



**CAPITAL ESTATE LIMITED**  
**冠中地產有限公司**

(Incorporated in Hong Kong with limited liability)

Stock Code: 193



*INTERIM REPORT 2011/2012*



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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

(Formed on 27th March, 2012)

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  
Asia Orient Tower, Town Place  
33 Lockhart Road  
Wan Chai, Hong Kong

### STOCK CODE

193

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



**TO THE BOARD OF DIRECTORS OF CAPITAL ESTATE LIMITED**  
冠中地產有限公司

### INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 21, which comprises the condensed consolidated statement of financial position of Capital Estate Limited (the "Company") and its subsidiaries as of 31st January, 2012 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

27th March, 2012

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2012

	NOTES	Six months ended	
		31.1.2012 HK\$'000 (unaudited)	31.1.2011 HK\$'000 (unaudited)
Revenue	3	<b>77,374</b>	65,192
Direct operating costs		<b>(45,637)</b>	(34,507)
Gross profit		<b>31,737</b>	30,685
Other gains and losses	4	<b>(7,572)</b>	14,489
Other income		<b>1,546</b>	915
Marketing expenses		<b>(829)</b>	(638)
Administrative expenses		<b>(27,771)</b>	(31,944)
Other hotel operating expenses		<b>(18,841)</b>	(18,901)
Written off of property, plant and equipment	10	<b>(66,060)</b>	–
Increase in fair value of investment properties	9	<b>320</b>	3,900
Share of (losses) profits of associates		<b>(7,575)</b>	1,077
Finance costs	5	<b>(5,262)</b>	(7,012)
Loss before taxation		<b>(100,307)</b>	(7,429)
Income tax credit	6	<b>1,287</b>	1,402
Loss for the period	7	<b>(99,020)</b>	(6,027)
<b>Other comprehensive income</b>			
Exchange differences arising on translation		<b>4,156</b>	19,349
Total comprehensive (expense) income for the period		<b>(94,864)</b>	13,322
Loss for the period attributable to:			
Owners of the Company		<b>(98,856)</b>	(5,881)
Non-controlling interests		<b>(164)</b>	(146)
		<b>(99,020)</b>	(6,027)
Total comprehensive (expense) income attributable to:			
Owners of the Company		<b>(94,700)</b>	13,468
Non-controlling interests		<b>(164)</b>	(146)
		<b>(94,864)</b>	13,322
LOSS PER SHARE	8		
Basic and diluted – HK cents		<b>(4.00)</b>	(0.27)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST JANUARY, 2012

	NOTES	<b>31.1.2012</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.7.2011 HK\$'000 (audited)
<b>Non-current Assets</b>			
Investment properties	9	<b>43,800</b>	43,480
Property, plant and equipment	10	<b>411,289</b>	470,465
Prepaid lease payments		<b>13,125</b>	13,165
Premium on prepaid lease payments		<b>191,021</b>	191,393
Interests in associates	11	<b>213,662</b>	221,247
Available-for-sale investments	12	<b>59,850</b>	59,850
Convertible bond	13	<b>5,969</b>	–
Derivative component in convertible bond	13	<b>4,122</b>	–
		<b>942,838</b>	999,600
<b>Current Assets</b>			
Amounts due from associates		<b>3,319</b>	3,456
Properties for development	14	<b>227,200</b>	227,200
Inventories		<b>3,777</b>	2,881
Trade and other receivables	15	<b>9,107</b>	7,602
Prepaid lease payments		<b>445</b>	432
Investments held for trading		<b>4,308</b>	41,551
Pledged bank deposits		<b>641</b>	641
Bank balances and cash		<b>48,401</b>	49,790
		<b>297,198</b>	333,553
<b>Current Liabilities</b>			
Trade and other payables	16	<b>38,877</b>	30,949
Amount due a related party		<b>–</b>	150
Taxation payable		<b>25,548</b>	25,548
Bank borrowings – due within one year		<b>22,131</b>	19,391
		<b>86,556</b>	76,038
<b>Net current assets</b>		<b>210,642</b>	257,515
<b>Total assets less current liabilities</b>		<b>1,153,480</b>	1,257,115

