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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, 2020

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, 2020 together with the comparative figures for the six months ended 31st January, 2019 were as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2020

		Six months ended	
	<i>NOTES</i>	31.1.2020	31.1.2019
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	83,171	301,000
Cost of sales		(31,816)	(179,237)
Direct operating costs		(21,855)	(24,357)
Gross profit		29,500	97,406
Other gains and losses	5	(7,019)	69,185
Other income		16,289	3,517
Marketing expenses		(5,672)	(1,905)
Administrative expenses		(34,999)	(34,379)
Other hotel operating expenses		(6,049)	(6,448)
Share of loss of an associate		(4,337)	(1,764)
(Loss) profit before taxation		(12,287)	125,612
Income tax expense	6	(8,402)	(36,695)
(Loss) profit for the period	7	(20,689)	88,917

		Six months ended	
		31.1.2020	31.1.2019
<i>NOTE</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Other comprehensive (expense) income			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		–	(13,640)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(9,835)</u>	<u>11,585</u>
Other comprehensive expense for the period		<u>(9,835)</u>	<u>(2,055)</u>
Total comprehensive (expense) income for the period		<u>(30,524)</u>	<u>86,862</u>
(Loss) profit for the period attributable to:			
Owners of the Company		<u>(17,906)</u>	81,163
Non-controlling interests		<u>(2,783)</u>	<u>7,754</u>
		<u>(20,689)</u>	<u>88,917</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		<u>(25,217)</u>	76,167
Non-controlling interests		<u>(5,307)</u>	<u>10,695</u>
		<u>(30,524)</u>	<u>86,862</u>
Earnings per share	8		
Basic – <i>HK cents</i>		<u>(9.21)</u>	<u>41.76</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31ST JANUARY, 2020

	<i>NOTES</i>	31.1.2020 HK\$'000 (unaudited)	31.7.2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		234,147	244,730
Right-of-use assets		31,324	–
Prepaid lease payments		–	2,005
Premium on prepaid lease payments		–	30,809
Interest in an associate		216,998	221,335
Financial assets at fair value through other comprehensive income		–	–
Deposit and prepayment for a life insurance policy		11,660	11,675
		494,129	510,554
Current assets			
Properties held for sale		140,297	176,292
Inventories		2,551	2,100
Trade and other receivables	<i>9</i>	14,291	8,057
Amount due from an associate		7,114	5,736
Right-of-use assets		90	–
Prepaid lease payments		–	92
Prepaid income tax		15,684	14,853
Financial assets at fair value through profit or loss	<i>10</i>	242,666	250,955
Pledged bank deposit		643	643
Bank balances and cash		209,939	356,316
		633,275	815,044
Current liabilities			
Trade and other payables	<i>11</i>	37,213	42,014
Contract liabilities		22,696	32,782
Amounts due to related parties		9,975	163,529
Tax payable		76,393	72,458
		146,277	310,783
Net current assets		486,998	504,261
Total assets less current liabilities		981,127	1,014,815

	31.1.2020 <i>HK\$'000</i> (unaudited)	31.7.2019 <i>HK\$'000</i> (audited)
Non-current liability		
Deferred tax liability	<u>30,677</u>	<u>33,841</u>
Net assets	<u>950,450</u>	<u>980,974</u>
Capital and reserves		
Share capital	1,518,519	1,518,519
Reserves	<u>(520,198)</u>	<u>(494,981)</u>
Equity attributable to owners of the Company	998,321	1,023,538
Non-controlling interests	<u>(47,871)</u>	<u>(42,564)</u>
Total equity	<u>950,450</u>	<u>980,974</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements of Capital Estate Limited (the “Company”) have been prepared in accordance with Hong Kong Accounting Standard 34 (“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, 2019 that is included in these condensed consolidated financial statements for the six months ended 31st January, 2020 as comparative information does not constitute the Company’s statutory annual financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31st July, 2019 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 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. SIGNIFICANT EVENT IN THE CURRENT INTERIM PERIOD

In response to the precautionary policies and measures implemented by the local government to deter the spread of novel coronavirus pneumonia outbreak in the People’s Republic of China (the “PRC”), the operation of the Hotel Fortuna, Foshan has been temporarily suspended since late January 2020 and will remain suspended until further notice.

