

2008-2009

Interim Report



CAPITAL ESTATE LIMITED

冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 193

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Chu Nin Yiu, Stephen (*Executive Chairman*)

Chu Nin Wai, David (*Deputy Chairman*)

Lau Chi Kan, Michael

Independent Non-Executive Directors

Li Sze Kuen, Billy

Wong Kwong Fat

Leung Kam Fai

Company Secretary

Hung Yat Ming

Authorised Representatives

Chu Nin Yiu, Stephen

Hung Yat Ming

Audit Committee

Li Sze Kuen, Billy

Wong Kwong Fat

Leung Kam Fai

Remuneration Committee

Chu Nin Yiu, Stephen

Li Sze Kuen, Billy

Wong Kwong Fat

Leung Kam Fai

Legal Adviser

Richards Butler

Auditor

Deloitte Touche Tohmatsu

Certified Public Accountants, Hong Kong

Principal Banker

The Hongkong and Shanghai Banking
Corporation Limited

Share Registrar 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

Registered Office

17th Floor

Asia Orient Tower, Town Place

33 Lockhart Road

Wan Chai, Hong Kong

Stock Code

193

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**TO THE BOARD OF DIRECTORS OF CAPITAL ESTATE LIMITED**

冠中地產有限公司

Introduction

We have reviewed the interim financial information set out on pages 5 to 26, which comprise the condensed consolidated balance sheet of Capital Estate Limited and its subsidiaries as of 31st January, 2009 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8th April 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st January, 2009

	NOTES	Six months ended 31st January,	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Property rental and hotel operations income	3	7,570	284
Direct cost on property rental and hotel operations		(5,397)	(788)
Gross profit (loss)		2,173	(504)
Other income		1,780	3,571
Other losses	4	(55,218)	(142,146)
(Decrease) increase in fair value of investment properties		(8,040)	5,794
Administrative expenses		(19,677)	(14,965)
Distribution expenses		(150)	—
Share of (loss) profit of associates		(3,392)	1,830
Finance costs		(2,056)	(103)
Impairment loss recognised on available-for-sale investments		(10,040)	—
Impairment loss recognised on properties for development		(64,033)	—
Impairment loss recognised on goodwill		(71,079)	—
Loss before taxation and for the period	6	(229,732)	(146,523)
Attributable to:			
Equity holders of the Company		(229,320)	(146,518)
Minority interests		(412)	(5)
		(229,732)	(146,523)
LOSS PER SHARE	7		
— Basic (HK cents)		(1.726)	(1.239)

CONDENSED CONSOLIDATED BALANCE SHEET

At 31st January, 2009

	NOTES	31st January, 2009 HK\$'000 (unaudited)	31st July, 2008 HK\$'000 (audited)
Non-current Assets			
Investment properties	8	28,610	36,650
Property, plant and equipment	9	465,061	3,017
Prepaid lease payments		13,209	—
Premium on prepaid lease payments		191,624	—
Interests in associates	10	230,332	233,724
Available-for-sale investments	11	59,850	69,890
Convertible bonds	12	40,864	—
Derivative component in convertible bonds	12	1,471	—
Deposit paid for acquisition of subsidiaries	13	—	250,000
		1,031,021	593,281
Current Assets			
Amount due from an associate		45	45
Properties for development	14	237,000	301,033
Inventories		3,146	—
Derivative financial instruments	15	—	208
Trade and other receivables	16	9,878	928
Prepaid lease payments		401	—
Investments held for trading	17	38,293	103,412
Pledged bank deposits		641	641
Restricted bank deposits		1,889	6,227
Bank balances and cash		26,967	39,743
		318,260	452,237
Current Liabilities			
Trade and other payables	18	28,618	4,611
Derivative financial instruments	15	1,578	1,005
Taxation payable		33,408	34,286
Loans from related parties	19	137,136	—
Other borrowings		15,937	—
Obligation under a finance lease — due within one year		102	—
		216,779	39,902
Net current assets		101,481	412,335
Total assets less current liabilities		1,132,502	1,005,616
Non-current Liabilities			
Consideration payable for acquisition of subsidiaries	13	284,464	—
Deferred tax liabilities		71,079	—
Obligation under a finance lease — due after one year		251	—
		355,794	—
		776,708	1,005,616
Capital and Reserves			
Share capital	20	132,869	132,869
Share premium and reserves		640,386	868,982
Equity attributable to equity holders of the Company		773,255	1,001,851
Minority interests		3,453	3,765
		776,708	1,005,616

