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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, 2014

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, 2014 together with the comparative figures for the six months ended 31st January, 2013 were as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2014

	NOTES	Six months ended	
		31.1.2014 HK\$'000 (unaudited)	31.1.2013 HK\$'000 (unaudited)
Revenue	3	71,780	75,146
Direct operating costs		(47,806)	(46,553)
Gross profit		23,974	28,593
Other gains and losses	4	2,836	3,092
Other income		1,593	1,969
Marketing expenses		(1,125)	(1,343)
Administrative expenses		(34,279)	(29,884)
Other hotel operating expenses		(13,921)	(16,067)
Impairment loss recognised on write-down of properties for development		(50,700)	(135,500)
Increase in fair value of investment properties		–	1,600
Share of profit (loss) of an associate		1,438	(2,823)
Finance costs	5	(3,600)	(5,194)
Loss before taxation		(73,784)	(155,557)
Income tax credit	6	692	827
Loss for the period	7	(73,092)	(154,730)
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		6,758	9,705
Total comprehensive expense for the period		(66,334)	(145,025)

		Six months ended	
	<i>NOTE</i>	31.1.2014	31.1.2013
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Loss for the period attributable to:			
Owners of the Company		(68,235)	(153,267)
Non-controlling interests		(4,857)	(1,463)
		<u>(73,092)</u>	<u>(154,730)</u>
 Total comprehensive expense for the period attributable to:			
Owners of the Company		(63,182)	(143,562)
Non-controlling interests		(3,152)	(1,463)
		<u>(66,334)</u>	<u>(145,025)</u>
 Loss per share	 <i>8</i>		
Basic and diluted – HK cents		<u>(2.76)</u>	<u>(6.21)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31ST JANUARY, 2014

	<i>NOTES</i>	31.1.2014 HK\$'000 (unaudited)	31.7.2013 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		393,344	400,761
Prepaid lease payments		2,849	2,867
Premium on prepaid lease payments		43,518	43,732
Interest in an associate		210,129	208,691
Available-for-sale investments		63,738	63,738
Convertible bond		–	7,907
Derivative component in convertible bond		–	6,959
		<hr/> 713,578	<hr/> 734,655
Current assets			
Properties for development		266,183	284,416
Inventories		5,158	3,785
Trade and other receivables	<i>9</i>	9,692	9,080
Amount due from an associate		4,768	4,322
Prepaid lease payments		108	104
Investments held for trading		67,891	50,207
Pledged bank deposit		641	641
Bank balances and cash		62,770	115,493
		<hr/> 417,211	<hr/> 468,048
Current liabilities			
Trade and other payables	<i>10</i>	27,986	29,349
Amounts due to related parties		178,402	158,129
Taxation payable		25,548	25,548
Bank borrowings – due within one year		96,494	101,596
Convertible notes – liability portion		–	19,628
		<hr/> 328,430	<hr/> 334,250
Net current assets		<hr/> 88,781	<hr/> 133,798
Total assets less current liabilities		<hr/> 802,359	<hr/> 868,453

	31.1.2014 HK\$'000 (unaudited)	31.7.2013 <i>HK\$'000</i> (audited)
Non-current liabilities		
Deferred tax liabilities	<u>70,602</u>	<u>70,362</u>
Net assets	<u>731,757</u>	<u>798,091</u>
Capital and reserves		
Share capital	246,783	246,783
Share premium and reserves	<u>514,795</u>	<u>577,977</u>
Equity attributable to owners of the Company	761,578	824,760
Non-controlling interests	<u>(29,821)</u>	<u>(26,669)</u>
Total equity	<u>731,757</u>	<u>798,091</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31ST JANUARY, 2014

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 “Listing Rules”).

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st January, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st July, 2013.

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and HK(SIC) – INT 12 “Consolidation – Special purpose entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

In the opinion of the directors, the application of HKFRS 10 has no significant impact to the condensed consolidated financial statements of the Group.

HKFRS 13 “Fair value measurement”

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively.

Amendments to HKAS 34 “Interim financial reporting” (as part of the annual improvements to HKFRSs 2009 – 2011 cycle)

The Group has applied the amendments to HKAS 34 “Interim financial reporting” as part of the “Annual improvements to HKFRSs 2009 – 2011 cycle” for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the condensed consolidated financial statements only when the amounts are regularly provided to the chief operating decision maker (“CODM”) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review assets and liabilities of the Group’s reportable segments for performance assessment and resource allocation purposes, the Group has not included total assets and total liabilities information as part of segment information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the 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	–	leasing of properties and sale of properties held for sale and property under development

Information regarding these segments is reported below.

