquisition requires the approval of the Independent Shareholders at the SGM at which Mr. Leung, Mr. Wong and their respective Associates will abstain from voting. Any vote of the Independent Shareholders at the SGM shall be taken by poll.

An independent committee of the Board has been established to advise the Independent Shareholders in respect of the terms of the Acquisition. An independent financial adviser will be appointed to advise the independent committee of the Board and the Independent Shareholders.

#### Dispatch of Circular

A circular of the Company containing, amongst other things, details of the Sale and Purchase Agreement, an advice from an independent financial adviser and a recommendation from the independent committee of the Board, together with a notice convening the SGM will be dispatched to the Shareholders as soon as practicable.

#### Suspension and Resumption of Trading

Trading in Shares of the Company was suspended at the request of the Company with effect from 9:30 a.m. on 16 July 2004 pending the release of this announcement. Application has been made to the Stock Exchange for a resumption of trading in the Shares with effect from 9:30 a.m. on 22 July 2004.

### 1. ACQUISITION OF GFT

#### a) The Acquisition

The Purchaser, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement on 20 July 2004, pursuant to which the Purchaser agreed to acquire, and the Vendors agreed to sell, the entire issued share capital of GFT, subject to certain conditions.

#### b) Information on GFT

GFT is a private company incorporated in the British Virgin Islands in April 2003. GFT is an investment holding company. Its subsidiaries are principally engaged in the manufacturing and trading of consumer products such as plastic injection toys, electronic toys, stuffed toys, electronic watches, calculator, giftware, premium and metal die-cast items.

GFT recorded an unaudited consolidated revenue and net loss of approximately HK\$68,150 and HK\$530,000 respectively for the period from 28 April 2003, the incorporation date of GFT, to 30 June 2003. The unaudited consolidated revenue and net loss for the year ended 30 June 2004 are approximately HK\$12,507,970 and HK\$412,529 respectively. Its unaudited consolidated total asset value and consolidated net asset value as at 30 June 2004 are approximately HK\$40.0 million and HK\$4.1 million respectively.

As at the date of this announcement, Mr. Leung and Mr. Wong, both of whom are directors and substantial shareholders of the Company, are directors and substantial shareholders of GFT.

#### c) Consideration

The consideration has been determined after arm's length negotiations and on commercial terms with reference to the net asset value and business potential and growth prospect of GFT. The Total Consideration is HK\$5 million, which will be satisfied in the following manners:

- a) as to HK\$2.5 million to be satisfied by payment of cash; and
- b) as to HK\$2.5 million by the issuance to the Vendors of the Convertible Notes by the Company, the terms of which are summarized below.

The Total Consideration represents 1.2 times of the unaudited consolidated net asset value of GFT as at 30 June 2004. In view of the expected expansion in customer base and production capability of the Group and the business synergy to be realized through the Acquisition, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Company and Shareholders as a whole concerned.

#### d) Terms of the Convertible Notes

- Maturity:** The maturity date of the Convertible Notes is the date falling on the expiry of 18 months from the date of issue of the Convertible Notes.
- Conversion:** The noteholders have the right to convert all or part of the principal amount of the Convertible Notes, representing HK\$250,000 or an integral multiple thereof, into Shares, at HK\$0.05 per Share (subject to adjustment), on any Business Day after 30 days following the date of issue of the Convertible Notes but prior to the maturity of the Convertible Notes.
- Transfer:** No assignment of transfer, in whole or in part, of the Convertible Notes may be made unless with prior written consent of the Company. The Company will disclose to the Stock Exchange any dealing by any of connected persons of the Company from time to time in the Convertible Notes immediately upon the Company becoming aware of such dealings.
- Interest:** The Convertible Notes bear interest at a rate of 3 per cent per annum, payable semi-annually in arrears on 30 June and 31 December in each year.
- Repayment:** The principal amount outstanding under the Convertible Notes shall be repaid in full by the Company to the noteholders on the maturity date of the Convertible Notes.