3. 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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st January, 2020 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31st July, 2019.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by HKICPA which are mandatorily effective for the annual period beginning on or after 1st August, 2019 for the preparation for the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (“HKFRS 16”)

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“HKAS 17”), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st August, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1st August, 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1st August, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised right-of-use assets of HK\$32,906,000 at 1st August, 2019. There was no material impact of transition to HKFRS 16 on accumulated losses at 1st August, 2019.

	At 1st August, 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31st July, 2019	2,974
Less: Recognition exemption – short-term leases	(2,826)
Other (<i>note</i>)	(148)
	<hr/>
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of HKFRS 16 as at 1st August, 2019	<hr/> <hr/> –

Note: Relevant lease agreement was terminated early during the period. The directors of the Company considered the impact from early termination of such lease agreement is immaterial to the condensed consolidated financial statements and thus no right-of-use asset was recognised as at 1st August, 2019 in relation to this lease agreement.

The carrying amount of right-of-use assets as at 1st August, 2019 comprises the following:

	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	–
Reclassified from prepaid lease payments and premium on prepaid lease payments (<i>note</i>)	32,906
	<hr/>
	32,906
	<hr/> <hr/>
By class:	
Leasehold lands	32,906
	<hr/> <hr/>

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments and premium on prepaid lease payments as at 31st July, 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments and premium on prepaid lease payments amounting to HK\$2,097,000 and HK\$30,809,000, respectively, were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

4. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue from contracts with customers

	Six months ended	
	31.1.2020 <i>HK\$'000</i>	31.1.2019 <i>HK\$'000</i>
Type of goods or service		
Revenue from hotel operations		
– Room rentals	12,810	16,693
– Food and beverage sales	20,913	24,955
– Rendering of ancillary services	79	161
Revenue from sale of properties held for sale	49,369	259,191
	<u>83,171</u>	<u>301,000</u>
Geographical market		
Mainland China	<u>83,171</u>	<u>301,000</u>
Timing of revenue recognition		
A point in time	70,361	284,307
Overtime	12,810	16,693
	<u>83,171</u>	<u>301,000</u>

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

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, 2020

	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>33,802</u>	<u>70,650</u>	<u>49,369</u>	<u>153,821</u>
Segment revenue	<u>33,802</u>	<u>-</u>	<u>49,369</u>	<u>83,171</u>
Segment (loss) profit	<u>(17,793)</u>	<u>2,965</u>	<u>15,199</u>	371
Unallocated income				4,312
Unallocated expenses				(12,633)
Share of results of an associate				<u>(4,337)</u>
Loss before taxation				<u>(12,287)</u>

Six months ended 31st January, 2019

	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>41,809</u>	<u>24,622</u>	<u>259,191</u>	<u>325,622</u>
Segment revenue	<u>41,809</u>	<u>-</u>	<u>259,191</u>	<u>301,000</u>
Segment (loss) profit	<u>(9,541)</u>	<u>(10,029)</u>	<u>157,531</u>	137,961
Unallocated income				847
Unallocated expenses				(11,432)
Share of results of an associate				<u>(1,764)</u>
Profit before taxation				<u>125,612</u>

Segment (loss) profit represents the (loss incurred) profit earned by each segment without allocation of certain other income, central administration costs, directors' salaries and share of results of an associate. 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 (loss) profit:

For the six months ended 31st January, 2020

	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	(5,336)	–	–	(122)	(5,458)
Interest income from financial assets at fair value through profit or loss (“FVTPL”)	–	10,100	–	–	10,100
Bank and other interest income	804	–	–	1,443	2,247
(Loss) gain on disposal of property, plant and equipment	(6)	–	–	25	19

For the six months ended 31st January, 2019

	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	(5,696)	–	–	(146)	(5,842)
Interest income from financial assets at FVTPL	–	1,351	–	–	1,351
Bank and other interest income	73	–	–	842	915
Gain on disposal of property, plant and equipment	–	–	–	180	180

5. OTHER GAINS AND LOSSES

	Six months ended	
	31.1.2020	31.1.2019
	HK\$'000	HK\$'000
Decrease in fair value of financial assets at FVTPL	(7,019)	(10,815)
Settlement consideration (note)	–	80,000
	<u>(7,019)</u>	<u>69,185</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.

During the six months ended 31st January, 2019, HK\$80,000,000 of the Settlement Sum was received by the Group which was recognised in profit or loss in the period. Up to 31st July, 2019, the Group has received the full Settlement Sum from Kong Kei.

Further details are set out in the Company’s announcements dated 7th August, 2016, 8th August, 2016, 26th August, 2016, 29th January, 2019 and 18th March, 2019.

6. INCOME TAX EXPENSE

	Six months ended	
	31.1.2020	31.1.2019
	HK\$'000	HK\$'000
Tax expense comprises:		
Current tax		
PRC enterprise income tax	(5,111)	(20,620)
PRC land appreciation tax	(5,653)	(26,750)
	<u>(10,764)</u>	<u>(47,370)</u>
Deferred taxation	2,362	10,675
	<u>(8,402)</u>	<u>(36,695)</u>

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries did not generate any assessable profits for the periods or have available tax losses brought forward from prior years to offset against assessable profits for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the PRC is 25%.

The provision for PRC land appreciation tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations which is charged at progressive rates ranging from 30% to 60% of the appreciation value, with certain allowable deductions.

Taxation arising in another jurisdiction is calculated at the rates prevailing in that jurisdiction.

7. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	31.1.2020	31.1.2019
	HK\$'000	HK\$'000
(Loss) profit for the period has been arrived at after charging (crediting):		
Depreciation included in:		
– other hotel operating expenses	5,336	5,696
– administrative expenses	122	146
Depreciation of right-of-use assets (included in other hotel operating expenses)	713	–
Release of prepaid lease payments and premium on prepaid lease payments (included in other hotel operating expenses)	–	752
Bank and other interest income	(2,247)	(915)
Interest income from financial assets at FVTPL	(10,100)	(1,351)
Investment income from financial assets at fair value through other comprehensive income	<u>(2,683)</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	
	31.1.2020	31.1.2019
	HK\$'000	HK\$'000
(Loss) profit for the period attributable to owners of the Company for the purposes of basic profit per share	<u>(17,906)</u>	<u>81,163</u>
	Number of shares	Number of shares
Number of ordinary shares for the purposes of basic earnings per share	<u>194,337,559</u>	<u>194,337,559</u>

The number of ordinary shares for the purpose of basic earnings per share for prior period has been adjusted for the share consolidation which became effective on 13th March, 2019.

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.

	31.1.2020	31.7.2019
	HK\$'000	HK\$'000
0 to 30 days	1,380	1,431
31 to 60 days	130	21
61 to 90 days	449	39
91 days or above	<u>277</u>	<u>248</u>
	<u>2,236</u>	<u>1,739</u>

As part of the Group's credit risk management, the Group uses debtors' past due status to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure that relevant information about specific debtors is updated.

During the six months ended 31st January, 2020, no impairment allowance (six months ended 31st January, 2019: nil) was recognised for trade receivables based on the provision matrix.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.1.2020	31.7.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities in Hong Kong	28,201	33,424
Listed debt securities in Hong Kong	80,066	63,427
Listed debt securities overseas	134,399	154,104
	<hr/> 242,666 <hr/>	<hr/> 250,955 <hr/>

The fair values of the above investments were determined based on the quoted market bid prices at the close of business at the end of the reporting period.