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

Six months ended 31st January, 2014

	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>71,780</u>	<u>64,290</u>	<u>–</u>	<u>136,070</u>
Segment revenue	<u>71,780</u>	<u>–</u>	<u>–</u>	<u>71,780</u>
Segment (loss) profit	<u>(14,740)</u>	<u>4,012</u>	<u>(50,958)</u>	<u>(61,686)</u>
Unallocated expenses				(9,936)
Share of profit of an associate				1,438
Finance costs				(3,600)
Loss before taxation				<u>(73,784)</u>

Six months ended 31st January, 2013

	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>74,862</u>	<u>–</u>	<u>284</u>	<u>75,146</u>
Segment revenue	<u>74,862</u>	<u>–</u>	<u>284</u>	<u>75,146</u>
Segment (loss) profit	<u>(9,013)</u>	<u>4,065</u>	<u>(134,421)</u>	<u>(139,369)</u>
Unallocated income				726
Unallocated expenses				(8,897)
Share of loss of an associate				(2,823)
Finance costs				(5,194)
Loss before taxation				<u>(155,557)</u>

Segment (loss) profit represents the (loss incurred) profit earned by each segment without allocation of certain investment income, central administration costs, directors' salaries, share of profit (loss) 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 (loss) profit:

For the six months ended 31st January, 2014

	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>
Impairment loss recognised on write-down of properties for development	-	-	(50,700)	-	(50,700)
Depreciation	(13,073)	-	-	(1,014)	(14,087)
Increase in fair value of derivative component in convertible bond	-	117	-	-	117
Interest income	173	1,161	-	-	1,334
Interest income from investments held for trading	-	951	-	-	951
Gain on disposal of property, plant and equipment	-	-	-	250	250
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the six months ended 31st January, 2013

	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>
Impairment loss recognised on write-down of properties for development	-	-	(135,500)	-	(135,500)
Depreciation	(15,265)	-	-	(738)	(16,003)
Increase in fair value of derivative component in convertible bond	-	3,092	-	-	3,092
Interest income	52	975	-	-	1,027
Gain on disposal of property, plant and equipment	1	-	-	85	86
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. OTHER GAINS AND LOSSES

	Six months ended	
	31.1.2014	31.1.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in fair value of investments held for trading	2,423	–
Interest income from investments held for trading	951	–
Dividend income from investments held for trading	160	–
Increase in fair value of derivative component in convertible bond	117	3,092
Realised loss on derivative financial instruments	(815)	–
	<u>2,836</u>	<u>3,092</u>

5. FINANCE COSTS

	Six months ended	
	31.1.2014	31.1.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on borrowings wholly repayable within five years:		
Bank borrowings	2,824	3,777
Convertible notes	776	1,301
Loan from an associate	–	116
	<u>3,600</u>	<u>5,194</u>

6. INCOME TAX CREDIT

	Six months ended	
	31.1.2014	31.1.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax credit comprises:		
Deferred taxation	<u>692</u>	<u>827</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 from prior years to offset against any assessable profits generated during the periods.

7. LOSS FOR THE PERIOD

	Six months ended	
	31.1.2014	31.1.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period has been arrived at after charging (crediting):		
Depreciation included in:		
– administrative expenses	1,014	738
– other hotel operating expenses	13,073	15,265
Release of prepaid lease payments and premium on prepaid lease payments (included in other hotel operating expenses)	848	802
Bank and other interest income	(173)	(52)
Interest income on convertible bond	(1,161)	(975)
Investment income earned from available-for-sale investments (included in other income)	–	(726)
	<u>–</u>	<u>(726)</u>

8. LOSS PER SHARE

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

	Six months ended	
	31.1.2014	31.1.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	<u>(68,235)</u>	<u>(153,267)</u>
	Number of shares	Number of shares
Number of ordinary shares for the purposes of basic and diluted loss per share	<u>2,467,834,129</u>	<u>2,467,834,129</u>

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers of hotel business and property rental. The following is an analysis of trade receivables, presented based on invoice date which approximate revenue recognition date.

	31.1.2014	31.7.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	1,290	3,448
31 to 60 days	213	104
61 to 90 days	43	42
91 days or above	39	112
	<hr/>	<hr/>
	1,585	3,706
	<hr/> <hr/>	<hr/> <hr/>

10. TRADE AND OTHER PAYABLES

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

	31.1.2014	31.7.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	5,525	3,475
31 to 60 days	2,402	3,520
61 to 90 days	850	1,548
91 days or above	484	1,967
	<hr/>	<hr/>
	9,261	10,510
	<hr/> <hr/>	<hr/> <hr/>

INTERIM DIVIDEND

The directors do not recommend the payment of any dividends for the six months ended 31st January, 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of the results

The Group reported revenue of approximately HK\$71.8 million for the six months ended 31st January, 2014, which comprised mainly income from hotel operations, as compared to HK\$75.1 million for the same period last year.

