



CAPITAL ESTATE LIMITED
冠中地產有限公司

(Incorporated in Hong Kong with limited liability)
Stock Code: 193

Interim Report 2017/2018



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Sio Tak Hong (*Chairman*)
Chu Nin Yiu, Stephen (*Chief Executive Officer*)
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 (*Chairman*)
Wong Kwong Fat
Leung Kam Fai

REMUNERATION COMMITTEE

Leung Kam Fai (*Chairman*)
Li Sze Kuen, Billy
Wong Kwong Fat
Chu Nin Yiu, Stephen

NOMINATION COMMITTEE

Wong Kwong Fat (*Chairman*)
Li Sze Kuen, Billy
Leung Kam Fai
Chu Nin Yiu, Stephen

LEGAL ADVISER

Reed Smith 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
MassMutual Tower
33 Lockhart Road
Wan Chai, Hong Kong

STOCK CODE

193

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF CAPITAL ESTATE LIMITED

冠中地產有限公司

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Capital Estate Limited (the “Company”) and its subsidiaries set out on pages 4 to 18, which comprise the condensed consolidated statement of financial position as of 31st January, 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23rd March, 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2018

	NOTES	Six months ended	
		31.1.2018 HK\$'000 (unaudited)	31.1.2017 HK\$'000 (unaudited)
Revenue	3	45,175	40,021
Direct operating costs		(26,513)	(25,797)
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	(131)	(617)
Profit before taxation		67,046	41,584
Income tax credit	6	561	546
Profit for the period	7	67,607	42,130
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		36,208	(17,193)
Other comprehensive income (expense) for the period		36,208	(17,193)
Total comprehensive income for the period		103,815	24,937
Profit (loss) for the period attributable to:			
Owners of the Company		68,944	45,478
Non-controlling interests		(1,337)	(3,348)
		67,607	42,130
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		95,944	32,646
Non-controlling interests		7,871	(7,709)
		103,815	24,937
Earnings per share	8		
Basic – HK cents		1.77	1.17

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST JANUARY, 2018

	NOTES	31.1.2018 HK\$'000 (unaudited)	31.7.2017 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	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	10	558,506	480,524
Inventories		2,404	2,038
Trade and other receivables	11	12,071	8,670
Amount due from an associate	19(c)	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	12	199,038	160,931
– Others		180,081	142,914
		1,030,524	870,073
Current liabilities			
Trade and other payables	13	36,273	37,955
Deposits from pre-sale of properties		351,322	252,817
Amounts due to related parties	19(c)	291,810	282,020
Amount due to a director	19(b)	–	50,000
		679,405	622,792
Net current assets		351,119	247,281
Total assets less current liabilities		957,690	850,265
Non-current liabilities			
Deferred tax liabilities		63,581	59,971
Net assets		894,109	790,294
Capital and reserves			
Share capital	14	1,518,519	1,518,519
Reserves		(568,569)	(664,513)
Equity attributable to owners of the Company		949,950	854,006
Non-controlling interests		(55,841)	(63,712)
Total equity		894,109	790,294

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2018

	Attributable to owners of the Company							Total	Non-controlling interests	Total
	Share capital	Capital reserve	Share option reserve	Capital reduction reserve	Translation reserve	Revaluation reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
Balance at 1st August, 2016 (audited)	1,504,752	157	23,542	170,583	5,300	60,710	(981,712)	783,332	(57,276)	726,056
Profit/(loss) for the period	-	-	-	-	-	-	45,478	45,478	(3,348)	42,130
Exchange differences arising on translation of foreign operations	-	-	-	-	(12,832)	-	-	(12,832)	(4,361)	(17,193)
Total comprehensive (expense) income for the period	-	-	-	-	(12,832)	-	45,478	32,646	(7,709)	24,937
Issue of new shares (note 14)	14,245	-	-	-	-	-	-	14,245	-	14,245
Transaction costs attributable to issue of new shares	(478)	-	-	-	-	-	-	(478)	-	(478)
Balance at 31st January, 2017 (unaudited)	1,518,519	157	23,542	170,583	(7,532)	60,710	(936,234)	829,745	(64,985)	764,760
Balance at 1st August, 2017 (audited)	1,518,519	157	23,542	170,583	1,955	60,710	(921,460)	854,006	(63,712)	790,294
Profit/(loss) for the period	-	-	-	-	-	-	68,944	68,944	(1,337)	67,607
Exchange differences arising on translation of foreign operations	-	-	-	-	27,000	-	-	27,000	9,208	36,208
Total comprehensive income for the period	-	-	-	-	27,000	-	68,944	95,944	7,871	103,815
Balance at 31st January, 2018 (unaudited)	1,518,519	157	23,542	170,583	28,955	60,710	(852,516)	949,950	(55,841)	894,109