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st January, 2009

	Attributable to equity holders of the Company											
	Share capital	Share premium	Capital reserve	Share options reserve	Capital reduction reserve	Translation reserve	Capital redemption reserve	Revaluation 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 1st August, 2007 (audited)	107,598	555,251	157	41,543	170,583	—	268	9,200	(2,165)	882,435	—	882,435
Loss for the period and total recognised expense for the period	—	—	—	—	—	—	—	—	(146,518)	(146,518)	(5)	(146,523)
Issue of shares	20,550	223,260	—	—	—	—	—	—	—	243,810	—	243,810
Exercise of share options	4,721	93,744	—	(22,981)	—	—	—	—	—	75,484	—	75,484
Expenses incurred in connection with issue of shares	—	(3,351)	—	—	—	—	—	—	—	(3,351)	—	(3,351)
Recognition of equity-settled share based payments	—	—	—	4,980	—	—	—	—	—	4,980	—	4,980
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	3,771	3,771
Balance at 31st January, 2008 (unaudited)	132,869	868,904	157	23,542	170,583	—	268	9,200	(148,683)	1,056,840	3,766	1,060,606
Loss for the period and total recognised expense for the period	—	—	—	—	—	—	—	—	(54,989)	(54,989)	(1)	(54,990)
Balance at 31st July, 2008 (audited)	132,869	868,904	157	23,542	170,583	—	268	9,200	(203,672)	1,001,851	3,765	1,005,616
Exchange differences arising on translation of foreign operation and expense recognised directly in equity	—	—	—	—	—	(1,226)	—	—	—	(1,226)	—	(1,226)
Loss for the period	—	—	—	—	—	—	—	—	(229,320)	(229,320)	(412)	(229,732)
Total recognised expense for the period	—	—	—	—	—	(1,226)	—	—	(229,320)	(230,546)	(412)	(230,958)
Recognition of equity-settled share based payments	—	—	—	1,950	—	—	—	—	—	1,950	—	1,950
Contribution from minority shareholder	—	—	—	—	—	—	—	—	—	—	100	100
Balance at 31st January, 2009 (unaudited)	132,869	868,904	157	25,492	170,583	(1,226)	268	9,200	(432,992)	773,255	3,453	776,708

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st January, 2009

	NOTE	Six months ended 31st January,	2008
		2009 HK\$'000 (unaudited)	HK\$'000 (unaudited)
Net cash (used in) from operating activities		(1,867)	46,382
Tax paid		(878)	—
		(2,745)	46,382
Net cash used in investing activities:			
Subscription of convertible bonds		(43,780)	—
Purchase of property, plant and equipment		(125)	—
Acquisition of a subsidiary	22	13,398	(75,795)
Decrease (increase) in restricted bank deposits		4,338	(102,733)
Other investing cash flows		946	—
Acquisition of an associate		—	(12,068)
Acquisition of available-for-sale investments		—	(13,640)
Increase in pledged bank deposits		—	(8)
		(25,223)	(204,244)
Net cash (used in) from financing activities:			
Interest paid		(894)	(103)
Proceeds from other borrowings		23,780	—
Repayment of other borrowings		(7,843)	—
Other financing cash flows		91	22
Proceeds from issue of shares		—	165,000
Proceeds from exercise of share options		—	75,484
Repayment of bank loans		—	(5,903)
Expenses incurred in connection with issue of shares		—	(3,351)
		15,134	231,149
Net (decrease) increase in cash and cash equivalents		(12,834)	73,287
Effect of foreign exchange rate change		58	—
Cash and cash equivalents at beginning of the period		39,743	151,464
Cash and cash equivalents at end of the period		26,967	224,751
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		26,967	224,751

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st July, 2008 except as described below.

Revenue recognition

Hotel operation income

Revenue from room rental, food and beverage sales and other ancillary services in the hotel are recognised when the relevant services have been rendered.

Prepaid lease payments

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and amortised over the lease term on a straight line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Convertible bonds**

Convertible bonds that contain both the loans and receivables and conversion option components are classified separately into respective items on initial recognition. 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 are carried at amortised cost using the effective interest method, less any identified impairment losses. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives ⁴
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation ⁵
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) — Int 18	Transfers of Assets from Customers ⁶

¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st July, 2009

⁴ Effective for annual periods ending on or after 30th June, 2009

⁵ Effective for annual periods beginning on or after 1st October, 2008

⁶ Effective for transfers on or after 1st July, 2009

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st August, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business Segments

During the period ended 31st January, 2009, the Group commenced the hotel operation through acquisition of subsidiaries as disclosed in note 22.