11. TRADE AND OTHER PAYABLES

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

	31.1.2020	31.7.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	2,442	2,175
31 to 60 days	1,619	761
61 to 90 days	292	381
91 days or above	190	156
	<hr/> 4,543 <hr/>	<hr/> 3,473 <hr/>

INTERIM DIVIDEND

The directors do not recommend the payment of any dividends for the six months ended 31st January, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE RESULTS

The Group reported revenue of HK\$83.2 million for the six months ended 31st January, 2020, which comprised mainly income from sale of properties of HK\$49.4 million and hotel operations of HK\$33.8 million, as compared to HK\$301.0 million for the same period last year which comprised mainly income from sale of properties of HK\$259.2 million and hotel operations of HK\$41.8 million.

Net loss attributable to owners of the Company for the six months ended 31st January, 2020 was HK\$17.9 million, as compared to net profit of HK\$81.2 million for the same period last year.

The loss in the six-month period ended 31st January, 2020 was mainly result from the slow down of sale of properties and decline in hotel revenue due to the economic environment and redundant provision of HK\$9.5 million in relation to Hotel Fortuna, Foshan. The profit in the six-month period ended 31st January, 2019 was mainly attributable to HK\$80.0 million recognised in profit or loss, being the total amount of instalments received during the period from Kong Kei Construction Limited (“Kong Kei”) 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, 26th August, 2016, 29th January, 2019 and 18th March, 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a liquid position. At 31st January, 2020, the Group had bank balances and cash of HK\$210.6 million (31st July, 2019: HK\$357.0 million) mainly in Hong Kong dollars and Renminbi and marketable securities totalling HK\$242.7 million (31st July, 2019: HK\$251.0 million).

No bank and other borrowings (other than corporate credit card payable classified as “other payable”) were outstanding at 31st January, 2020 (31st July, 2019: Nil).

The Group’s gearing ratio, expressed as a percentage of the Group’s total liabilities over the shareholders’ funds was 17.7% at 31st January, 2019 (31st July, 2019: 33.7%).

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, 2020, the principal activities of the Group are property development, hotel operation, financial investment and related activities.

PROPERTY INVESTMENT AND DEVELOPMENT

Sales activities of the residential project alongside Hotel Fortuna, Foshan, the People's Republic of China ("PRC") continue and revenue from sales of property amounting to HK\$49.4 million has been recognised for the six months ended 31st January, 2020 (six months ended 31st January, 2019: HK\$259.2 million). The sale has been slowed down during the period due to the external economic environment and approximately 25.4% of saleable floor area remained unsold as at 31st January, 2020 which mainly attributable to approximately 220 car park space. At 31st January, 2020, deposits for units pending hand over of approximately HK\$21.1 million (31st July, 2019: HK\$31.4 million) was recorded and contribution from this high-rise residential development to the Group's revenue is expected to continue in the near term.

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, 2019, the hotel's occupancy rate dropped slightly to approximately 46.08% and recorded a turnover of approximately HK\$65.3 million in 2019 compared to approximately HK\$80.3 million in 2018. In response to the precautionary policies and measures implemented by the local government to deter the spread of novel coronavirus pneumonia (COVID-19) pandemic in the PRC (the "Pandemic"), the operation of the hotel has been temporarily suspended since late January, 2020 and will remain suspended until further notice. In view of the uncertainty of the length of the suspension, only a minimal number of staff will be kept in order to maintain the hotel properties while a total of approximately 250 employees, representing approximately 90% of the hotel's staff, will be made redundant progressively to reduce unpromising cash outflow. They will be fully compensated in accordance with local employment laws and regulations. Redundant provision of HK\$9.5 million has been made and included in trade and other payables as at the reporting period end.

