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City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

2014 INTERIM RESULTS — ANNOUNCEMENT UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

RESULTS

The Directors of City e-Solutions Limited (the “Company”) announce the following unaudited consolidated results of the Company, its subsidiaries, joint arrangements and associates (the “Group”) for the six months ended 30 June 2014 together with comparative figures.

Consolidated Statement of Profit or Loss
for the six months ended 30 June 2014 - unaudited

		Six months ended	
		30 June	
	<i>Note</i>	2014	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	51,382	52,795
Cost of sales		<u>(9,153)</u>	<u>(9,441)</u>
Gross profit		42,229	43,354
Other net gains	3	9,486	2,274
Administrative expenses	4	<u>(51,510)</u>	<u>(45,877)</u>
Profit/(Loss) from operating activities		205	(249)
Finance costs	5	(783)	(264)
Share of profit of a joint venture		147	1,605
Share of profit/(losses) of associates		<u>240</u>	<u>(265)</u>
(Loss)/Profit before taxation		(191)	827
Income tax credit/(expense)	6	<u>1,357</u>	<u>(574)</u>
Profit for the period	7	<u><u>1,166</u></u>	<u><u>253</u></u>
Attributable to:			
Equity shareholders of the Company		57	1,148
Non-controlling interests		<u>1,109</u>	<u>(895)</u>
Profit for the period		<u><u>1,166</u></u>	<u><u>253</u></u>
Earnings per share		HK cents	HK cents
Basic earnings per share	8	<u><u>0.01</u></u>	<u><u>0.30</u></u>

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 30 June 2014 - unaudited**

	Six months ended	
	30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	1,166	253
Other comprehensive income for the period (after taxation):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	(20)	(592)
Exchange differences on monetary item forming net investment in a foreign operation	<u>(16)</u>	<u>—</u>
Total comprehensive income for the period	<u><u>1,130</u></u>	<u><u>(339)</u></u>
Attributable to:		
Equity shareholders of the Company	47	547
Non-controlling interests	<u>1,083</u>	<u>(886)</u>
Total comprehensive income for the period	<u><u>1,130</u></u>	<u><u>(339)</u></u>

**Consolidated Statement of Financial Position
as at 30 June 2014 - unaudited**

	<i>Note</i>	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Non-current assets			
Property, plant and equipment		41,382	41,903
Intangible assets		12,236	13,588
Goodwill		8,935	8,937
Available-for-sale financial assets		32,989	32,996
Long term bank deposits		13,569	9,495
Interest in a joint venture		—	9,340
Interest in associates		8,447	8,673
Deferred tax assets		22,373	20,804
Total non-current assets		139,931	145,736
Current assets			
Trading securities		114,652	114,042
Trade and other receivables	10	32,746	34,467
Short term bank deposits		33,206	35,112
Current tax recoverable		3,341	3,721
Cash and cash equivalents		366,472	347,953
		<u>550,417</u>	<u>535,295</u>
Current liabilities			
Trade and other payables	11	(26,570)	(33,450)
Interest-bearing borrowings	12	(914)	(884)
		<u>(27,484)</u>	<u>(34,334)</u>
Net current assets		<u>522,933</u>	<u>500,961</u>
Total assets less current liabilities		662,864	646,697
Non-current liabilities			
Employee benefits		(155)	(1,632)
Dividends received in excess of earnings from equity-method accounted joint venture		(16,955)	—
Interest-bearing borrowings	12	(30,788)	(31,229)
		<u>(47,898)</u>	<u>(32,861)</u>
NET ASSETS		<u>614,966</u>	<u>613,836</u>
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		<u>186,633</u>	<u>186,586</u>
Total equity attributable to equity shareholders of the Company		569,083	569,036
Non-controlling interests		<u>45,883</u>	<u>44,800</u>
TOTAL EQUITY		<u>614,966</u>	<u>613,836</u>

Notes:-

1. Accounting policies

The interim financial results for the six months ended 30 June 2014 are unaudited, but have been reviewed by KPMG LLP in accordance with International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the International Federation of Accountants. In addition, these financial results have been reviewed by the Company's Audit Committee.