For management purposes, the Group is organised into four operating divisions — property rental, financial investment, property development and sale and hotel operations. These divisions are the basis on which the Group reported its primary segment information.

Principal activities are as follows:

Property rental	—	leasing of properties
Financial investment	—	trading of listing securities and derivative financial instruments
Property development and sale	—	sale of properties held for sale and property under development
Hotel operations	—	hotel business and its related services

3. SEGMENT INFORMATION (continued)**Business Segments** (continued)

Segment information about these businesses is presented below:

Six months ended 31st January, 2009

	Property rental	Financial investment	Property development and sale	Hotel operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
GROSS PROCEEDS	283	54,228	—	7,287	61,798
SEGMENT REVENUE	283	—	—	7,287	7,570
SEGMENT RESULT	(8,417)	(53,640)	(64,062)	(3,178)	(129,297)
Unallocated corporate income					11
Unallocated corporate expenses					(94,998)
Share of loss of associates					(3,392)
Finance costs					(2,056)
Loss before taxation and for the period					(229,732)

3. SEGMENT INFORMATION (continued)

Business Segments (continued)

Six months ended 31st January, 2008

	Property rental HK\$'000	Financial investment HK\$'000	Property development and sale HK\$'000	Consolidated HK\$'000
GROSS PROCEEDS	284	905,522	—	905,806
SEGMENT REVENUE	284	—	—	284
SEGMENT RESULT	5,276	(142,949)	(490)	(138,163)
Unallocated corporate income				2,406
Unallocated corporate expenses				(12,493)
Share of profits of associates				1,830
Finance costs				(103)
Loss before taxation and for the period				(146,523)

4. OTHER LOSSES

	Six months ended 31st January,	
	2009 HK\$'000	2008 HK\$'000
Decrease in fair value of investments held for trading	(48,484)	(119,059)
Decrease in fair value of derivative component in convertible bonds	(2,325)	—
Decrease in fair value of derivative financial instruments	(5,212)	(25,568)
Increase in fair value of financial liabilities designated as fair value through profit or loss	—	1,313
Dividend income from investments held for trading	803	1,168
	(55,218)	(142,146)

5. TAXATION

No provision for Hong Kong Profits Tax and tax in PRC subsidiaries have been made for both periods as the Group has no assessable profit for both periods.

6. LOSS BEFORE TAXATION AND FOR THE PERIOD

	Six months ended 31st January,	
	2009	2008
	HK\$'000	HK\$'000
Loss before taxation and for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	3,199	385
Amortisation of prepaid lease payments and premium on prepaid lease payments	513	—
Share-based payment expense	1,950	4,980
Bank interest income	(18)	(2,421)

7. LOSS PER SHARE

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

	Six months ended 31st January,	
	2009	2008
	HK\$'000	HK\$'000
Loss for the period attributable to equity holders of the Company for the purpose of basic loss per share	(229,320)	(146,518)
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic loss per share	13,286,896,896	11,822,629,070

No diluted loss per share had been presented for both periods because the exercise of the share options would result in a decrease in loss per share.

8. INVESTMENT PROPERTIES

All of the Group's property interests in properties held under operating leases to earn rentals 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 January, 2009 have been arrived at on the basis of a valuation carried out on that date by Norton Appraisals Limited, independent professional qualified valuers not connected with the Group. Norton Appraisals Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$466,156,000 (for the six months ended 31st January, 2008: nil), in which, approximately HK\$466,031,000 are resulted from acquisition of subsidiaries as disclosed in note 22.

10. INTERESTS IN ASSOCIATES

	31st January, 2009 HK\$'000	31st July, 2008 HK\$'000
Cost of unlisted investments in associates	241,523	241,523
Share of post-acquisition results, net of dividend	(11,191)	(7,799)
	230,332	233,724

11. AVAILABLE-FOR-SALE INVESTMENTS

	31st January, 2009 HK\$'000	31st July, 2008 HK\$'000
Unlisted equity securities, at cost	69,890	69,890
Impairment loss recognised	(10,040)	—
	59,850	69,890

11. AVAILABLE-FOR-SALE INVESTMENTS (continued)

The available-for-sale investments represent investments in unlisted equity securities issued by private entities incorporated in Macau and United States of America. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

12. CONVERTIBLE BONDS/DERIVATIVE COMPONENT IN CONVERTIBLE BONDS

During the six months ended 31st January, 2009, the Group subscribed convertible bonds with principal amount of HK\$44,000,000 carries interest at 4% per annum payable semi-annually in arrears with maturity on 18th August, 2010 at redemption amount of 100% of the principal amount. The fair value at initial recognition of the receivable component and derivative component which amounting to HK\$39,984,000 and HK\$3,796,000 respectively, are determined based on the valuation provided by Greater China Appraisal Limited, independent professionally qualified valuers not connected with the Group. Subsequent to initial recognition, the receivable component is carried at amortised cost using the effective interest method.