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\$230.9 million in 2019 compared to approximately HK\$243.2 million in 2018.

FINANCIAL INVESTMENTS

The Group continues its securities investment as one of its principal activities and in the ordinary and usual course of business. Its strategy is to maintain a diversified portfolio of marketable securities for effective treasury and risk management. The Group will continue to invest its surplus funds in listed securities with attractive return and satisfactory rating, including debt securities. The investment portfolio, under close monitoring by the management, is expected to generate stable income and can be liquidated swiftly to support the Group's operations and cash requirements when needed.

As at 31st January, 2020, the Group's investment portfolio of financial assets at fair value through profit and loss consisted of listed equity securities of HK\$28.2 million (31st July, 2019: HK\$33.4 million) and listed debt securities of HK\$214.5 million (31st July, 2019: 217.5 million).

Listed equity securities of HK\$28.2 million (31st July, 2019: HK\$33.4 million), which consist entirely of shares in BOCOM International Holdings Company Limited (stock code: 3329), recorded an unrealised loss from fair value changes of HK\$5.2 million during the period (six-month period ended 31st January, 2019: HK\$9.9 million). Further details of the investment are set out in the Company's announcements dated 5th May, 2017 and 18th May, 2017.

As at 31st January, 2020, the Group had 26 listed debt securities (31st July, 2019: 28) representing approximately 88.4% (31st July, 2019: 86.7%) of the investment portfolio. The mark to market valuation of the largest single debt security within the portfolio represents approximately 1.7% (31st July, 2019: 1.3%) of the Group's total assets, and that of the five largest debt securities held represents approximately 6.2% (31st July, 2019: 4.8%). The remaining 21 (31st July, 2019: 23) debt securities represent 12.8% (31st July, 2019: 11.7%) of the Group's total assets, each ranging from 0.1% to 1.0% (31st July, 2019: 0.1% to 0.8%). Approximately 98.1% (31st July, 2019: 95.3%) of these debt securities are related to PRC-based real estate companies.

During the period, the debts portfolio gave rise to a net unrealised fair value loss of HK\$1.4 million (six-month period ended 31st January, 2019: fair value gain of HK\$0.2 million) and interest income of HK\$10.1 million (six-month period ended 31st January, 2019: HK\$1.3 million).

PROSPECTS

The Pandemic has affected the performance of the Group and has huge negative impact on the PRC and local economies.

Despite the incidental losses and expenses arising from the temporary closure of the Foshan hotel and the slowdown of sale of the residential properties, the Board believes that the Group's financial position will not be significantly affected in the near term.

The Board will closely monitor the development of the Pandemic. Facing the recession and uncertainties, the Directors will endeavour to formulate strategies and plans to tackle this unprecedented challenge and utilise its resources effectively to capture viable business opportunities to maintain sustainable long term growth of the Group.

CONTINGENT LIABILITY

At 31st January, 2020, the Group provided guarantees of approximately HK\$116.0 million (31st July, 2019: HK\$187.2 million) to banks in respect of mortgage loans provided by the banks to purchasers of the Group's developed properties. These guarantees will be released when the building ownership certificates are issued and pledged by the purchasers with the banks for the mortgage loans granted. The Directors consider that the fair value of such guarantees on initial recognition was insignificant. The Directors also consider that the fair value of the underlying properties is able to cover the outstanding mortgage loans generated by the Group in the event the purchasers default payments to the banks.

PLEDGE OF ASSETS

At 31st January, 2020, bank deposit of HK\$643,000 of the Group was pledged to a bank to secure credit facilities to the extent of HK\$600,000 granted to the Group, of which HK\$3,000 (31st July, 2019: HK\$9,000) was utilised 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, 2020.

CORPORATE GOVERNANCE

The Company complied throughout the six months ended 31st January, 2020 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, 2020.

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

During the six months ended 31st January, 2020, 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, 26th March, 2020

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.