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CAPITAL ESTATE LIMITED 冠中地產有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 193)

INTERIM RESULTS SIX MONTHS ENDED 31ST JANUARY, 2018

The directors of Capital Estate Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st January, 2018 together with the comparative figures for the six months ended 31st January, 2017 were as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31ST JANUARY, 2018

		Six months ended	
	<i>NOTES</i>	31.1.2018 HK\$'000 (unaudited)	31.1.2017 HK\$'000 (unaudited)
Revenue	3	45,175	40,021
Direct operating costs		<u>(26,513)</u>	<u>(25,797)</u>
Gross profit		18,662	14,224
Other gains and losses	4	90,139	61,405
Other income		1,562	1,562
Marketing expenses		(1,127)	(1,125)
Administrative expenses		(25,527)	(25,652)
Other hotel operating expenses		(10,573)	(12,073)
Share of (loss) profit of an associate		(5,959)	3,860
Finance costs	5	<u>(131)</u>	<u>(617)</u>
Profit before taxation		67,046	41,584
Income tax credit	6	<u>561</u>	<u>546</u>
Profit for the period	7	<u>67,607</u>	<u>42,130</u>
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>36,208</u>	<u>(17,193)</u>
Other comprehensive income (expense) for the period		<u>36,208</u>	<u>(17,193)</u>
Total comprehensive income for the period		<u><u>103,815</u></u>	<u><u>24,937</u></u>

	<i>NOTE</i>	Six months ended	
		31.1.2018	31.1.2017
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		68,944	45,478
Non-controlling interests		(1,337)	(3,348)
		<u>67,607</u>	<u>42,130</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		95,944	32,646
Non-controlling interests		7,871	(7,709)
		<u>103,815</u>	<u>24,937</u>
Earnings per share	<i>8</i>		
Basic – <i>HK cents</i>		<u>1.77</u>	<u>1.17</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31ST JANUARY, 2018

	<i>NOTES</i>	31.1.2018 HK\$'000 (unaudited)	31.7.2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		282,362	274,557
Prepaid lease payments		2,342	2,237
Premium on prepaid lease payments		35,909	34,273
Interest in an associate		222,220	228,179
Available-for-sale investments		63,738	63,738
		606,571	602,984
Current assets			
Properties under development		558,506	480,524
Inventories		2,404	2,038
Trade and other receivables	<i>9</i>	12,071	8,670
Amount due from an associate		7,080	4,854
Prepaid lease payments		101	94
Prepaid income tax		7,149	5,171
Investments held for trading		63,452	64,235
Pledged bank deposit		642	642
Bank balances and cash			
– Restricted	<i>10</i>	199,038	160,931
– Others		180,081	142,914
		1,030,524	870,073
Current liabilities			
Trade and other payables	<i>11</i>	36,273	37,955
Deposits from pre-sale of properties		351,322	252,817
Amounts due to related parties		291,810	282,020
Amount due to a director		–	50,000
		679,405	622,792
Net current assets		351,119	247,281
Total assets less current liabilities		957,690	850,265

	31.1.2018 <i>HK\$'000</i> (unaudited)	31.7.2017 <i>HK\$'000</i> (audited)
Non-current liabilities		
Deferred tax liabilities	<u>63,581</u>	<u>59,971</u>
Net assets	<u>894,109</u>	<u>790,294</u>
Capital and reserves		
Share capital	1,518,519	1,518,519
Reserves	<u>(568,569)</u>	<u>(664,513)</u>
Equity attributable to owners of the Company	949,950	854,006
Non-controlling interests	<u>(55,841)</u>	<u>(63,712)</u>
Total equity	<u>894,109</u>	<u>790,294</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as 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 financial information relating to the year ended 31st July, 2017 that is included in the condensed consolidated financial statements for the six months ended 31st January, 2018 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended 31st July, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those consolidated financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st January, 2018 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st July, 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA that are relevant for the preparation for the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements, but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the annual consolidated financial statements for the year ending 31st July, 2018.

3. SEGMENT INFORMATION

The Group's reportable and operating segments, based on information reported to the chief operating decision maker ("CODM"), being the executive directors of the Company, for the purpose of resource allocation and performance assessment are as follows:

Hotel operations	–	hotel business and its related services
Financial investment	–	trading of listed securities and other financial instruments
Property	–	sale of properties held for sale and property for/under development

Information regarding these segments is reported below.