The convertible bonds were recognised as follows:

	Receivable component	Derivative component
	HK\$'000	HK\$'000
At date of subscription	39,984	3,796
Accretion interest	880	—
Fair value loss charged to income statement	—	(2,325)
	<hr/>	<hr/>
At 31st January, 2009	40,864	1,471

12. CONVERTIBLE BONDS/DERIVATIVE COMPONENT IN CONVERTIBLE BONDS (continued)

The methods and assumptions applied for the valuation of the convertible bonds are as follows:

(i) Valuation of receivable component

The fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit rating of the convertible bonds issuer and remaining time to maturity. The effective interest rate of the receivable component as at 31st January, 2009 is 5.02%.

(ii) Valuation of derivative component

Derivative component is measured at fair value using the Binomial Option Pricing model, at initial recognition and at the balance sheet date. The inputs into the model as at date of subscription and at 31st January, 2009, was as follows:

	(Date of subscription)	
	18th August, 2008	31st January, 2009
Stock price	HK\$1.00	HK\$0.65
Conversion price	HK\$1.30	HK\$1.30
Volatility	39.60%	59.34%
Dividend yield	3.75%	5.77%
Option life	2 years	1.55 years
Risk free rate	2.119%	0.498%

13. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES/CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

On 29th February, 2008, the Company entered into an agreement with Mason Creation Limited, Upper Way Holdings Limited and Mr. Siu Ka Kuen (the "Vendors") and Mr. Sio Tak Hong and Mr. Tang Fung (the "Warrantors"), pursuant to which, the Company has conditionally agreed to acquire from the Vendors the entire issued share capital of Hotel Fortuna (Hong Kong) Company Limited ("Hotel Fortuna (Hong Kong)") and all outstanding liabilities owed by Hotel Fortuna (Hong Kong) to each of the Vendors as at completion date of the agreement at an aggregate consideration of approximately HK\$550,000,000 (subject to adjustments).

Hotel Fortuna (Hong Kong) is an investment holding company and its principal asset is its 100% equity interest in 佛山市財神酒店有限公司 Foshan Fortuna Hotel Company Limited, which is established in the PRC and owns a hotel situated at Le Cong Zhen, Shun De District, Foshan, Guangdong Province, the PRC. Details of the acquisition were set out in the announcement of the Company dated 5th March, 2008.

At 31st July, 2008, an aggregate amount of HK\$250,000,000 has been paid to the Vendors as deposit. The acquisition was completed on 31st December, 2008 at an adjusted consideration of approximately HK\$533,982,000. The remaining consideration (after deducting the deposit) of approximately HK\$283,982,000 is repayable to the Vendors on or before 31st December, 2011 and carries interest at the rate of 2% per annum.

As at 31st January, 2009, interest expense of approximately HK\$482,000 has been accrued and included in the consideration payable.

Details of the acquisition are set out in note 22.

14. PROPERTIES FOR DEVELOPMENT

Properties for development represent leasehold land located in the Macau for development for future sale in the ordinary course of business. Cost comprises the costs of land use rights and other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development. Properties for development are stated at lower of cost and net realizable value. No finance cost on development has been capitalised.

15. DERIVATIVE FINANCIAL INSTRUMENTS

		31st January, 2009		31st July, 2008	
		Assets	Liabilities	Assets	Liabilities
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Options	(i)	—	197	—	487
Forward foreign exchange contract	(ii)	—	—	208	—
Decumulator contracts	(iii)	—	1,381	—	90
Knock-out forward contract	(iv)	—	—	—	428
		—	1,578	208	1,005

(i) Options

The major terms of the outstanding option as at 31st January, 2009 are set out below:

Notional amount	Maturity	Strike price HK\$
Sell 800,000 call option on CNOOC Limited	16th April, 2009	7.540

The major terms of the outstanding options as at 31st July, 2008 are set out below:

Notional amount	Maturity	Strike price HK\$
Sell 2,000,000 call option on China Telecom Corporation Limited	13th August, 2008	5.005
Sell 2,000,000 call option and put option on China Telecom Corporation Limited	28th August, 2008	Call at 4.4625 Put at 4.0375

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**(ii) Forward foreign exchange contract**