	NOTES	<b>31.1.2012</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.7.2011 HK\$'000 (audited)
<b>Non-current Liabilities</b>			
Bank borrowings – due after one year		<b>113,358</b>	122,647
Convertible notes – liability portion	17	<b>16,954</b>	16,173
Deferred tax liabilities		<b>71,118</b>	71,381
		<b>201,430</b>	210,201
		<b>952,050</b>	1,046,914
<b>Capital and Reserves</b>			
Share capital	18	<b>246,783</b>	246,783
Share premium and reserves		<b>703,450</b>	798,150
Equity attributable to owners of the Company		<b>950,233</b>	1,044,933
Non-controlling interests		<b>1,817</b>	1,981
		<b>952,050</b>	1,046,914

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2012

	Share capital	Share premium	Capital reserve	Attributable to owners of the Company					Convertible notes reserve	Revaluation reserve	Accumulated losses	Total	Non-controlling interests	Total
				Share options reserve	Capital reduction reserve	Translation reserve	Capital redemption reserve							
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1st August, 2010 (audited)	214,839	994,163	157	23,542	170,583	7,041	268	-	9,200	(601,105)	918,688	2,288	920,976	
Loss for the period	-	-	-	-	-	-	-	-	-	(5,881)	(5,881)	(146)	(6,027)	
Exchange difference arising on translation	-	-	-	-	-	19,349	-	-	-	-	19,349	-	19,349	
Total comprehensive income (expense) for the period	-	-	-	-	-	19,349	-	-	-	(5,881)	13,468	(146)	13,322	
Recognition of equity component of convertible notes	-	-	-	-	-	-	-	30,612	-	-	30,612	-	30,612	
Deferred tax liability on recognition of equity component of convertible notes	-	-	-	-	-	-	-	(5,608)	-	-	(5,608)	-	(5,608)	
Conversion of convertible notes to ordinary shares	16,667	42,301	-	-	-	-	-	(13,605)	-	-	45,363	-	45,363	
Release of deferred tax liability recognised on conversion of convertible notes	-	-	-	-	-	-	-	2,415	-	-	2,415	-	2,415	
Balance at 31st January, 2011 (unaudited)	231,506	1,036,464	157	23,542	170,583	26,390	268	13,814	9,200	(506,986)	1,004,938	2,142	1,007,080	
Balance at 1st August, 2011 (audited)	246,783	1,075,873	157	23,542	170,583	33,428	268	3,452	9,200	(518,353)	1,044,933	1,981	1,046,914	
Loss for the period	-	-	-	-	-	-	-	-	-	(98,856)	(98,856)	(164)	(99,020)	
Exchange difference arising on translation	-	-	-	-	-	4,156	-	-	-	-	4,156	-	4,156	
Total comprehensive income (expense) for the period	-	-	-	-	-	4,156	-	-	-	(98,856)	(94,700)	(164)	(94,864)	
Balance at 31st January, 2012 (unaudited)	246,783	1,075,873	157	23,542	170,583	37,584	268	3,452	9,200	(617,209)	950,233	1,817	952,050	

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2012

	<b>Six months ended</b>	
	<b>31.1.2012</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.1.2011 HK\$'000 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Net cash from operating activities	<b>36,886</b>	33,882
<b>INVESTING ACTIVITIES</b>		
Reduction of investment cost in an associate	-	12,068
Dividend received from an associate	<b>10</b>	296
Purchase of property, plant and equipment	<b>(16,522)</b>	(27,804)
Payment of consideration for acquisition of a subsidiary	-	(80,277)
Advance to an associate	<b>187</b>	(295)
Subscription of convertible bonds	<b>(10,000)</b>	-
Other investing cash flows	<b>27</b>	836
Net cash used in investing activities	<b>(26,298)</b>	(95,176)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of convertible notes, net of issue expense	-	131,625
(Repayment to) advance from a related party	<b>(150)</b>	5,333
Interest paid	<b>(3,533)</b>	(5,422)
Repayment of bank loans	<b>(8,606)</b>	(4,030)
Net cash (used in) from financing activities	<b>(12,289)</b>	127,506
Net (decrease) increase in cash and cash equivalents	<b>(1,701)</b>	66,212
Cash and cash equivalents at beginning of the period	<b>49,790</b>	32,956
Effect of foreign exchange rate changes	<b>312</b>	4,008
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	<b>48,401</b>	103,176

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31ST JANUARY, 2012

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st January, 2012 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st July, 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 Related Party Disclosures
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement

The application of these new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early adopted the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>2</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10	Consolidated Financial Statements <sup>1</sup>
HKFRS 11	Joint Arrangements <sup>1</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>1</sup>
HKFRS 13	Fair Value Measurement <sup>1</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>4</sup>
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>1</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>1</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>1</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>5</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2015.