The interim financial results for the six months ended 30 June 2014 have been prepared in accordance with the same accounting policies adopted by the Group as disclosed in the annual report for the year ended 31 December 2013, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out below.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

The adoption of the above amendment did not have any significant effect on the Group's financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. Segment reporting

Included in reportable segment revenue are dividends and interest income amounting to HK\$4.1 million (2013: HK\$3.2 million). Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments for the period is set out below:

	Investment Holding		Hospitality		Total	
	2014	2013	2014	2013	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>For the six months ended</i>						
<i>30 June:</i>						
Revenue from external customers	3,070	1,513	47,245	49,623	50,315	51,136
Interest income	<u>958</u>	<u>981</u>	<u>109</u>	<u>678</u>	<u>1,067</u>	<u>1,659</u>
Reportable segment revenue	<u>4,028</u>	<u>2,494</u>	<u>47,354</u>	<u>50,301</u>	<u>51,382</u>	<u>52,795</u>
Reportable segment profit/(loss)	<u>2,133</u>	<u>(624)</u>	<u>(2,324)</u>	<u>1,451</u>	<u>(191)</u>	<u>827</u>
Depreciation and amortisation	1	1	2,738	2,599	2,739	2,600
Net realised and unrealised valuation gains/(losses) on trading securities	2,799	8,493	(147)	(479)	2,652	8,014
Net realised and unrealised foreign exchange gains/(losses)	2,567	(6,283)	—	—	2,567	(6,283)
Additions to non-current assets	—	33,034	4,945	7,791	4,945	40,825
<i>As at 30 June / 31 December:</i>						
Reportable segment assets	468,924	467,836	195,710	188,670	664,634	656,506
Reportable segment liabilities	6,492	9,946	68,890	57,249	75,382	67,195

3. Other net gains

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Net realised and unrealised foreign exchange gains/(losses)	2,567	(6,283)
Net realised and unrealised valuation gains on trading securities	2,652	8,014
Miscellaneous proceeds	4,267	—
Gain on disposal of property, plant and equipment	—	518
Others	—	25
	<u>9,486</u>	<u>2,274</u>

4. Administrative expenses

Administrative expenses comprise mainly expenses incurred by the Group's Hospitality segment, which include expenses incurred by Sheraton Chapel Hill Hotel, North Carolina, U.S., a hotel jointly operated by the Group's subsidiary.

5. Finance costs

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Amortisation of capitalised transaction costs	62	23
Interest expenses on borrowings	<u>721</u>	<u>241</u>
	<u>783</u>	<u>264</u>

6. Income tax credit/(expense)

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current tax - Overseas		
Provision for the period	(209)	(47)
Under-provision in respect of prior years	<u>(8)</u>	<u>(8)</u>
	(217)	(55)
Deferred tax		
Origination and reversal of temporary differences	<u>1,574</u>	<u>(519)</u>
Income tax credit/(expense) from continuing operations	<u>1,357</u>	<u>(574)</u>

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2013: 16.5%) of the estimated assessable profits for the period ended 30 June 2014. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

As at 30 June 2014, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$4.2 million (31 December 2013: HK\$4.2 million) as it is not probable that there will be sufficient future taxable profits against which the Group can utilise the benefits. The tax losses do not expire under the current tax legislations.

7. Profit for the period is arrived after charging/(crediting)

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	1,389	1,250
Amortisation of intangible assets	1,350	1,350
Operating lease charges — rental of properties	946	916
Dividend and interest income	<u>(4,137)</u>	<u>(3,172)</u>

8. Earnings per share

a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to ordinary equity shareholders of the Company of about HK\$0.1 million (six months ended 30 June 2013: profit of HK\$1.1 million) and the weighted average number of ordinary shares of 382,449,524 (2013: 382,449,524) in issue during the period.

b) Diluted earnings per share

Diluted earnings per share are not applicable as there are no dilutive potential ordinary shares during the period.

9. Dividends

a) Dividend attributable to the interim period

The Directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2014 (2013: nil).

- b) Dividend attributable to the previous financial year, approved and paid during the interim period

There were no dividends attributable to the previous financial year, approved and paid during the interim period of 2014 and 2013.

10. Trade and other receivables

Included in trade and other receivables are trade receivables (net of impairment losses) with the following ageing analysis based on invoice date:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Current or less than 1 month overdue	8,672	12,813
1 to 3 months overdue	7,098	5,061
3 to 12 months overdue	<u>852</u>	<u>411</u>
Total trade receivables, less impairment losses	16,622	18,285
Other receivables and deposits	9,925	6,504
Amounts owing by affiliated companies, non-trade	<u>736</u>	<u>1,054</u>
Loans and receivables	27,283	25,843
Prepayments	<u>5,463</u>	<u>8,624</u>
	<u><u>32,746</u></u>	<u><u>34,467</u></u>

Trade receivables are due within 30 days from the date of billing. Receivables with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers.