The major terms of the outstanding forward foreign exchange contract as at 31st July, 2008 are set out below:

Notional amount	Maturity	Forward exchange rates
Sell US\$3,684,055	29th October, 2008	Sell US\$/buy Singapore dollar at US\$1.3752

(iii) Decumulator contracts

The major terms of the outstanding decumulator contracts as at 31st January, 2009 are set out below:

Notional amount	Maturity	Strike price HK\$
3,800,000 shares of China Telecom Corporation Limited	28th October, 2009	HK\$3.1857
650,000 shares of CNOOC Limited	30th April, 2009	HK\$6.9866

The major terms of the outstanding decumulator contract as at 31st July, 2008 are set out below:

Notional amount	Maturity	Strike price HK\$
510,000 shares of Lenovo Group Limited	18th September, 2008	5.3198

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(iv) Knock-out forward contract

The major terms of the outstanding knock-out forward contract as at 31st July, 2008 are set out below:

Notional amount	Maturity	Strike price HK\$
564,000 shares of China Telecom Corporation Limited	19th August, 2008	5.05

The above derivatives are measured at fair value at the balance sheet date. Their fair values except for forward foreign exchange contract are determined based on the valuation provided by Greater China Appraisal Limited, independent professionally qualified valuers not connected with the Group. The fair value of forward foreign exchange contract is determined based on forward rate obtained from banks for equivalent instruments at the balance sheet date. The fair value of options are evaluated by application of Black-Scholes Option Pricing model. The fair value of decumulator contract and knock-out forward contract are evaluated by application of Binominal Option Pricing model.

16. TRADE AND OTHER RECEIVABLES

At 31st January, 2009, the balance of trade and other receivables included trade receivables of HK\$3,352,000 (31st July, 2008: HK\$87,000). An aged analysis of trade receivables at the balance sheet date is as follows:

	31st January, 2009 HK\$'000	31st July, 2008 HK\$'000
0 to 60 days	1,972	29
61 to 90 days	358	11
91 days or above	1,022	47
	3,352	87

17. INVESTMENTS HELD FOR TRADING

Investments held for trading of the Group at 31st January, 2009 and 31st July, 2008 represent equity securities listed in Hong Kong.

18. TRADE AND OTHER PAYABLES

At 31st January, 2009, the balance of trade and other payables included trade payables of HK\$6,356,000 (31st July, 2008: HK\$302,000). An aged analysis of trade payables at the balance sheet date is as follows:

	31st January, 2009 HK\$'000	31st July, 2008 HK\$'000
0 to 60 days	4,550	302
61 to 90 days	575	—
91 days or above	1,231	—
	6,356	302

19. LOANS FROM RELATED PARTIES

During the period, the Group recorded other borrowings from related parties for a sum of HK\$136,456,000 arising from the acquisition of Hotel Fortuna (Hong Kong) and its subsidiaries as disclosed in note 22. The amounts are unsecured and repayable on 31st December, 2009. Except for an amount of HK\$122,961,000 which carries interest at Macau Prime Rate plus 1.5%, the remaining balance is interest-free. The borrowings were obtained by Hotel Fortuna (Hong Kong) and its subsidiaries prior to the acquisition in note 22 for repayment of bank borrowings and finance the daily operation. The amount has been fully repaid after the period end.

20. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares		
Authorised:		
At 1st August, 2008 and 31st January, 2009, at HK\$0.01 each	200,000,000,000	2,000,000
Issued and fully paid:		
At 1st August, 2008 and 31st January, 2009, at HK\$0.01 each	13,286,896,896	132,869

21. SHARE BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at the beginning of the period	430,380,000
Granted during the period	197,000,000
Cancelled during the period	(430,380,000)
Outstanding at the end of the period	197,000,000

In the current period, share options were granted on 19th September, 2008. The closing price of the Company's shares immediately before 19th September, 2008, the date of grant of the options, was HK\$0.03. The fair value of the options determined at the dates of grant using the Binomial Option Pricing Model is approximately HK\$1,950,000.

21. SHARE BASED PAYMENTS (continued)

The following assumptions were used to calculate the fair value of share options:

Grant date	19th September, 2008
Vesting date	19th September, 2008
Grant date share price	HK\$0.0320
Exercise price	HK\$0.0348
Expected life	18 months
Expected volatility	113.656%
Risk-free interest rate	1.573%

The Binomial Option Pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

22. ACQUISITION OF SUBSIDIARIES

During the six months ended 31st January, 2009, the Company acquired the entire issued share capital of Hotel Fortuna (Hong Kong) and its subsidiaries at a consideration of approximately HK\$533,982,000. After the completion of the acquisition, Hotel Fortuna (Hong Kong) has become a wholly owned subsidiary of the Company.