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2012.

<sup>4</sup> Effective for annual periods beginning on or after 1st July, 2012.

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2014.

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1st August, 2015 will affect the classification and measurement of the Group's available-for-sale investments based on the Group's financial assets and financial liabilities as at 31st January, 2012.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements of the Group.

## 3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

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

Information regarding these segments is reported below.

### 3. SEGMENT INFORMATION (Continued)

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, 2012

	Hotel operations HK\$'000	Financial investment HK\$'000	Property HK\$'000	Total HK\$'000
Gross proceeds	77,090	53,369	284	130,743
Segment revenue	77,090	-	284	77,374
Segment loss	(6,381)	(7,033)	(153)	(13,567)
Unallocated income				780
Unallocated expenses				(8,623)
Written off of property, plant and equipment				(66,060)
Share of losses of associates				(7,575)
Finance costs				(5,262)
Loss before taxation				(100,307)

#### Six months ended 31st January, 2011

	Hotel operations HK\$'000	Financial investment HK\$'000	Property HK\$'000	Total HK\$'000
Gross proceeds	64,908	88,733	284	153,925
Segment revenue	64,908	-	284	65,192
Segment (loss) profit	(6,138)	14,655	3,432	11,949
Unallocated income				563
Unallocated expenses				(14,006)
Share of profits of associates				1,077
Finance costs				(7,012)
Loss before taxation				(7,429)

### 3. SEGMENT INFORMATION (Continued)

Segment (loss) profit represents the (loss) profit incurred/earned by each segment without allocation of central administration costs, directors' salaries, share of results of associates, certain investment income and finance costs. This is the measure reported to the chief operating decisions maker for the purposes of resource allocation and performance assessment.

### 4. OTHER GAINS AND LOSSES

	Six months ended	
	31.1.2012 HK\$'000	31.1.2011 HK\$'000
(Decrease) increase in fair value of investments held for trading	(7,421)	14,122
(Decrease) increase in fair value of derivative financial instruments	(394)	68
Dividend income from investments held for trading	243	299
	<b>(7,572)</b>	14,489

### 5. FINANCE COSTS

	Six months ended	
	31.1.2012 HK\$'000	31.1.2011 HK\$'000
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	4,080	3,890
Consideration payable for acquisition of subsidiaries	-	444
Interest on convertible notes	1,182	1,730
Other interest	-	948
	<b>5,262</b>	7,012

## 6. INCOME TAX CREDIT

	<b>Six months ended</b>	
	<b>31.1.2012</b>	31.1.2011
	<b>HK\$'000</b>	HK\$'000
The credit comprises:		
Deferred taxation	<b>1,287</b>	1,402

No provision for Hong Kong Profits Tax and Enterprise Income Tax in PRC subsidiaries 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

	<b>Six months ended</b>	
	<b>31.1.2012</b>	31.1.2011
	<b>HK\$'000</b>	HK\$'000
Loss for the period has been arrived at after charging (crediting):		
Depreciation included in:		
Other hotel operating expenses	<b>15,472</b>	15,654
Administrative expenses	<b>790</b>	985
Release of prepaid lease payments and premium on prepaid lease payment (included in other hotel operating expenses)	<b>3,369</b>	3,247
Bank and other interest income	<b>(28)</b>	(274)
Investment income earned from available-for-sale investments	<b>(780)</b>	(562)
Accretion interest income on convertible bond	<b>(485)</b>	-

## 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:

	<b>Six months ended</b>	
	<b>31.1.2012</b>	31.1.2011
	<b>HK\$'000</b>	HK\$'000
Loss for the period attributable to owners of the Company for the purposes of basic and diluted loss per share	<b>(98,856)</b>	(5,881)
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	2,467,834,129	2,186,886,065

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

## 9. INVESTMENT PROPERTIES

All of the Group's interests in properties held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair values of the Group's investment properties at 31st January, 2012 have been arrived at on the basis of a valuation carried out on that date by American Appraisal China Limited, independent professional qualified valuers not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The resulting increase in fair value of investment properties of HK\$320,000 has been recognised in profit or loss for the six months ended 31st January, 2012 (six months ended 31st January, 2011: increase in fair value of HK\$3,900,000).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for a cash consideration of HK\$16,522,000 (for the six months ended 31st January, 2011: HK\$27,804,000).