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2018

	Six months ended	
	31.1.2018 HK\$'000 (unaudited)	31.1.2017 HK\$'000 (unaudited)
Net cash from operating activities	88,286	68,339
Net cash used in investing activities		
Proceeds from disposal of property, plant and equipment	560	313
Interest received	324	104
Advance to an associate	(1,875)	(2,529)
Purchase of property, plant and equipment	(47)	(2,347)
	(1,038)	(4,459)
Net cash (used in) from financing activities		
Advance from related parties	1,778	37,062
Repayment to a director	(50,000)	–
Interest paid	(3,162)	–
Proceeds from issue of new shares	–	14,245
Transaction costs attributable to issue of new shares	–	(478)
	(51,384)	50,829
Net increase in cash and cash equivalents	35,864	114,709
Cash and cash equivalents at beginning of the period	142,914	73,465
Effect of foreign exchange rate changes	1,303	(454)
Cash and cash equivalents at end of the period, represented by bank balances and cash	180,081	187,720

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	45,175	7,230	–	52,405
Segment revenue	45,175	–	–	45,175
Segment (loss) profit	(5,624)	130	89,979	84,485
Unallocated expenses				(11,349)
Share of results of an associate				(5,959)
Finance costs				(131)
Profit before taxation				67,046

Six months ended 31st January, 2017

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

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.

3. SEGMENT INFORMATION *(Continued)*

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

For the six months ended 31st January, 2017

	Hotel operations HK\$'000	Financial investment HK\$'000	Property HK\$'000	Unallocated HK\$'000	Segment total HK\$'000
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	36	–	–	260	296

4. OTHER GAINS AND LOSSES

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

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.

4. OTHER GAINS AND LOSSES (Continued)

Payment schedule of the Settlement Sum is as follows:

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

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:

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

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 HK\$'000	31.1.2017 HK\$'000
Interest on amount due to a director	131	617

6. INCOME TAX CREDIT

	Six months ended	
	31.1.2018 HK\$'000	31.1.2017 HK\$'000
Tax credit comprises:		
Deferred taxation	561	546

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 HK\$'000	31.1.2017 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)

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

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

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for a cash consideration of HK\$47,000 (six months ended 31st January, 2017: HK\$2,347,000).

10. PROPERTIES UNDER DEVELOPMENT

The Group's properties under development are located on land in Mainland China.

Cost comprises the costs of land use rights, other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development and construction costs. No finance cost on development has been capitalised. Properties under development are stated at the lower of cost and net realisable value.

In October 2013, the Group obtained approvals from the relevant authorities in Mainland China for the construction of new residential buildings for sale and the construction activities started. During the six months ended 31st January, 2018, additions of properties under development in Mainland China amounted to HK\$44,557,000 (six months ended 31st January, 2017: HK\$45,136,000).

11. 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 HK\$'000	31.7.2017 HK\$'000
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
	3,373	3,592

12. 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.

13. TRADE AND OTHER PAYABLES

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

	31.1.2018 HK\$'000	31.7.2017 HK\$'000
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
	6,581	4,899

14. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares with no par value		
At 1st August, 2016	3,701,751,193	1,504,752
Issue of new shares, net of transaction costs	185,000,000	13,767
At 31st July, 2017 and 31st January, 2018	3,886,751,193	1,518,519

On 17th August, 2016, the Company allotted and issued 185,000,000 new shares under a placing arrangement at a placing price of HK\$0.077 per placing shares pursuant to the placing agreement dated 4th August, 2016 entered into with an independent placing agent not connected with the Company. The placing price of HK\$0.077 represented a discount of approximately 6.10% to the closing price of HK\$0.082 per share as quoted on The Stock Exchange of Hong Kong Limited on the date of the placing agreement. The new placing shares were allotted and issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 4th December, 2015. The new placing shares were placed through the placing agent to not less than six independent places not connected with the Company. The net proceeds raised per share from the placing were approximately HK\$0.0744. The net proceeds in aggregate amounted to approximately HK\$13,767,000, which has been entirely allocated to the Group's general working capital and used for administrative expenses in accordance with the intended use of proceeds as stated in the announcement dated 4th August, 2016. Further details of the placing are set out in the Company's announcements dated 4th August, 2016 and 17th August, 2016.

New shares issued during the year ended 31st July, 2017 rank pari passu with the existing shares in all respects.

15. SHARE-BASED PAYMENT TRANSACTIONS

The Company had a share option scheme adopted on 7th December, 2012 which will expire on 6th December, 2022.

No share option was granted or remained outstanding under the scheme during both periods.

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs
	31.1.2018	31.7.2017		
	HK\$'000	HK\$'000		
Listed equity securities	63,452	64,235	Level 1	Quoted bid prices in active market

There were no transfers between Levels 1, 2 and 3 in both periods.

17. PLEDGE OF ASSETS

At 31st January, 2018, bank deposit of HK\$642,000 (31st July, 2017: HK\$642,000) of the Group was pledged to banks to secure short-term credit facilities to the extent of HK\$600,000 (31st July, 2017: HK\$600,000) granted to the Group, none (31st July, 2017: HK\$7,000) of which was utilised by the Group.