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 31st January, 2018

	Hotel operations HK\$'000	Financial investment HK\$'000	Property HK\$'000	Total HK\$'000
Gross proceeds	<u>45,175</u>	<u>7,230</u>	<u>–</u>	<u>52,405</u>
Segment revenue	<u>45,175</u>	<u>–</u>	<u>–</u>	<u>45,175</u>
Segment (loss) profit	<u>(5,624)</u>	<u>130</u>	<u>89,979</u>	<u>84,485</u>
Unallocated expenses				(11,349)
Share of results of an associate				(5,959)
Finance costs				<u>(131)</u>
Profit before taxation				<u>67,046</u>

Six months ended 31st January, 2017

	Hotel operations <i>HK\$'000</i>	Financial investment <i>HK\$'000</i>	Property <i>HK\$'000</i>	Total <i>HK\$'000</i>
Gross proceeds	<u>40,021</u>	<u>42,493</u>	<u>–</u>	<u>82,514</u>
Segment revenue	<u>40,021</u>	<u>–</u>	<u>–</u>	<u>40,021</u>
Segment (loss) profit	<u>(13,055)</u>	<u>1,325</u>	<u>59,982</u>	48,252
Unallocated income				5
Unallocated expenses				(9,916)
Share of results of an associate				3,860
Finance costs				<u>(617)</u>
Profit before taxation				<u>41,584</u>

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of certain other income, central administration costs, directors' salaries, share of results of an associate and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Other segment information

The following other segment information is included in the measure of segment profit (loss):

For the six months ended 31st January, 2018

	Hotel operations <i>HK\$'000</i>	Financial investment <i>HK\$'000</i>	Property <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Segment total <i>HK\$'000</i>
Depreciation	(9,775)	–	–	(185)	(9,960)
Interest income	324	–	–	–	324
Loss on disposal of property, plant and equipment	<u>(63)</u>	<u>–</u>	<u>–</u>	<u>(65)</u>	<u>(128)</u>

For the six months ended 31st January, 2017

	Hotel operations <i>HK\$'000</i>	Financial investment <i>HK\$'000</i>	Property <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Segment total <i>HK\$'000</i>
Depreciation	(11,301)	–	–	(362)	(11,663)
Interest income	30	–	–	–	30
Interest income from investments held for trading	–	74	–	–	74
Gain on disposal of property, plant and equipment	<u>36</u>	<u>–</u>	<u>–</u>	<u>260</u>	<u>296</u>

4. OTHER GAINS AND LOSSES

	Six months ended	
	31.1.2018	31.1.2017
	HK\$'000	HK\$'000
Dividend income from investments held for trading	–	1,333
Increase in fair value of investments held for trading	139	72
Settlement consideration (<i>note</i>)	90,000	60,000
	<u>90,139</u>	<u>61,405</u>

Note:

The Group had a property development project in Macau (the “Macau Properties”) which has been recorded as property for development. The Group has submitted application and development plan to the relevant Macau government authorities since 2007 and continued to liaise with the government authorities in relation to obtaining approval. The Group did not commence construction activities of the Macau Properties pending government approval on the revised development plan.

On 5th August, 2016, the Company, through Sun Fat Investment and Industry Company Limited (“Sun Fat”), an indirect 99% owned subsidiary of the Company, received a written notification from the Land, Public Works and Transport Bureau of Macau (the “Notification”) informing that, among others, the parcel of land regarding the Macau Properties (the “Macau Land”) shall be returned to the government of Macau upon expiry of the validity period of the land grant with no responsibility or burden and Sun Fat shall not be entitled to any compensation. Sun Fat lodged a judicial appeal in September 2016.

Based on the register of the Properties Registration Bureau of Macau which is publicly available, Sun Fat’s title on the Macau Land was deregistered on 28th July, 2016. Accordingly, the Group derecognised the Macau Properties with a carrying amount of HK\$60,000,000, comprising cost incurred less cumulative impairment loss of HK\$241,233,000, which was recognised in profit or loss during the year ended 31st July, 2016.

On 26th August, 2016, the Group, through two wholly owned subsidiaries, entered into deeds of settlement with Kong Kei Construction Limited (“Kong Kei”), vendor of 99% equity interest of Sun Fat, and a warrantor to Kong Kei (the “Warrantor”). Pursuant to the deeds of settlement, as the Group could not obtain approval from the relevant Macau government authorities in respect of the amendment of the land lease concession of the Macau Land and in light of the Notification, Kong Kei and the Warrantor agreed to repay to the Group an aggregate sum of approximately HK\$298.0 million (the “Settlement Sum”) which was the actual amount paid by the Group to Kong Kei for the acquisition of 99% equity interest of Sun Fat.