11. Trade and other payables

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Trade payables	5,564	2,659
Other payables and accrued charges	16,429	22,366
Deferred income	4,510	8,425
Amounts owing to affiliated companies	<u>67</u>	<u>—</u>
	<u><u>26,570</u></u>	<u><u>33,450</u></u>

Trade and other payables have the following ageing analysis as of the reporting date:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Due within 1 month or on demand	19,093	20,718
Due 1 to 3 months	2,690	3,665
Due 3 to 12 months	<u>4,787</u>	<u>9,067</u>
	<u><u>26,570</u></u>	<u><u>33,450</u></u>

12. Interest-bearing borrowings

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Term loan (secured)	31,424	31,756
Finance lease liabilities	<u>278</u>	<u>357</u>
	<u><u>31,702</u></u>	<u><u>32,113</u></u>
Repayable:		
- Within 1 year	914	884
- Between 1 and 5 years	2,696	4,573
- After 5 years	<u>28,092</u>	<u>26,656</u>
	<u><u>31,702</u></u>	<u><u>32,113</u></u>

The Group's interest in the term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK\$38.9 million as at 30 June 2014;
- assignments of all rights and benefits to sale, lease, agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK\$1.7 million as at 30 June 2014; and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 30 June 2014, RHI and SWAN USA, Inc (“the Guarantors”), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group’s joint operation, joint venture and associate, as set out below:

- RHI is a guarantor of indebtedness of the term loan entered into by SWAN Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel as mentioned above. The term guarantee is through 6 May 2023.
- RHI and SWAN USA, Inc are guarantors of indebtedness of the term loan entered into by the Group’s joint venture, Richfield Syracuse Hotel Partners, LLC. The term guarantee is through 1 February 2016.
- RHI and SWAN USA, Inc are guarantors of indebtedness of the term loans entered into by RBH Mezz, LLC and Rich Burlington Hotel, LLC, which are underlying investments of S-R Burlington Partners, LLC.

The above indebtedness are non-recourse in nature and the Group’s liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages. The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender’s losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees is HK\$299.1 million as at 30 June 2014.

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of its respective outstanding loan amount.

13. Capital commitments contracted but not provided for

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Commitment to make an investment in BEA Blue Sky Real Estate Fund L.P.	<u>—</u>	<u>160,778</u>

On 3 June 2013, the Group’s direct wholly-owned subsidiary, CES Capital Limited had committed to make an investment of US\$25.0 million (approximately HK\$194.0 million) in BEA Blue Sky Real Estate Fund L.P. (the “Fund”), by way of a subscription for a limited partnership interest in the Fund.

On 15 April 2014, the investment period of the Fund was terminated in accordance with the partnership agreements. Accordingly, no further capital contributions will be called from the Group except to the extent necessary to cover, among other things, operating expenses of the Fund, to fund the payment of management fees payable by the Fund, to fund drawdown requests from the China Fund to cover its operational and organizational expenses and to fund committed investments.

The Fund is a closed-ended private equity fund structured as a Cayman Islands exempted limited partnership, organised for the sole purpose of subscribing for a limited partnership interest in the China Fund. The China Fund is a real estate private equity fund established for the purpose of making investments in real estate assets and real estate-related assets in Greater China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group reported lower revenue of HK\$51.4 million, a decrease of HK\$1.4 million or 2.7% from HK\$52.8 million in the previous corresponding period, mainly due to lower revenue from the Group's Hospitality segment. Consequently, the Group's Hospitality segment reported pre-tax loss of HK\$2.3 million for the period under review as compared with a pre-tax profit of HK\$1.5 million in the previous corresponding period.

The Group's U.S. hotel management arm, Richfield Hospitality, recorded lower management fee income of HK\$12.6 million, down by HK\$4.7 million or 27.6% from HK\$17.3 million in the previous corresponding period. News of the potential sale of the Group to an interested third party caused several adverse effects, such as the renegotiation of a major contract to a lower fee, loss of management contracts and the departure of several senior executives. Higher administrative expenses were incurred due to the reorganisation, though a new management team has been put in place and it is anticipated that the new team will perform strongly over time. Consequently, a loss before tax of HK\$7.0 million was incurred for the period under review as compared with a profit of about HK\$0.1 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK\$12.5 million, down by HK\$0.9 million from the previous corresponding period. The profit contribution was HK\$1.2 million as compared to HK\$2.5 million in the previous corresponding period, mainly due to the lower occupancy achieved by the hotel for the period as compared to the previous corresponding period and higher loan interest expense arising from the re-financing of the hotel property.

