

General Announcement::Announcement by Subsidiary Company, City e-Solutions Limited

Issuer & Securities

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Announcement Details

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Attachments	<p>11112015_CES_Unaudited_Nine_Month_Results.pdf</p> <p>Total size =44K</p>

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City e-Solutions Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 557)

UNAUDITED FINANCIAL RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

SUMMARY

To provide the market with updated information, the board (the “Board”) of directors (the “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 nine months ended 30 September 2015 (the “Period”).

The unaudited consolidated loss attributable to equity shareholders of the Company for the Period was approximately HK\$29.8 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 of the Company announces the unaudited consolidated financial results of the Company and the Group for the Period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (unaudited)

		Nine months ended	
		30 September	
		2015	2014
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	70,621	76,773
Cost of sales		<u>(13,737)</u>	<u>(14,410)</u>
Gross profit		56,884	62,363
Other net (losses)/gains	3	(19,113)	1,047
Administrative expenses	4	<u>(73,130)</u>	<u>(79,679)</u>
Loss from operating activities		(35,359)	(16,269)
Finance costs	5	(1,170)	(1,194)
Share of profit of a joint venture		473	1,108
Share of (loss)/profit of associates		<u>(263)</u>	<u>1,085</u>
Loss before taxation		(36,319)	(15,270)
Income tax credit		<u>3,459</u>	<u>3,651</u>
Loss for the period	6	<u><u>(32,860)</u></u>	<u><u>(11,619)</u></u>
 Attributable to:			
Equity shareholders of the Company		(29,753)	(12,584)
Non-controlling interests		<u>(3,107)</u>	<u>965</u>
Loss for the period		<u><u>(32,860)</u></u>	<u><u>(11,619)</u></u>
 Earnings per share			
		<i>HK cents</i>	<i>HK cents</i>
Basic losses per share		<u><u>(7.78)</u></u>	<u><u>(3.29)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

	As at 30 September 2015	As at 31 December 2014
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	43,571	41,904
Intangible assets	8,842	10,873
Goodwill	8,935	8,942
Available-for-sale financial assets	32,988	33,016
Long term bank deposits	3,797	9,780
Interest in associates	8,020	8,880
Deferred tax assets	28,393	24,632
Total non-current assets	134,546	138,027
Current assets		
Trading securities	93,694	111,197
Trade and other receivables	24,043	30,274
Short term bank deposits	9,772	17,101
Current tax recoverable	1,736	4,630
Cash and cash equivalents	<u>367,682</u>	<u>372,824</u>
	496,927	536,026
Current liabilities		
Trade and other payables	(22,258)	(29,924)
Interest-bearing borrowings	7 <u>(930)</u>	<u>(969)</u>
	(23,188)	(30,893)
Net current assets	<u>473,739</u>	<u>505,133</u>
Total assets less current liabilities	608,285	643,160
Non-current liabilities		
Dividends received in excess of earnings from equity-method accounted joint venture	(18,939)	(17,256)
Interest-bearing borrowings	7 <u>(29,772)</u>	<u>(30,394)</u>
	<u>(48,711)</u>	<u>(47,650)</u>
NET ASSETS	<u>559,574</u>	<u>595,510</u>
CAPITAL AND RESERVES		
Share capital	382,450	382,450
Reserves	<u>134,998</u>	<u>167,784</u>
Total equity attributable to equity shareholders of the Company	517,448	550,234
Non-controlling interests	<u>42,126</u>	<u>45,276</u>
TOTAL EQUITY	<u>559,574</u>	<u>595,510</u>

Notes:-

1. Accounting policies

The Group's unaudited consolidated financial results for the nine months ended 30 September 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 nine months ended 30 September 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") and Hong Kong Accounting Standards ("HKAS") 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 (Chapter 622 of the Laws of Hong Kong) 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

	Nine months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
Revenue from external customers		
- Investment holding	1,750	3,070
- Hospitality	66,267	72,095
Interest income	<u>2,604</u>	<u>1,608</u>
	<u>70,621</u>	<u>76,773</u>