Payment schedule of the Settlement Sum is as follows:

	<i>HK\$'000</i>
On or before	
31st December, 2016	60,000
31st December, 2017	120,000
31st December, 2018	118,004
	<u>298,004</u>

Up to 31st January, 2018, the Group received HK\$180 million from Kong Kei, which is recognised in profit or loss in the following accounting periods:

	<i>HK\$'000</i>
Six months ended 31st January, 2017	60,000
Six months ended 31st July, 2017	30,000
	<u>90,000</u>
Year ended 31st July, 2017	90,000
Six months ended 31st January, 2018	90,000
	<u>180,000</u>

Further details of the above are set out in the Company's announcements dated 7th August, 2016, 8th August, 2016 and 26th August, 2016.

5. FINANCE COSTS

	Six months ended	
	31.1.2018	31.1.2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on amount due to a director	<u>131</u>	<u>617</u>

6. INCOME TAX CREDIT

	Six months ended	
	31.1.2018	31.1.2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax credit comprises:		
Deferred taxation	<u>561</u>	<u>546</u>

No provision for Hong Kong Profits Tax and Enterprise Income Tax in the People's Republic of China has been made for both periods as the Company and its subsidiaries either did not generate any assessable profits for the periods or have available tax losses brought forward to offset against any assessable profits generated during the periods.

7. PROFIT FOR THE PERIOD

	Six months ended	
	31.1.2018	31.1.2017
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation included in:		
– other hotel operating expenses	9,775	11,301
– administrative expenses	185	362
Release of prepaid lease payments and premium on prepaid lease payments (included in other hotel operating expenses)	798	772
Bank and other interest income	(324)	(30)
	<u> </u>	<u> </u>

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended	
	31.1.2018	31.1.2017
	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company for the purposes of basic profit per share	<u>68,944</u>	<u>45,478</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic profit per share	<u>3,886,751,193</u>	<u>3,870,664,236</u>

No diluted earnings per share is presented for both interim periods as there are no dilutive potential ordinary shares during both periods.

9. TRADE AND OTHER RECEIVABLES

The hotel revenue is normally settled by cash or credit card. The Group allows an average credit period of 30 days to its trade customers of hotel business. The following is an analysis of trade receivables, presented based on invoice date which approximate revenue recognition date.

	31.1.2018 <i>HK\$'000</i>	31.7.2017 <i>HK\$'000</i>
0 to 30 days	2,958	3,337
31 to 60 days	99	114
61 to 90 days	148	6
91 days or above	168	135
	<hr/> 3,373 <hr/>	<hr/> 3,592 <hr/>

10. RESTRICTED BANK BALANCES

The balance comprises proceeds received from pre-sale of properties of the Group's property project in Mainland China which are deposited into the designated bank account of the Group according to the relevant requirements of the Mainland China local government, net of approved payment for the property project.

11. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables, presented based on invoice date.

	31.1.2018 <i>HK\$'000</i>	31.7.2017 <i>HK\$'000</i>
0 to 30 days	2,842	2,397
31 to 60 days	1,539	1,246
61 to 90 days	1,216	926
91 days or above	984	330
	<hr/> 6,581 <hr/>	<hr/> 4,899 <hr/>

INTERIM DIVIDEND

The directors do not recommend the payment of any dividends for the six months ended 31st January, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE RESULTS

The Group reported revenue of approximately HK\$45.2 million for the six months ended 31st January, 2018, which comprised mainly income from hotel operations, as compared to HK\$40.0 million for the same period last year.

Net profit attributable to owners of the Company for the six months ended 31st January, 2018 was HK\$68.9 million, as compared to HK\$45.5 million for the same period last year.

The profit in the six-month period ended 31st January, 2018 was mainly attributable to HK\$90.0 million (six-month period ended 31st January, 2017: HK\$60.0 million) recognised in profit or loss, being the total amount of instalments received during the period from Kong Kei Construction Limited pursuant to the two deeds of settlement, details of which are set out in the Company's announcements dated 7th August, 2016, 8th August, 2016 and 26th August, 2016.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a liquid position. At 31st January, 2018, the Group had bank balances and cash (including restricted bank balances) of HK\$379.8 million (31st July, 2017: HK\$304.5 million) mainly in Renminbi and Hong Kong dollars and marketable securities totalling HK\$63.5 million (31st July, 2017: HK\$64.2 million).

No bank and other borrowings (other than corporate credit card payable classified as "other payable") were outstanding at 31st January, 2018 (31st July, 2017: Nil).

On 4th August, 2016, the Company entered into a placing agreement with a placing agent to place 185,000,000 new shares on a best effort basis at a placing price of HK\$0.077 per share. The placing was completed on 17th August, 2016 and the number of shares in issue of the Company was increased to 3,886,751,193 shares.

The Group's gearing ratio, expressed as a percentage of the Group's total liabilities over the shareholders' funds was 78.2% at 31st January, 2018 (31st July, 2017: 79.9%).