#### e) Comparison of the conversion price to the market price

The conversion price of the Convertible Notes is HK\$0.05 per Share subject to adjustments in accordance with the terms and conditions of the Convertible Notes. The conversion price was determined with reference to the recent prices of a Share being traded on the Stock Exchange. It represents:

- a discount of approximately 2.0 per cent to the closing price of HK\$0.0510 per Share as quoted on the Stock Exchange on 14 July 2004, being the last day of trading in the Shares prior to the release of this announcement;
- a discount of approximately 3.1 per cent to the average closing price of approximately HK\$0.0516 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 8 July 2004; and

- a discount of approximately 8.3 per cent to the average closing price of approximately HK\$0.0545 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 30 June 2004.

#### f) Information on the Shares to be issued under the Convertible Notes

Upon full conversion of the Convertible Notes, 50,000,000 new Shares, representing approximately 3.8 per cent of the enlarged issued share capital of the Company, will be issued to the noteholders. The Shares to be issued under the Convertible Notes will be issued as fully paid and will rank pari passu in all respects with the Shares of the Company in issue at the date of issue of the Conversion Shares. The Company will make an application to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued upon conversion of the Convertible Notes.

#### g) Shareholdings of the Company

As of the date of this announcement, the Company does not have any outstanding convertible securities. Assuming no Shares will be issued or repurchased after the date of this announcement, the shareholding structure of the Company immediately prior to completion of the Acquisition, after completion of the Acquisition but before conversion of the Convertible Notes, and after conversion of the Convertible Notes will be as follows:

Shareholders	Immediately prior to completion		After completion but before conversion of the Convertible Notes		After completion and upon full conversion of the Convertible Notes	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Mr. Leung note	—	—	—	—	22,500,000	1.69
Mr. Wong note	—	—	—	—	22,500,000	1.69
Charm Management Limited note	301,500,000	23.58	301,500,000	23.58	301,500,000	22.69
Public	977,040,000	76.42	977,040,000	76.42	982,040,000	73.93
Total	1,278,540,000	100.00	1,278,540,000	100.00	1,328,540,000	100.00

Note:

Charm Management Ltd. is a wholly-owned subsidiary of New Spread Investments Ltd. Each of Excel Advance Holdings Ltd., Grand Achieve Group Ltd. and Good Achieve Holdings Ltd. holds one-third of the shareholdings of New Spread Investments Ltd.. As Mr. Leung is beneficially interested in the entire issued share capital of Excel Advance Holdings Ltd. and 50% of the issued share capital of Grand Achieve Group Limited, he is deemed to be interested in 301,500,000 Shares held by Charm Management Ltd. As Mr. Wong is beneficially interested in the entire issued share capital of Good Achieve Holdings Ltd. and 50% of the issued share capital of Grand Achieve Group Limited, he is also deemed to be interested in 301,500,000 Shares held by Charm Management Ltd.

#### h) Profit Guarantee

The Vendors jointly and severally, unconditionally and irrevocably, guaranteed to the Purchaser that the Guaranteed Profit shall not be less than the Total Consideration. In the event that the Guaranteed Profit falls short of the Total Consideration, the Vendors will pay the shortfall in cash to the Purchaser as compensation on or before the 7th Business Day from the issuance of the audited profit and loss accounts of GFT for the financial year ending 30 June 2006.

Further announcement will be made if the Guaranteed Profit falls short of the Total Consideration.

#### i) Conditions Precedent

Completion of the Sale and Purchase Agreement is conditional upon, amongst other things, the fulfillment of the following conditions on or before 30 September 2004 (or such other date as the parties thereof may agree in writing):

- (i) the passing of ordinary resolutions by Independent Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder, the issue of the Convertible Notes and the issue of the Conversion Shares upon the conversion of the Convertible Notes at the SGM;
- (ii) the granting of the listing of and permission to deal in the Conversion Shares by the Listing Committee of the Stock Exchange;
- (iii) if required, the obtaining of approval from the Bermuda Monetary Authority for the issue of the Convertible Notes and the Conversion Shares and the transferability of the Convertible Notes and Conversion Shares; and

- (iv) the obtaining of all necessary approvals from the relevant governmental and regulatory authorities for the transactions contemplated under the Sale and Purchase Agreement.

If any of the above-mentioned conditions is or are not satisfied by 30 September 2004 or such other date as the parties may agree, the Sale and Purchase Agreement will lapse.

**j) Completion**

Completion of the Sale and Purchase Agreement shall take place on the third Business Day after all of the conditions precedent have been fulfilled.

