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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 2014**

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 2014.

The unaudited consolidated loss attributable to equity shareholders of the Company for the three months ended 31 March 2014 was approximately HK\$11.4 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 2014 (the “Period”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (unaudited)

Three months ended 31 March			
		2014	2013
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	21,927	23,358
Cost of sales		<u>(4,552)</u>	<u>(4,570)</u>
Gross profit		17,375	18,788
Other net (losses)/gains	3	(4,007)	54
Administrative expenses	4	<u>(26,423)</u>	<u>(22,915)</u>
Loss from operating activities		(13,055)	(4,073)
Finance costs	5	(380)	—
Share of losses of a joint venture		(1,132)	(163)
Share of losses of associates		<u>(492)</u>	<u>(1,001)</u>
Loss before taxation		(15,059)	(5,237)
Income tax credit		<u>2,381</u>	<u>557</u>
Loss for the period	6	<u><u>(12,678)</u></u>	<u><u>(4,680)</u></u>
Attributable to:			
Equity shareholders of the Company		(11,438)	(3,273)
Non-controlling interests		<u>(1,240)</u>	<u>(1,407)</u>
Loss for the period		<u><u>(12,678)</u></u>	<u><u>(4,680)</u></u>
Earnings per share		<i>HK cents</i>	<i>HK cents</i>
Basic losses per share		<u><u>(2.99)</u></u>	<u><u>(0.86)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

		As at 31 March 2014	As at 31 December 2013
	Note	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		41,498	41,903
Intangible assets		12,925	13,588
Goodwill		8,945	8,937
Available-for-sale financial assets		33,026	32,996
Long term bank deposits		3,801	9,495
Interest in a joint venture	7	(18,410)	9,340
Interest in associates		7,910	8,673
Deferred tax assets		23,429	20,804
Total non-current assets		113,124	145,736
Current assets			
Trading securities		112,667	114,042
Trade and other receivables		42,889	34,467
Short term bank deposits		31,342	35,112
Current tax recoverable		3,398	3,721
Cash and cash equivalents		367,382	347,953
		<u>557,678</u>	<u>535,295</u>
Current liabilities			
Trade and other payables		(35,431)	(33,450)
Interest-bearing borrowings	8	(915)	(884)
		<u>(36,346)</u>	<u>(34,334)</u>
Net current assets		<u>521,332</u>	<u>500,961</u>
Total assets less current liabilities		634,456	646,697
Non-current liabilities			
Employee benefits		(1,963)	(1,632)
Interest-bearing borrowings	8	(31,023)	(31,229)
		<u>(32,986)</u>	<u>(32,861)</u>
NET ASSETS		<u>601,470</u>	<u>613,836</u>
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		<u>175,421</u>	<u>186,586</u>
Total equity attributable to equity shareholders of the Company		557,871	569,036
Non-controlling interests		<u>43,599</u>	<u>44,800</u>
TOTAL EQUITY		<u>601,470</u>	<u>613,836</u>

Notes:-

1. Accounting policies

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

2. Turnover

	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Revenue from external customers		
- Hospitality	21,433	22,367
Interest income	<u>494</u>	<u>991</u>
	<u>21,927</u>	<u>23,358</u>

3. Other net (losses)/gains

	Three months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
Net realised and unrealised valuation (losses)/gains on trading securities	(2,879)	8,829
Net realised and unrealised exchange losses	<u>(1,128)</u>	<u>(8,775)</u>
	<u>(4,007)</u>	<u>54</u>

4. Administrative expenses

Administrative expenses comprise mainly expenses incurred by 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	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of capitalised transaction costs	31	—
Interest expenses on borrowings	<u>349</u>	<u>—</u>
	<u>380</u>	<u>—</u>

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

	Three months ended	
	31 March	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	691	614
Amortisation of intangible assets	675	677
Operating lease charges — rental of properties	504	458
Dividend and interest income	<u>(494)</u>	<u>(991)</u>