During the period, a recreational building of Hotel Fortuna, Foshan, was demolished for future development according to plan following the construction of a new recreational building. The amount of HK\$66,060,000 of property, plant and equipment written off during the period represents the carrying amount of the recreational building being demolished.

## 11. INTERESTS IN ASSOCIATES

	<b>31.1.2012</b>	31.7.2011
	<b>HK\$'000</b>	HK\$'000
Cost of unlisted investments in associates	<b>229,455</b>	229,455
Share of post-acquisition results, net of dividends received	<b>(15,793)</b>	(8,208)
	<b>213,662</b>	221,247

## 12. AVAILABLE-FOR-SALE INVESTMENTS

	<b>31.1.2012</b>	31.7.2011
	<b>HK\$'000</b>	HK\$'000
Unlisted equity securities, at cost	<b>69,890</b>	69,890
Impairment loss recognised	<b>(10,040)</b>	(10,040)
	<b>59,850</b>	59,850

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

## 13. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND

During the period ended 31st January, 2012, the Group subscribed a convertible bond issued by a company listed on The Stock Exchange of Hong Kong Limited, with principal amount of HK\$10,000,000 which carries interest at 6.5% per annum payable semi-annually in arrears with maturity on 14th October, 2014 at redemption amount of 100% of the principal amount. The convertible bond can be converted at any time from the date of issue to the maturity date. The fair value at initial recognition of the receivable component and derivative component, which amounted to HK\$5,484,000 and HK\$4,849,000 respectively, are determined based on the valuation provided by Greater China Appraisal Limited, independent professionally qualified valuers not connected with the Group. Subsequent to initial recognition, the receivable component is carried at amortised cost using the effective interest method.

### 13. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND (Continued)

The convertible bond was recognised as follows:

	<b>Debt component HK\$'000</b>	<b>Derivative component HK\$'000</b>
At issue date	5,484	4,849
Accretion of interest	485	–
Fair value loss charged to condensed statement of comprehensive income	–	(727)
At 31st January, 2012	5,969	4,122

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

#### (i) Valuation of receivable component

At initial recognition, the fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit risk of the convertible bonds issuer and maturity term. The effective interest rate of the receivable component is 32.83%.

#### (ii) Valuation of derivative component

Derivative component is measured at fair value using the Trinomial Lattice Option Pricing model, at initial recognition and at the balance sheet date. The inputs into the model as at issue date and at 31st January, 2012, was as follows:

	<b>(Issue date) 14th October, 2011</b>	<b>31st January, 2012</b>
Stock price	HK\$1.11	HK\$1.05
Conversion price	HK\$1.10	HK\$1.10
Volatility	29.19%	22.82%
Dividend yield	2.03%	1.19%
Option life	3 years	2.7 years
Risk free rate	0.828%	0.542%

## 14. PROPERTIES FOR DEVELOPMENT

Properties for development represent leasehold land located in Macau for development and future sale in the ordinary course of business. Cost comprises the costs of land use rights under medium-term lease and other costs directly attributable to bringing the leasehold land to the condition necessary for it to be ready for development. Properties for development are stated at lower of cost and net realizable value. No finance cost on development has been capitalized. During the period, no impairment loss has been recognised on properties for development.

## 15. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The following is an analysis of trade receivables by age, presented based on the invoice date.

	<b>31.1.2012</b>	31.7.2011
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>2,267</b>	2,273
31 – 60 days	<b>538</b>	245
61 – 90 days	<b>85</b>	102
Over 90 days	<b>129</b>	133
	<b>3,019</b>	2,753

## 16. TRADE AND OTHER PAYABLES

The following is an analysis of trade payable by age, presented based on the invoice date.

	<b>31.1.2012</b>	31.7.2011
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>4,648</b>	3,865
31 – 60 days	<b>4,184</b>	1,856
61 – 90 days	<b>1,107</b>	1,795
Over 90 days	<b>1,132</b>	929
	<b>11,071</b>	8,445

## 17. CONVERTIBLE NOTES

On 8th November, 2010, the Company issued an aggregate principal amount of HK\$135,000,000 unsecured 4% convertible notes due 2013.

The convertible notes bear interest at 4% per annum and will mature on 8th November, 2013. The holders of the convertible notes have the right to convert their convertible notes into ordinary shares of the Company at a conversion price of HK\$0.36 per share at any time commencing from the issue date up to the business day last preceding the fifth business day prior to the maturity date.