The Group's 51% equity interest in Sceptre Hospitality Resources ("SHR"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded revenue amounting to HK\$20.2 million, up by 17.8% from HK\$17.1 million in the previous

corresponding period. Consequently, SHR reported a lower operating loss of HK\$1.2 million for the period under review as compared with operating loss of HK\$2.4 million in the previous corresponding period. SHR also received one-time proceeds of HK\$4.3 million (US\$0.55 million) as final settlement of a contractual obligation arising from the acquisition of Whiteboard Labs, LLC, the original owner of the Windsurfer CRS.

The Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC, which owns the Crowne Plaza Syracuse Hotel, contributed a share of profit of HK\$0.1 million for the period under review as compared with a share of profit of HK\$1.6 million in the previous corresponding period. The lower share of profit is mainly due to decreased revenue as a result of lower average daily rates achieved by the hotel for the period under review as compared to the previous corresponding period.

The Group also recognised share of profit from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK\$0.2 million for the period under review, as compared to a share of losses of HK\$0.3 million in the previous corresponding period.

On the Group's Investment Holding segment, the net realised and unrealised valuation gain of HK\$2.8 million was recognised from the Group's securities holding as at 30 June 2014. Net realised and unrealised foreign exchange gain of HK\$2.6 million was also recorded, which mainly arose from the Sterling Pound denominated security holdings. Overall, the total net realised and unrealised gains of HK\$5.4 million was recorded for the period under review as compared with the total net realised and unrealised gains of HK\$2.2 million in the previous corresponding period.

Overall, the Group recorded a net profit attributable to the equity shareholders of the Company of about HK\$0.1 million as compared with a net profit attributable to the equity shareholders of the Company of HK\$1.1 million in the previous corresponding period due mainly to the losses from the Group's Hospitality segment as discussed above.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though there are signs of improvement in the U.S. real estate and hospitality market.

The Group continues to hold some trading securities while its cash reserves are in a basket of currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value readjustments of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

AUDIT COMMITTEE

The members of the Audit Committee of the Company comprise 2 independent non-executive directors and 1 non-executive director of the Company. It has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2014.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, save as disclosed below, the Company has complied with the code provisions as set out in the Corporate Governance Code (“CG Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 30 June 2014.

Under the CG Code provision E.1.2, the chairman of the board should attend the annual general meeting and invite the chairmen of audit, remuneration, nomination and any other committees (as appropriate) to attend. However, in the annual general meeting held on 17 April 2014 (“2014 AGM”), our Chairman was unable to attend the meeting as he had to attend to other commitments. He appointed Mr. Gan Khai Choon to chair the 2014 AGM on his behalf. Further Mr. Chan Bernard Charnwut, a non-executive director and member of the Audit Committee and Nomination Committee; and Mr Teoh Teik Kee, an independent non-executive director and chairman of the Audit Committee and Remuneration Committee, and member of the Nomination Committee, were invited to attend the 2014 AGM to answer any question from the shareholders concerning the Company’s corporate governance. As provided for in the CG Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. The other 2 independent non-executive directors and 1 non-executive director of the Company were unable to attend the 2014 AGM.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules (“Model Code”) as the Company’s code of conduct regarding directors’ securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the period under review.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B of the Listing Rules, the changes of information on Directors are as follows:-

Mr Kwek Leng Joo stepped down as City Developments Limited's Managing Director on 16 February 2014 and appointed as Deputy Chairman on 17 February 2014.

Mr Teoh Teik Kee stepped down as a non-executive director of HwangDBS Commercial Bank PLC on 14 March 2014.

Mr Ronald Nathaniel Issen was appointed as a non-independent & non-executive director of M&C REIT Management Limited and M&C Business Trust Management Limited on 7 April 2014.

Mr Lee Jackson @ Li Chik Sin stepped down as the lead independent director, chairman of the Audit and Risk Management Committee, and a member of the Nomination Committee and Remuneration Committee of Hong Fok Corporation Limited on 30 April 2014.

Mr Chan Bernard Charnwut stepped down as a non-executive director of New Heritage Holdings Limited on 5 June 2014.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 12 August 2014

As at the date of this announcement, the Board is comprised of 9 directors, of which 4 are executive directors, namely Mr. Kwek Leng Beng, Mr. Kwek Leng Joo, Mr. Gan Khai Choon and Mr. Lawrence Yip Wai Lam, 2 are non-executive directors, namely Mr. Chan Bernard Charnwut and Mr. Ronald Nathaniel Issen, and 3 are independent non-executive directors, namely Dr. Lo Ka Shui, Mr. Lee Jackson a.k.a. Li Chik Sin and Mr. Teoh Teik Kee.