3. Other net (losses)/gains

	Nine months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Net realised and unrealised valuation losses on trading securities	(15,962)	(786)
Net realised and unrealised exchange losses	(6,551)	(2,423)
Gain on striking-off a dormant subsidiary	2,779	—
Miscellaneous proceeds	721	4,264
Loss on disposal of property, plant and equipment	<u>(100)</u>	<u>(8)</u>
	<u>(19,113)</u>	<u>1,047</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

	Nine months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Amortisation of capitalised transaction costs	93	93
Interest expenses on borrowings	<u>1,077</u>	<u>1,101</u>
	<u>1,170</u>	<u>1,194</u>

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

	Nine months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	2,534	2,102
Amortisation of intangible assets	2,022	2,023
Operating lease charges — rental of properties	2,154	1,248
Dividend and interest income	<u>(4,354)</u>	<u>(4,678)</u>

7. Interest-bearing borrowings

	As at 30 September 2015	As at 31 December 2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Term loan (secured)	30,594	31,130
Finance lease liabilities	<u>108</u>	<u>233</u>
	<u><u>30,702</u></u>	<u><u>31,363</u></u>
Repayable:		
- Within 1 year	930	969
- After 1 year but within 5 years	4,704	3,652
- After 5 years	<u>25,068</u>	<u>26,742</u>
	<u><u>30,702</u></u>	<u><u>31,363</u></u>

The Group's 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\$38.1 million as at 30 September 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\$2.1 million as at 30 September 2015; and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 30 September 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 for Sheraton Chapel Hill Hotel as mentioned above. The term guarantee expires on 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 expires on 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 expire on 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\$292.2 million as at 30 September 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\$29.8 million for the Period as compared with a net loss attributable to the equity shareholders of the Company of HK\$12.6 million in the previous corresponding period due mainly to the unrealised valuation losses from the Group's securities holding as at 30 September 2015.

The Group's Investment Holding segment recorded net realised and unrealised valuation loss of HK\$15.8 million from the Group's securities holding as at 30 September 2015. Net realised and unrealised foreign exchange loss of HK\$6.5 million was also recorded, which mainly arose from the conversion of Sterling Pound denominated cash deposits to United States Dollars and from the unfavourable currency movements on the Sterling Pound denominated security holding and Renminbi denominated cash deposits. Overall, the total net realised and unrealised losses of HK\$22.3 million was recorded for the Period as compared with the total net realised and unrealised losses of HK\$3.0 million in the previous corresponding period. However, a 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. Consequently, the Group's Investment Holding segment reported a pre-tax loss of HK\$22.6 million for the Period as compared with a pre-tax loss of HK\$10.0 million in the previous corresponding period.

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, recorded lower management fee income of HK\$7.7 million for the Period, down by HK\$10.0 million or 56.6% from HK\$17.7 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\$11.5 million for the Period as compared with a loss of HK\$12.1 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK\$18.2 million, lower from the previous corresponding period by HK\$0.2 million. Consequently, the profit contribution decreased to HK\$1.4 million from HK\$1.7 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 of HK\$37.3 million, up by HK\$4.2 million or 13.0% from HK\$33.1 million in the previous corresponding period. However, SHR incurred higher administrative expenses during the Period to support the revenue growth, resulting in a higher operating loss of HK\$3.7 million as compared with an operating loss of HK\$1.3 million in the previous corresponding period. During the previous corresponding period, SHR received one-time legal proceeds of HK\$4.3 million as final settlement of a contractual obligation arising from the acquisition of Whiteboard Labs, LLC.

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\$0.5 million for the Period as compared with a share of profit of HK\$1.1 million in the previous corresponding period. The lower share of profit was mainly due to decreased revenue as a result of lower occupancy rates achieved by the hotel for the Period as compared to the previous corresponding period.

The Group recognised share of losses from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of HK\$0.3 million for the Period, as compared to a share of profit of HK\$1.1 million in the previous corresponding period.

Consequently, the Group's Hospitality segment reported a pre-tax operating loss of HK\$13.7 million for the Period as compared with a pre-tax operating loss of HK\$9.5 million in the previous corresponding period.

The Group remains cautious in the midst of the global uncertainty, though in the U.S. real estate and hospitality markets have remained active. The Group is in consultation with its partner to study market interests in our investments.

Meanwhile, we also seek out for suitable investment opportunities to expand.

The Group will continue to grow the hospitality reservation business and to adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities.

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, 11 November 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.