Unless previously redeemed, converted or repaid in accordance with the terms and conditions of the convertible notes, the Company will redeem all convertible notes at their principal amount together with accrued and unpaid interest thereon on the maturity date. The Company may early redeem any portion of the outstanding convertible notes at par at any time prior to the maturity date.

The convertible notes contain two components, liability (together with embedded derivative for early redemption right of the Company which is closely related to the host debt) and equity elements. The equity element is presented in equity under the heading of "convertible notes reserve". The effective interest rate of the liability component of the convertible notes is at 11.58% at the date of initial recognition.

During the six months ended 31st January, 2012, no convertible notes was converted into shares in the Company.

The movement of the liability component of convertible notes is as follows:

	HK\$'000
Carrying amount of convertible notes as at 1st August, 2011	16,173
Interest charge	1,182
Interest paid	(401)
<u>Carrying amount of convertible notes as at 31st January, 2012</u>	<u>16,954</u>

## 18. SHARE CAPITAL

<b>Ordinary shares</b>	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Authorised:		
At 31st July, 2010, 31st July, 2011 and 31st January, 2012, at HK\$0.1 each	20,000,000,000	2,000,000
Issued and fully paid:		
At 31st July, 2010, at HK\$0.1 each	2,148,389,689	214,839
Conversion of convertible notes (Note)	319,444,440	31,944
At 31st July, 2011 and 31st January, 2012, at HK\$0.1 each	2,467,834,129	246,783

Note: During the year ended 31st July, 2011, convertible notes with a principal amount of HK\$115,000,000 were converted into shares of HK\$0.1 each in the Company at the conversion price of HK\$0.36 per share. Accordingly, a total of 319,444,440 ordinary shares of HK\$0.1 each were issued. The new shares rank pari passu in all respect with the then existing issued shares.

## 19. SHARE BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group.

No share options was outstanding at the beginning and the end of the period, and no option was granted during the six months ended 31st January, 2012.

## 20. PLEDGE OF ASSETS

At 31st January, 2012, hotel properties of HK\$331,797,000 (31st July, 2011: HK\$331,140,000) of the Group were pledged to secure bank borrowings. Bank deposit of HK\$641,000 (31st July, 2011: HK\$641,000) of the Group was pledged to banks to secure short-term credit facilities to the extent of HK\$600,000 (31st July, 2011: HK\$600,000) granted to the Group, of which HK\$6,000 (31st July, 2011: HK\$22,000) was utilised by the Group.

## 21. RELATED PARTY DISCLOSURES

Compensation of key management personnel:

The remuneration of directors and other members of key management during the period was as follows:

	<b>Six months ended</b>	
	<b>31.1.2012</b>	31.1.2011
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>1,750</b>	1,750
Post-employment benefits	<b>6</b>	6
	<b>1,756</b>	1,756

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

## INTERIM DIVIDEND

The directors do not recommend the payment of any dividends for the six months ended 31st January, 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF THE RESULTS

The Group reported gross proceeds of approximately HK\$130.7 million for the six months ended 31st January, 2012, which comprised mainly income from hotel operations and gross proceeds from sales of securities, as compared to HK\$153.9 million for the same period last year.

Net loss attributable to owners of the Company for the six months ended 31st January, 2012 was HK\$98.9 million, as compared to the net loss of HK\$5.9 million for the same period last year. The loss was mainly attributable to the write-off of the carrying amount of certain old building and facilities at the site of Hotel Fortuna, Foshan, the PRC amounting to HK\$66.1 million. The old building was demolished for further development according to plan following the construction of the new recreational building.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a liquid position. At 31st January, 2012, the Group had bank balances and cash of HK\$49.0 million (31st July, 2011: HK\$50.4 million) mainly in Hong Kong dollars and marketable securities totalling HK\$4.3 million (31st July 2011: HK\$41.6 million).

Total bank borrowings (other than corporate credit card payable classified as "other payable") were HK\$135.5 million at 31st January, 2012 (31st July, 2011: HK\$142.0 million), of which HK\$22.1 million were repayable within one year and HK\$113.4 million within two to five years. The bank borrowings were denominated in Renminbi and carried interest on a floating rate basis.

Convertible notes of face value HK\$20.0 million outstanding at 31st January, 2012 were repayable in 2013.