During the six months ended 31st January, 2008, the Company acquired 50% additional equity interest in Sun Fat Investment and Industry Limited ("Sun Fat") at a consideration of HK\$158,300,000. After the completion of the acquisition, Sun Fat has become a 99% owned subsidiary of the Company.

22. ACQUISITION OF SUBSIDIARIES (continued)

The net (liabilities) assets acquired in the transactions are as follows:

	Note	Hotel Fortuna (Hong Kong)'s carrying amount HK\$'000	Provisionable fair value adjustments HK\$'000	Hotel Fortuna (Hong Kong)'s Fair value HK\$'000	Sun Fat 2008 HK\$'000
Net (liabilities) assets acquired:					
Properties for development		—	—	—	297,833
Property, plant and equipment		374,185	91,846	466,031	—
Prepaid lease payments		13,671	—	13,671	—
Premium on prepaid lease payments		—	192,468	192,468	—
Inventory		2,845	—	2,845	—
Trade and other receivables		4,799	—	4,799	—
Amounts due from former shareholders		—	—	—	21,989
Bank balances and cash		13,398	—	13,398	3,695
Trade and other payables		(22,412)	—	(22,412)	(1)
Loans from related parties		(136,456)	—	(136,456)	—
Loans from ex-shareholders		(424,014)	—	(424,014)	—
Deferred tax liabilities		—	(71,079)	(71,079)	—
Obligation under a finance lease		(362)	—	(362)	—
		(174,346)	213,235	38,889	323,516
Minority interests		—	—	—	(3,771)
		(174,346)	213,235	38,889	319,745
Goodwill arising on acquisition				71,079	—
				109,968	319,745
Total consideration satisfied by:					
Cash				250,000	79,490
Consideration payable for acquisition of subsidiaries	13			283,982	—
Shares issued (Note)				—	78,810
				533,982	158,300
Repayment of loans from ex-shareholders				(424,014)	—
Interest in an associate				—	161,445
				109,968	319,745
Net cash outflow arising on acquisition:					
Cash consideration paid				(250,000)	(79,490)
Deposit paid for acquisition of subsidiaries				250,000	—
Bank balances and cash acquired				13,398	3,695
				13,398	(75,795)

22. ACQUISITION OF SUBSIDIARIES (continued)

Note: As part of the consideration for the acquisition of Sun Fat, 555,000,000 ordinary shares of the Company of HK\$0.01 each were issued. The carrying value of the ordinary shares of the Company, determined based on the estimated fair value of the net assets acquired at the date of the acquisition, amounted to HK\$78,810,000. The estimated fair value of the properties held for development is determined after deducting the estimated land premium required for conversion of the land use to residential purposes.

The newly acquired subsidiaries during the periods did not make any significant impact on the Group's result for the both periods. Goodwill of approximately HK\$71,079,000 has been recognised upon the completion of the acquisition of Hotel Fortuna (Hong Kong). The amount has been fully impaired and recognised in the consolidated income statement with reference to the discounted cash flow of the cash generating unit.

23. POST BALANCE SHEET EVENT

On 17th February, 2009, Foshan Fortuna Hotel Company Limited has raised a bank loan of RMB135 million (equivalent to approximately of HK\$152 million) for the purpose of repaying loans from related parties and finance the daily operation. The bank loan is secured by the hotel properties of Foshan Fortuna Hotel Company Limited and repayable by progressive quarterly installments starting from 20th March, 2009 and a final payment of RMB68.2 million (equivalent to approximately of HK\$76.6 million) in the year 2014.

INTERIM DIVIDEND

The Directors do not recommend the payment of any dividends for the six months ended 31st January, 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of the results

The Group reported gross proceeds of approximately HK\$61.8 million for the six months ended 31st January, 2009, which comprised mainly gross proceeds from sales of securities, as compared to HK\$905.8 million for the same period last year.

Net loss attributable to equity holders of the Company for the six months ended 31st January, 2009 was HK\$229.3 million, as compared to the net loss of HK\$146.5 million for the same period last year. The loss mainly comprised the impairment loss on properties for development and goodwill arising from acquisition of a subsidiary amounting to HK\$64.0 million and HK\$71.1 million respectively. Such impairment losses were recognised by the Group on a prudent basis as a result of the recent downturn in the global economy and the uncertainties surrounding the financial and property markets.