18. COMMITMENTS

	31.1.2018 HK\$'000	31.7.2017 HK\$'000
Contracted for but not provided in the condensed consolidated financial statements in respect of – properties under development	57,395	70,034

19. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel:

The remuneration of directors, who are the key management personnel of the Group, during the period was as follows:

	Six months ended	
	31.1.2018 HK\$'000	31.1.2017 HK\$'000
Short-term benefits	3,427	2,568
Post-employment benefits	9	–
	3,436	2,568

The remuneration of directors and key executives is determined by the board of directors after considering recommendation from the Remuneration Committee, having regard to the performance of individuals and market trends.

19. RELATED PARTY DISCLOSURES (Continued)

(b) Amount due to a director

The balance at 31st July, 2017 was unsecured, interest-bearing at Hong Kong Dollars Prime Rate minus 2.8% per annum and repayable by 9th February, 2018.

During the six months ended 31st January, 2018, interest on amount due to a director recognised in profit or loss amounted to HK\$131,000 (six months ended 31st January, 2017: HK\$617,000).

At 31st July, 2017, interest payable to a director amounted to HK\$3,031,000 which was included in "trade and other payables". During the current interim period, the principal and the accrued interest were fully settled by the Group.

(c) Other related party transactions and balances

The amount due from an associate is unsecured, non-interest bearing, non-trade in nature and repayable on demand. It is expected to be recovered within one year from the end of the reporting period. The associate is controlled by Mr. Sio Tak Hong, who is a director and a substantial shareholder of the Company with significant influence over the Company.

The amounts due to related parties are unsecured, non-interest bearing, non-trade in nature and repayable on demand. They comprise amounts due to the following parties:

	31.1.2018 HK\$'000	31.7.2017 HK\$'000
Non-controlling shareholders of certain subsidiaries of the Company	166,350	166,350
Directors of certain subsidiaries of the Company	125,460	114,690
An entity controlled by Mr. Sio Tak Hong	–	980
	291,810	282,020

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.

OTHER INFORMATION

SHARE OPTIONS

Pursuant to a resolution passed on 7th December 2012, the existing share option scheme was adopted (the "Scheme").

No share options was outstanding at the beginning of the period or granted during the period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31st January, 2018, 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

(I) The Company

Ordinary shares of the Company

Name of Director	Number of shares held			Total	Percentage of the issued share capital of the Company
	Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporate interest (interest of controlled corporation)		
Sio Tak Hong ("Mr. Sio")	-	36,736,500	1,291,612,500 (Note 1)	1,328,349,000	34.2%
Chu Nin Yiu, Stephen ("Mr. Chu")	35,550,000	-	500,171,100 (Note 2)	535,721,100	13.8%
Lau Chi Kan, Michael	2,907,500	-	-	2,907,500	0.1%

Notes:

- Mr. Sio was deemed to be interested in the 1,291,612,500 shares in the Company held through Fullkeen Holdings Limited ("Fullkeen"), which is in turn 70% owned by Mr. Sio.
- Mr. Chu was deemed to be interested in the 500,171,100 shares in the Company held through Supervalve Holdings Limited ("Supervalve"), which is in turn wholly owned by Mr. Chu.

(II) Associated corporation

Name of Director	Associated Corporation	Number of shares held			Total	Percentage of the issued share capital of the associated corporation
		Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporated interest (interest of controlled corporation)		
Mr. Sio	Tin Fok Holding Company Limited	-	-	1,270 (Note 1)	1,270	63.5%
Mr. Chu	Tin Fok Holding Company Limited	-	-	170 (Note 2)	170	8.5%

Notes:

1. Mr. Sio was deemed to be interested in the 1,270 shares in the associated corporation in which 1,100 shares were held through Global Master Management Limited, which is in turn 70% owned by Mr. Sio, and 170 shares were held through Macro Rich Limited, which is turn 41.2% owned by Global Master Management Limited.
2. Mr. Chu was deemed to be interested in the 170 shares in the associated corporation held through Macro Rich Limited, which is in turn 58.8% owned by Mr. Chu.

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, 2018.

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, 2018, 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

Ordinary shares of the Company

Name of shareholder	Number of shares held			Total	Percentage of the issued share capital of the Company
	Personal interest (held as beneficial owners)	Family interest (interests of spouse or child under 18)	Corporate interest (interest of controlled corporation)		
Fullkeen	1,291,612,500	–	–	1,291,612,500	33.2%
Mr. Sio	–	36,736,500	1,291,612,500 (Note 1)	1,328,349,000	34.2%
Supervalue	500,171,100	–	–	500,171,100	12.9%
Mr. Chu	35,550,000	–	500,171,100 (Note 2)	535,721,100	13.8%

Notes:

1. Mr. Sio was deemed to be interested in the 1,291,612,500 shares in the Company held through Fullkeen, which is in turn 70% owned by Mr. Sio.
2. Mr. Chu was deemed to be interested in the 500,171,100 shares in the Company held through Supervalve, which is in turn wholly owned by Mr. Chu.

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, 2018.

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.