Net loss attributable to owners of the Company for the six months ended 31st January, 2014 was HK\$68.2 million, as compared to the net loss of HK\$153.3 million for the same period last year. The loss for the period was mainly attributable to impairment loss recognised on properties for development amounting to HK\$50.7 million (six months ended 31st January, 2013: HK\$135.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a liquid position. At 31st January, 2014, the Group had bank balances and cash of HK\$63.4 million (31st July, 2013: HK\$116.1 million) mainly in Hong Kong dollars and marketable securities totalling HK\$67.9 million (31st July, 2013: HK\$50.2 million).

Total bank borrowings (other than corporate credit card payable classified as “other payable”) were HK\$96.5 million at 31st January, 2014 (31st July, 2013: HK\$101.6 million). The bank borrowings were mainly denominated in Renminbi, repayable within one year and carried interest on a floating rate basis.

The Group’s gearing ratio, expressed as a percentage of the Group’s total liabilities over the shareholders’ fund, was 52.4% at 31st January, 2014 (31st July, 2013: 49.1%).

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, 2014, the principal activities of the Group are property investment and development, hotel operation, financial investment and related activities.

Property investment and development

The Group continues to own the vacant land of approximately 9,553 square meters located in Coloane, Macau for residential development. A revised building plan has been submitted in late 2013 pending approval for commencement of the development. According to the revised plan 6 luxury residential houses with extensive outdoor areas and related facilities will be built with a gross floor area of approximately 5,000 square meters.

The Group holds an effective 5% interest in the land site at Avenida Commercial de Macau through an investee company, Sociedade de Investimento Imobiliario Pun Keng Van, S.A.. The site is for the development of a luxurious residential building on the waterfront at Nam Van Lake with a maximum permitted gross floor area of approximately 55,800 square meters.

Hotel operation

After the partial disposal of 25% in April 2013, the Group maintains a 75% effective interest in Hotel Fortuna, Foshan, through an indirectly held subsidiary, Foshan Fortuna Hotel Company Limited. The hotel is located at Le Cong Zhen, Shun De District, Foshan, the PRC, and provides over 400 rooms. During the year ended 31st December, 2013, the hotel had a stable occupancy rate of approximately 61.8% and a turnover of approximately HK\$140.2 million in 2013 compared to HK\$140.6 million in 2012.

The Group also holds a 32.5% interest in Hotel Fortuna, Macau which is owned and operated by Tin Fok Holding Company Limited, an associated company of the Group. Despite the keen competition in the Macau hotel industry, Hotel Fortuna, Macau continued to maintain a high occupancy rate of approximately 97% and recorded a stable turnover of approximately HK\$261.3 million in 2013 compared to HK\$257.2 million in 2012.

PROSPECTS

During the period, the Group has obtained relevant approvals for the construction of high-rise residential buildings and ancillary facilities with a total gross floor area of approximately 86,000 square meters alongside Hotel Fortuna, Foshan. The development has commenced, which will fully utilize the undeveloped permissible plot ratio counted gross floor area of Hotel Fortuna, Foshan and maximize shareholders' return.

The Group is optimistic with the business prospects of the property and hospitality sectors in Macau and the PRC. With healthy financial position and business operation, the Group continues to look for sound business opportunities which will provide growth, capital appreciation and profit to the Group.

CONTINGENT LIABILITY

At 31st January, 2014, the Group had no significant contingent liabilities.

PLEDGE OF ASSETS

At 31st January, 2014, hotel properties of HK\$329,163,000 of the Group were pledged to secure bank borrowings of RMB68,200,000 (equivalent to approximately HK\$87,540,000) granted to the Group. Bank deposit of HK\$641,000 of the Group was pledged to banks to secure credit facilities to the extent of HK\$600,000 granted to the Group, of which HK\$5,000 was utilised by the Group.

EMPLOYEES

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

Audit committee

The Audit Committee has reviewed the unaudited interim accounts for the six months ended 31st January, 2014.

Corporate governance

The Company complied throughout the six months ended 31st January, 2014 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 deviations:–

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, 2014.

Purchase, sale or redemption of the company’s listed securities

During the six months ended 31st January, 2014, 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, 2014

As at the date of this announcement, the Board comprises Mr. Sio Tak Hong, Mr. Chu Nin Yiu, Stephen, Mr. Chu Nin Wai, David, Mr. Lau Chi Kan, Michael as executive directors and Mr. Li Sze Kuen, Billy, Mr. Wong Kwong Fat and Mr. Leung Kam Fai as independent non-executive directors.