7. Interest in a joint venture

	As at	As at
	31 March	31 December
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment	27,046	27,046
Share of post-acquisition accumulated losses	(18,782)	(17,650)
Share of post-acquisition exchange reserves	(63)	(56)
Share of post-acquisition distributions in excess of profits	<u>(26,611)</u>	<u>—</u>
	<u>(18,410)</u>	<u>9,340</u>

8. Interest-bearing borrowings

	As at 31 March 2014 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>
Term loan (secured)	31,621	31,756
Finance lease liabilities	<u>317</u>	<u>357</u>
	<u>31,938</u>	<u>32,113</u>
Repayable:		
- Within 1 year	915	884
- Between 1 and 5 years	4,569	4,573
- After 5 years	<u>26,454</u>	<u>26,656</u>
	<u>31,938</u>	<u>32,113</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\$39.2 million as at 31 March 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 31 March 2014; and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 31 March 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 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 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 was HK\$299.1 million as at 31 March 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.

9. Capital commitments contracted but not provided for

	As at 31 March 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>160,921</u>	<u>160,778</u>

On 3 June 2013, the Group's direct wholly-owned subsidiary, CES Capital Limited has 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. As at 31 March 2014, CES Capital Limited has contributed US\$4.3 million (approximately HK\$33.0 million) to the Fund.

Recently, CES Capital Limited was informed that the investment period of the Fund was terminated as of 15 April 2014 in accordance with the partnership agreements. Accordingly, the Fund shall not make any capital call in order for the Fund to make any new investment other than the committed investment. The Company is in the process of seeking professional advice to clarify its legal position.

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.

BUSINESS REVIEW AND PROSPECTS

The Group recorded a net loss attributable to the equity shareholders of the Company of HK\$11.4 million as compared with a net loss attributable to the equity shareholders of the Company of HK\$3.3 million in the previous corresponding period. The Group's loss for the period under review can be attributed mainly to the unrealized valuation loss of HK\$2.9 million from the Group's securities holding as at 31 March 2014 and loss before tax of HK\$4.7 million from the Group's U.S. hotel management arm, Richfield Hospitality.

The Group's U.S. hotel management arm, Richfield Hospitality, recorded lower management fee income of HK\$6.4 million, down by HK\$1.6 million or 19.8% from HK\$8.0 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 and the departure of several senior executives. As a result, higher administrative expenses were incurred due to the reorganization, 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\$4.7 million was incurred for the period under review as compared with a loss of HK\$0.4 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK\$5.6 million, down slightly by HK\$0.3 million from the previous corresponding period. The profit contribution was less than HK\$0.1 million from HK\$0.9 million in the previous corresponding period due mainly to the drop in revenue 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\$8.8 million, up by 22% from HK\$7.2 million in the previous corresponding period. For the period under review, SHR incurred a lower loss at HK\$1.1 million as compared with HK\$2.4 million in the previous corresponding period. Currently, there are over 4,000 hotels using SHR's technologically-advanced Central Reservation System ("CRS"). This includes over 100 hotels managed by the Millennium & Copthorne Hotels plc Group, which were migrated to SHR's CRS platform with effect from early March 2014.

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\$1.1 million

for the period under review as compared with a share of loss of HK\$0.2 million in the previous corresponding period. The higher share of loss is mainly due to decreased revenue as a result of lower occupancy 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\$0.5 million for the period under review, as compared to a share of losses of HK\$1.0 million in the previous corresponding period.

On the Group's Investment Holding segment, the net realised and unrealised valuation loss of HK\$2.9 million was recognised from the Group's securities holding as at 31 March 2014. Net realised and unrealised foreign exchange loss of HK\$1.1 million was also recorded, which mainly arose from the Renminbi denominated cash deposits. Overall, the total net realised and unrealised losses of HK\$4.0 million was recorded for the period under review as compared with the total net realised and unrealised gains of less than HK\$0.1 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

Hong Kong, 12 May 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.