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, 2018, the principal activities of the Group are property investment and development, hotel operation, financial investment and related activities.

PROPERTY INVESTMENT AND DEVELOPMENT

Foshan, the People's Republic of China ("PRC")

Sales activities of the residential project alongside Hotel Fortuna, Foshan continue and deposits from pre-sales amounting to approximately HK\$351.3 million have been received up to 31st January, 2018. This highrise residential development is expected to contribute significant revenue to the Group in the near future after the completion-based check and acceptance process.

Nam Van Lake, Macau

The Group continues to hold an effective 5% interest in the land site at Avenida Commercial de Macau through an investee company. The validity period of the land grant of the above site at Nam Van Lake has expired. However, the Macau authorities have not published any decree to deregister such land title held by the investee company to date. To the best knowledge of the Group, the application of the development is still being followed up by the Macau authorities.

Coloane, Macau

On 5th August, 2016, the Company, through a 99% owned subsidiary Sun Fat Investment and Industry Company Limited ("Sun Fat"), received a written notification dated 1st August, 2016 from the Land, Public Works and Transport Bureau of Macau (the "Notification") informing that the validity period of the land grant in respect of the parcel of land of approximately 9,553 square meters located in Coloane held through Sun Fat for development (the "Macau Land") has expired and the Macau Land shall be returned to the government of Macau without compensation. Sun Fat lodged a judicial appeal in September, 2016, and continues to seek legal advices as to the possible steps that can be taken.

On 26th August, 2016, the Group, through two wholly owned subsidiaries, entered into deeds of settlement with Kong Kei Construction Limited ("Kong Kei"), vendor of Sun Fat and a warrantor. Pursuant to the deeds of settlement, as the Group could not obtain approval from the relevant Macau government authorities in respect of the application of the land lease concession of the Macau Land and in light of the Notification, Kong Kei and the warrantor agreed to repay to the Group an aggregate sum of approximately HK\$298.0 million which was the actual amount paid by the Group to Kong Kei for the acquisition of 99% equity interest of Sun Fat.

Up to 31st January, 2018, the Group received a total of HK\$180.0 million from Kong Kei, of which HK\$90.0 million is recognised in profit or loss in the current interim period (six-month period ended 31st January, 2017: HK\$60.0 million).

Further details of the above are set out in the Company's announcements dated 7th August, 2016, 8th August, 2016 and 26th August, 2016.

HOTEL OPERATION

The Group has a 75% effective interest in Hotel Fortuna, Foshan with over 400 rooms located at Le Cong Zhen, Shun De District, Foshan, the PRC. During the year ended 31st December, 2017, the hotel had a stable occupancy rate of approximately 54.8% and a turnover of approximately HK\$89.0 million in 2017 compared to HK\$78.6 million in 2016.

The Group also holds a 32.5% interest in Hotel Fortuna, Macau through Tin Fok Holding Company Limited, an associated company of the Group. The hotel maintained a high occupancy rate of approximately 92.1% and recorded a turnover of approximately HK\$235.5 million in 2017 compared to HK\$216.4 million in 2016.

PROSPECTS

During the period, the Group received repayments totalling HK\$90.0 million from Kong Kei, the vendor of Sun Fat and deposits in relation to the pre-sales of the Foshan residential project of approximately HK\$80.9 million.

The Group's financial position is expected to be further enhanced in view of the forthcoming revenue from the sales of the Foshan residential project and further repayment from Kong Kei. The Group will use such extra funding to boost its existing operations and seize viable investment projects.

Facing the challenging economic environment and uncertainties, the Group remains confident of the general prosperity and business potential of the PRC, Macau and nearby regions. The management continues to cautiously monitor its existing businesses, and capture viable business opportunities to maintain sustainable long term growth of the Group.

CONTINGENT LIABILITY

At 31st January, 2018, the Group had no significant contingent liabilities.

PLEDGE OF ASSETS

At 31st January, 2018, bank deposit of HK\$642,000 of the Group was pledged to a bank to secure credit facilities to the extent of HK\$600,000 granted to the Group, none of which was utilized by the Group.

EMPLOYEES

The Group offers its employees competitive remuneration packages to commensurate with their experience, performance and job nature, which include basic salary, bonuses, share options, medical scheme, retirement and other benefits.

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim accounts for the six months ended 31st January, 2018.

CORPORATE GOVERNANCE

The Company complied throughout the six months ended 31st January, 2018 with all applicable provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules except for the following deviation:–

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. The Company will ensure that all directors retire at regular intervals.

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, 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 31st January, 2018, 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
Sio Tak Hong
Chairman

Hong Kong, 23rd March, 2018

As at the date hereof, Mr. Sio Tak Hong, 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.