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City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

UNAUDITED FINANCIAL RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2015

SUMMARY

To provide the market with updated information, the Board of City e-Solutions Limited announces the unaudited consolidated financial results of the Company and its subsidiaries, joint arrangements and associates (the “Group”) for the three months ended 31 March 2015.

The unaudited consolidated loss attributable to equity shareholders of the Company for the three months ended 31 March 2015 was approximately HK\$8.0 million.

Shareholders of the Company and potential investors should note that all figures contained herein are unaudited and are advised to exercise caution when dealing in the shares of the Company.

To provide the market with updated information, the board (“Board”) of directors (“Directors”) of City e-Solutions Limited (the “Company”) announces the unaudited consolidated financial results of the Company and its subsidiaries, joint arrangements and associates (the “Group”) for the three months ended 31 March 2015 (the “Period”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (unaudited)

		Three months ended	
		31 March	
	<i>Note</i>	2015	2014
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	21,178	21,927
Cost of sales		<u>(4,860)</u>	<u>(4,552)</u>
Gross profit		16,318	17,375
Other net losses	3	(3,178)	(4,007)
Administrative expenses	4	<u>(23,599)</u>	<u>(26,423)</u>
Loss from operating activities		(10,459)	(13,055)
Finance costs	5	(372)	(380)
Share of losses of a joint venture		(899)	(1,132)
Share of losses of associates		<u>(628)</u>	<u>(492)</u>
Loss before taxation		(12,358)	(15,059)
Income tax credit		<u>2,651</u>	<u>2,381</u>
Loss for the period	6	<u><u>(9,707)</u></u>	<u><u>(12,678)</u></u>
Attributable to:			
Equity shareholders of the Company		(8,039)	(11,438)
Non-controlling interests		<u>(1,668)</u>	<u>(1,240)</u>
Loss for the period		<u><u>(9,707)</u></u>	<u><u>(12,678)</u></u>
Earnings per share		<i>HK cents</i>	<i>HK cents</i>
Basic losses per share		<u><u>(2.10)</u></u>	<u><u>(2.99)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

		As at 31 March 2015	As at 31 December 2014
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		43,757	41,904
Intangible assets		10,193	10,873
Goodwill		8,937	8,942
Available-for-sale financial assets		32,998	33,016
Long term bank deposits		9,775	9,780
Interest in associates		8,116	8,880
Deferred tax assets		27,471	24,632
Total non-current assets		141,247	138,027
Current assets			
Trading securities		108,300	111,197
Trade and other receivables		27,362	30,274
Short term bank deposits		7,596	17,101
Current tax recoverable		3,806	4,630
Cash and cash equivalents		372,578	372,824
		<u>519,642</u>	<u>536,026</u>
Current liabilities			
Trade and other payables		(27,278)	(29,924)
Interest-bearing borrowings	7	(1,093)	(969)
		<u>(28,371)</u>	<u>(30,893)</u>
Net current assets		491,271	505,133
Total assets less current liabilities		632,518	643,160
Non-current liabilities			
Dividends received in excess of earnings from equity-method accounted joint venture		(18,960)	(17,256)
Interest-bearing borrowings	7	(30,712)	(30,394)
		<u>(49,672)</u>	<u>(47,650)</u>
NET ASSETS		<u>582,846</u>	<u>595,510</u>
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		<u>156,812</u>	<u>167,784</u>
Total equity attributable to equity shareholders of the Company		539,262	550,234
Non-controlling interests		<u>43,584</u>	<u>45,276</u>
TOTAL EQUITY		<u>582,846</u>	<u>595,510</u>

Notes:-

1. Accounting policies

The Group's unaudited consolidated financial results for the three months ended 31 March 2015 have not been reviewed by the Company's auditors but have been reviewed by the Company's Audit Committee.

The Group's unaudited consolidated financial results for the three months ended 31 March 2015 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 2014, except for the accounting policy changes that are expected to be reflected in the 2015 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 amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 19, *Defined benefit plans: Employee contributions*
- Annual Improvements to HKFRSs 2010-2012 cycle
- Annual Improvements to HKFRSs 2011-2013 cycle

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

In addition, the requirements of Part 9, "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) were adopted on 1 January 2015 in accordance with section 358 of that Ordinance. The adoption of such requirements did not have any effect on the Group's financial position or performance.