Liquidity and financial resources

The Group continued to maintain a liquid position. At 31st January, 2009, the Group had bank balances and cash of HK\$27.0 million (31st July, 2008: HK\$39.7 million), mainly in Hong Kong dollars and Renminbi, and marketable securities totalling HK\$38.3 million (31st July 2008: HK\$103.4 million). Following the completion of the acquisition of Hotel Fortuna (Hong Kong) Company Limited ("Hotel Fortuna (Hong Kong)"), the Group recorded a total borrowing of HK\$437.9 million with HK\$153.2 million repayment falling due within one year (31st July 2008: no borrowings other than corporate credit card payable classified as "other payable"). After the period end, the Group's hotel properties were pledged to a bank to secure a long term bank loan of approximately HK\$152 million to refinance the Group's aforesaid borrowing which would fall due within one year.

The Group's gearing ratio, expressed as a percentage of the Group's total liabilities over the shareholders' fund, was 74.0% at 31st January, 2009 (31st July, 2008: 4.0%).

Exchange rate exposure

The assets and liabilities and transactions of several major subsidiaries of the Group are principally denominated in Renminbi or Hong Kong dollars pegged currencies, which expose the Group to foreign currency risk and such risk has not been hedged. It is the Group's policy to monitor such exposure and to use appropriate hedging measures when required.

Business review

For the six months ended 31st January, 2009, the principal activities of the Group are property investment and development, hotel operation, financial investment and related activities.

The Group hold 99% controlling interests in Sun Fat Investment and Industry Company Limited ("Sun Fat") which principal asset is its 100% ownership in a piece of vacant land located in Coloane, Macau. The piece of land consists of an area of approximately 10,154 square meters with a valuation of HK\$237.0 million before deducting the land premium required for conversion of the land use to residential purpose. The subsidiary is awaiting the approval of the commencement of the development of 48 luxury residential houses and related facilities with a total gross floor area of approximately 19,934 square meters over the site.

Tin Fok Holding Company Limited ("Tin Fok"), the associated company owned as to 32.5% by the Group, continued to operate the 100% owned Hotel Fortuna, Macau. The tightened travel restrictions on mainland Chinese tourists and global financial woes have apparently subdued market sentiment. The hotel, however, continued to maintain a high occupancy rate of approximately 91% and recorded a stable turnover of approximately HK\$184.0 million in 2008 when compared to the turnover of HK\$185.1 million in 2007.

The Group has a 5% interest in Sociedade de Investimento Imboiliário Pun Keng Van, SARL ("Pun Keng Van"), which owns the site at Avenida Commercial de Macau for the development of a 57-storey luxurious residential building on the waterfront at Nam Van Lake. The project has been slowed down due to the current unfavourable property market in Macau. The progress of the development will be monitored closely.

Prospects

On 31st December, 2008, the Company successfully completed its acquisition of the entire equity interest in Hotel Fortuna (Hong Kong).

Hotel Fortuna (Hong Kong) effectively owns and operates a hotel with 408 rooms at Le Cong Zhen, Shun De District, Foshan, the PRC (the "Hotel"). The Hotel was built over a parcel of land of approximately 22,671 square meters, which offers further development potential of approximately 44,861 square meters of permissible gross floor area for residential and commercial uses.

The acquisition of the Hotel, which carries land and building with a valuation of approximately HK\$647.3 million as at 31st December, 2008 and recorded an improved turnover of approximately HK\$87.9 million in 2008 compared to approximately HK\$71.6 million in 2007, has further enriched the Group's portfolio of property interests and is expected to generate stable income in the future.

Looking forward, the global financial market will continue to be volatile. The Directors, however, are overall confident with the medium to long term prospects of the Group in view of its healthy financial position and business operation. Facing the many challenges and opportunities ahead, the Group will cautiously monitor its investments, review its business strategies and position itself for the next growth cycle.

Contingent liability

At 31st January, 2009, the Group had no significant contingent liabilities.

Pledge of assets

At 31st January, 2009, the Group had deposit of HK\$ 641,000 pledged to a bank to secure credit facilities to the extent of HK\$600,000 granted to the Group, of which HK\$24,000 was utilised by the Group.

Employees

The Group offers its employees competitive remuneration packages which commensurate with their experience, performance and job nature.

OTHER INFORMATION

Share options

Pursuant to a resolution passed on 30th December 2002, the existing share option scheme was adopted (the "Scheme").