The Group's gearing ratio, expressed as a percentage of the Group's total liabilities over the shareholders' fund, was 30.3% at 31st January, 2012 (31st July, 2011: 27.4%).

### 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, 2012, 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 10,154 square meters located in Coloane, Macau. According to the revised building plan submitted to the government in late 2011, the land is for the construction of 46 luxury residential houses and related facilities with a total residential gross floor area of approximately 15,590 square meters. The Group is awaiting the government's approval for the commencement of the development.

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, SARL. The site is for the development of a 51-storey (plus 4 basement levels) luxurious residential building on the waterfront at Nam Van Lake with a maximum permitted gross floor area of approximately 55,800 square meters. The progress of the project will be monitored closely.

### Hotel operation

The Group owns 100% interest in Hotel Fortuna, Foshan, a hotel with 408 rooms located at Le Cong Zhen, Shun De District, Foshan, the PRC, through a wholly owned subsidiary, Foshan Fortuna Hotel Company Limited. During the year ended 31st December, 2011, the hotel maintain a stable occupancy rate of approximately 63% and recorded a turnover of approximately HK\$145.7 million in 2011 compared to HK\$117.9 million in 2010.

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\$224.5 million in 2011 when compared to the turnover of HK\$181.2 million in 2010.

## PROSPECTS

The construction of the new recreational building of Hotel Fortuna, Foshan with swimming pool, gym, sauna, karaoke and other club house facilities was completed during the period. These new facilities are expected to enhance the operational efficiency, competitiveness and revenue of the hotel.

After the completion of the recreational building of Hotel Fortuna, Foshan still has an undeveloped permissible gross floor area for residential and commercial uses in excess of 64,000 square meters. The management will launch feasible development plans at the right time to fully realise such development potential.

The Group is optimistic with the long term prospects of the property and hospitality sectors in Macau and the PRC. With healthy financial position and business operation, the Group continues its prudent approach to identify and seek sound business opportunities to enhance shareholders' return.

## **CONTINGENT LIABILITY**

At 31st January, 2012, the Group had no significant contingent liabilities.

## **PLEDGE OF ASSETS**

At 31st January, 2012, hotel properties of HK\$331,797,000 of the Group were pledged to secure bank borrowings of RMB110,200,000 (equivalent to approximately HK\$135,489,000) 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\$6,000 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, retirement and other benefits.

## **OTHER INFORMATION**

### **SHARE OPTIONS**

Pursuant to a resolution passed on 30th December 2002, 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, 2012, 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 HK\$0.1 each 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)	Corporated interest (interest of controlled corporation)		
Sio Tak Hong ("Mr. Sio")	-	24,491,000	861,075,000 (Note 1)	885,566,000	35.9%
Chu Nin Yiu, Stephen ("Mr. Chu")	23,700,000	-	333,447,400 (Note 2)	357,147,400	14.5%
Lau Chi Kan, Michael	7,500	-	-	7,500	0.0%

Notes:

- Mr. Sio was deemed to be interested in the 861,075,000 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 333,447,400 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 Holdings Company Limited	-	-	1,350 (Note 1)	1,350	67.5%
Mr. Chu	Tin Fok Holdings Company Limited	-	-	250 (Note 2)	250	12.5%

Notes:

1. Mr. Sio was deemed to be interested in the 1,350 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 250 shares were held through Macro Rich Limited, which is turn 60% owned by Global Master Management Limited.
2. Mr. Chu was deemed to be interested in the 250 shares in the associated corporation held through Macro Rich Limited, which is in turn 40% 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, 2012.

**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, 2012, 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 HK\$0.1 each 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)	Corporated interest (interest of controlled corporation)		
Fullkeen	861,075,000	-	-	861,075,000	34.9%
Mr. Sio	-	24,491,000	861,075,000 (Note 1)	885,566,000	35.9%
Supervalue	333,447,400	-	-	333,447,400	13.5%
Mr. Chu	23,700,000	-	333,447,400 (Note 2)	357,147,400	14.5%

#### Notes:

1. Mr. Sio was deemed to be interested in the 861,075,000 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 333,447,400 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, 2012.

## AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim accounts for the six months ended 31st January, 2012.

## CORPORATE GOVERNANCE

The Company complied throughout the six months ended 31st January, 2012 with the Code on Corporate Governance Practices (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.

## 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, 2012.

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

During the six months ended 31st January, 2012, 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, 27th March, 2012

*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.*