**k) Reasons for the Acquisition**

The Company and its subsidiaries are principally engaged in the trading and distribution of consumer goods such as toys, gifts and premiums, securities trading and other investments while GFT and its subsidiaries are specialized in manufacturing and trading of toys and consumer electronics. The Board believes that the vertical and horizontal integration achieved by the Acquisition will further improve the Group's operating efficiency, competitiveness and profitability.

**l) Implication under the Listing Rules**

*Major and Connected Transaction*

Mr. Leung and Mr. Wong are directors and substantial shareholders of both the Company and GFT. The Acquisition itself exceeds 25% but below 100% of all applicable percentage ratios under Rule 14.07 of the Listing Rules. Accordingly, the Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders, voting by way of poll, at the SGM.

*Abstention from voting*

Each of Mr. Leung and Mr. Wong beneficially owns approximately 23.58 per cent of the issued share capital of the Company. Mr. Leung, Mr. Wong and their respective Associates will abstain from voting on the Acquisition at the SGM.

**2. GENERAL**

As at the date of this announcement, the Board comprises Mr. Leung Wai Ho, Mr. Wong Chung Shun and Mr. Ha Kee Choy, Eugene as executive Directors and Mr. Chui Chi Yun, Robert and Mr. Lam Kwok Cheong as independent non-executive Directors. Please refer to the separate announcement of the Company regarding the change in directorship.

An independent committee of the Board, which comprises Mr. Chui Chi Yun, Robert and Mr. Lam Kwok Cheong, has been established to advise the Independent Shareholders in respect of the terms of the Acquisition and an independent financial adviser will be appointed to advise the independent committee of the Board and the Independent Shareholders in relation to the Acquisition.

A circular of the Company containing, amongst other things, details of the Sale and Purchase Agreement, an advice from an independent financial adviser and a recommendation from the independent committee of the Board together with a notice convening the SGM will be dispatched to the Shareholders as soon as practicable.

Trading in Shares of the Company was suspended at the request of the Company with effect from 9:30 a.m. on 16 July 2004 pending the release of this announcement. Application has been made to the Stock Exchange for a resumption of trading in the Shares with effect from 9:30 a.m. on 22 July 2004.

**3. DEFINITIONS**

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

“Acquisition”	the proposed acquisition by the Purchaser of the entire issued share capital of GFT pursuant to the Sale and Purchase Agreement;
“Associates”	has the meaning given to it by the Listing Rules;
“Board”	the board of Directors;
“Business Day”	a day (excluding Saturday) on which banks are generally open for business in Hong Kong;
“Company”	Capital Prosper Limited, an exempted company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange;
“Conversion Shares”	the Shares to be issued by the Company under the Convertible Notes;
“Convertible Notes”	the convertible notes in the aggregate principal amount of HK\$2.5 million proposed to be issued by the Company to the Vendors pursuant to the Sale and Purchase Agreement;
“Director(s)”	director(s) of the Company;
“GFT”	GFT Holding Limited, a company incorporated in the British Virgin Islands, which is owned as to 45% by Mr. Leung, 45% by Mr. Wong and 10% by I Agent Limited, a person not connected to the Company as defined in the Listing Rules, immediately before the completion of the Acquisition;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the People's Republic of China;
“Independent Shareholders”	Shareholders other than Mr. Leung and Mr. Wong and their respective Associates;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Leung”	Mr. Leung Wai Ho, a director and substantial shareholder of both the Company and GFT;
“Mr. Wong”	Mr. Wong Chung Shun, a director and substantial shareholder of both the Company and GFT;
“Guaranteed Profit”	the aggregate amount of the consolidated profits after taxation and extraordinary items of GFT as shown in the audited consolidated profit and loss accounts of GFT for the two years ending 30 June 2006;
“Purchaser”	Prosper Overseas Limited, a wholly-owned subsidiary of the Company;
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 20 July 2004 entered into between the Purchaser and the Vendors in relation to the Acquisition;
“SGM”	special general meeting of the Company to be held for approving the Acquisition;
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company;
“Shareholders”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Total Consideration”	total consideration for the Acquisition;
“Vendors”	Mr. Leung, Mr. Wong and I Agent Limited, collectively the beneficial owners of the entire issued share capital of GFT immediately before completion of the Acquisition;
“HK\$”	Hong Kong dollar.

By order of the Board  
**CAPITAL PROSPER LIMITED**  
**Leung Wai Ho**  
*Chairman*