The following table discloses movements in the Scheme of the Company during the period under review:

	Date of Grant	Exercisable period	Exercise price HK\$	Outstanding at 1.8.2008	Granted during the Period	Exercised during the period	Cancelled during the Period	Outstanding at 31.1.2009
Category 1: Directors								
Chu Nin Yiu, Stephen (note)	19.09.2008	19.09.2008 -18.03.2010	0.0348	—	117,000,000	—	—	117,000,000
Li Sze Kuen, Billy	19.09.2008	19.09.2008 -18.03.2010	0.0348	—	20,000,000	—	—	20,000,000
Wong Kwong Fat	19.09.2008	19.09.2008 -18.03.2010	0.0348	—	20,000,000	—	—	20,000,000
Leung Kam Fai	19.09.2008	19.09.2008 -18.03.2010	0.0348	—	20,000,000	—	—	20,000,000
				—	177,000,000	—	—	177,000,000
Category 2: Employees								
Employees	31.07.2007	31.07.2007 -30.07.2010	0.2550	215,190,000	—	—	(215,190,000)	—
	19.09.2008	19.09.2008 -18.03.2010	0.0348	—	20,000,000	—	—	20,000,000
				215,190,000	20,000,000	—	(215,190,000)	20,000,000
Category 3: Consultant								
Consultant	31.07.2007	31.07.2007 -30.07.2010	0.2550	215,190,000	—	—	(215,190,000)	—
				215,190,000	—	—	(215,190,000)	—
Total all categories				430,380,000	197,000,000	—	(430,380,000)	197,000,000

Note: Mr. Chu Nin Yiu, Stephen is also a substantial shareholder of the Company.

Directors' and chief executive's interests and short positions in shares and underlying shares

At 31st January, 2009, the interests of the directors and chief executive and their associates in the shares, and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section

352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

(a) *Ordinary shares of HK\$0.01 each of the Company*

Name of director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Chu Nin Yiu, Stephen ("Mr. Chu")	Held by controlled corporation (Note)	3,334,474,000	25.1%
Lau Chi Kan, Michael	Beneficial owner	75,000	0.0%

Note: The 3,334,474,000 shares were held by Supervalve Holdings Limited ("Supervalve"), which is in turn wholly owned by Mr. Chu. Mr. Chu is therefore deemed to be interested in 3,334,474,000 shares of the Company.

(b) *Share options*

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Chu	Beneficial owner	117,000,000	117,000,000
Li Sze Kuen, Billy	Beneficial owner	20,000,000	20,000,000
Wong Kwong Fat	Beneficial owner	20,000,000	20,000,000
Leung Kam Fai	Beneficial owner	20,000,000	20,000,000
		<u>177,000,000</u>	<u>177,000,000</u>

Other than as disclosed above, none of the directors, chief executive nor their associates had any interests or short position in any shares and underlying shares of the Company or any of its associated corporations as at 31st January, 2009.

Arrangements to purchase shares or debentures

Other than as disclosed in the section "Share Options"; at no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Substantial shareholders

As at 31st January, 2009, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholder had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long positions

(a) *Ordinary shares of HK\$0.01 each of the Company*

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Supervalve	Beneficial owner	3,334,474,000	25.1%
Mr. Chu	Held by controlled corporation (Note)	3,334,474,000	25.1%

Note: The 3,334,474,000 shares were held by Supervalve, which was in turn wholly owned by Mr. Chu. Mr. Chu is therefore deemed to be interested in 3,334,474,000 shares of the Company.

(b) *Share options*

<u>Name of Shareholder</u>	<u>Capacity</u>	<u>Number of options held</u>	<u>Number of underlying shares</u>
Mr. Chu	Beneficial owner	117,000,000	117,000,000

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st January, 2009.

Audit committee

The Audit Committee has reviewed the unaudited interim accounts for the six months ended 31st January, 2009.

Corporate governance

The Company complied throughout the six months ended 31st January, 2009 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the following deviations:—

1. Under Code A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Chairman of the Board, Mr. Chu Nin Yiu, Stephen, provides overall leadership for the Board and takes the lead to ensure the Board acts in the best interest of the Company. The Company does not have a chief executive officer and the day-to-day management of the Company's business is shared among the executive directors. The Company will endeavour to ensure that there is a clear division of these responsibilities at the board level to maintain a balance of power and authority.

2. Under Code A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The independent non-executive directors of the Company are not appointed for a specific term as they are subject to rotation at annual general meetings in accordance with Article 103(A) of the Company's Articles of Association.

Model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard as set out in the Model Code for the six months ended 31st January, 2009.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 31st January, 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
CAPITAL ESTATE LIMITED
Chu Nin Yiu, Stephen
Executive Chairman

Hong Kong, 8th April, 2009

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