2. Turnover

	Three months ended	
	31 March	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers		
- Hospitality	20,030	21,433
Interest income	<u>1,148</u>	<u>494</u>
	<u><u>21,178</u></u>	<u><u>21,927</u></u>

3. Other net losses

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Net realised and unrealised valuation gain/(losses) on trading securities	423	(2,879)
Net realised and unrealised exchange losses	(6,280)	(1,128)
Gain on striking-off a dormant subsidiary	2,779	—
Loss on disposal of property, plant and equipment	<u>(100)</u>	<u>—</u>
	<u>(3,178)</u>	<u>(4,007)</u>

4. Administrative expenses

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

5. Finance costs

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Amortisation of capitalised transaction costs	31	31
Interest expenses on borrowings	<u>341</u>	<u>349</u>
	<u>372</u>	<u>380</u>

6. Loss for the period is arrived after charging/(crediting)

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	783	691
Amortisation of intangible assets	674	675
Operating lease charges — rental of properties	729	504
Interest income	<u>(1,148)</u>	<u>(494)</u>

7. Interest-bearing borrowings

	As at 31 March 2015 <i>HK\$'000</i>	As at 31 December 2014 <i>HK\$'000</i>
Term loan (secured)	30,944	31,130
Finance lease liabilities	<u>861</u>	<u>233</u>
	<u>31,805</u>	<u>31,363</u>
Repayable:		
- Within 1 year	1,093	969
- Between 1 and 5 years	4,345	3,652
- After 5 years	<u>26,367</u>	<u>26,742</u>
	<u>31,805</u>	<u>31,363</u>

The Group's line-by-line 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\$38.7 million as at 31 March 2015;
- 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\$1.8 million as at 31 March 2015; and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 31 March 2015, 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 below:

- RHI is a guarantor of indebtedness of the term loan entered into by SWAN Carolina Investor, LLC and SFI Carolina TIC SPE, LLC 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 term guarantees are through 11 November 2017.

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 provides 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 was HK\$295.8 million as at 31 March 2015.

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.

BUSINESS REVIEW AND PROSPECTS

The Group recorded a net loss attributable to the equity shareholders of the Company of HK\$8.0 million as compared with a net loss attributable to the equity shareholders of the Company of HK\$11.4 million in the previous corresponding period, due mainly to lower administrative expenses incurred by the Group for the period under review.

The Group's Investment Holding segment recognised net realised and unrealised valuation gain of HK\$0.4 million from the Group's securities holding as at 31 March 2015. Total net realised and unrealised foreign exchange loss of HK\$6.3 million was also recorded, which mainly arose from the Sterling Pound denominated securities holdings and cash deposits. Consequently, total net realised and unrealised losses of HK\$5.9 million was recorded for the period under review as compared with the total net realised and unrealised loss of HK\$4.0 million in the previous corresponding period. An one-off foreign exchange gain of HK\$2.8 million was realised as a result of striking off a Group's dormant subsidiary during the period under review. This, together with lower administrative expenses incurred for the period resulted in lower operating loss of HK\$3.9 million as compared with operating loss of HK\$7.7 million in the previous corresponding period.

The Group's U.S. hotel management arm, Richfield Hospitality, recorded lower management fee income of HK\$2.8 million, down by HK\$3.6 million or 56.7% from HK\$6.4 million in the previous corresponding period. The decrease in revenue was partially offset by lower administrative expenses and resulted in a loss before tax of HK\$5.4 million for the period under review as compared with a loss of HK\$4.7 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK\$5.9 million, up by HK\$0.3 million from the previous corresponding period. Consequently, the profit contribution increased to HK\$0.3 million from HK\$0.1 million in the previous corresponding period.

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 higher revenue amounting to HK\$11.0 million, up by 24.6% from HK\$8.8 million in the previous corresponding period due mainly from new accounts secured by SHR. However, SHR incurred higher administrative expenses during the period to support the revenue growth, resulting in a higher loss of HK\$1.9 million as compared with HK\$1.1 million in the previous corresponding period.

The Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC, which owns the Crowne Plaza Syracuse Hotel contributed a share of loss of HK\$0.9 million for the period under review as compared with a share of loss of HK\$1.1 million in the previous corresponding period. The lower share of loss is mainly due to increased revenue as a result of higher average daily rate achieved by the hotel for the period under review as compared to the previous corresponding period.

The Group also recognised share of losses from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK\$0.6 million for the period under review, as compared to a share of losses of HK\$0.5 million in the previous corresponding period.

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.

Shareholders of the Company and potential investors should note that all figures contained herein are unaudited and are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Kwek Leng Beng
Chairman and Managing Director

Hong Kong, 12 May 2015

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.