

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

Issuer & Securities

Issuer/ Manager	CITY DEVELOPMENTS LIMITED
Securities	CITY DEVELOPMENTS LIMITED - SG1R89002252 - C09
Stapled Security	No

Announcement Details

Announcement Title	General Announcement
Date & Time of Broadcast	10-May-2016 19:09:22
Status	New
Announcement Sub Title	Announcement by Subsidiary Company, City e-Solutions Limited
Announcement Reference	SG160510OTHONNE
Submitted By (Co./ Ind. Name)	Enid Ling Peek Fong
Designation	Company Secretary
Description (Please provide a detailed description of the event in the box below)	Please refer to the Announcement issued by City e-Solutions Limited on 10 May 2016 relating to the Unaudited Financial Results for the Three Months Ended 31 March 2016.
Attachments	@05102016_CES_Unaudited_Three_Month_Results.pdf Total size =45K

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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 2016

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 three months ended 31 March 2016 (the “Period”).

The unaudited consolidated loss attributable to equity shareholders of the Company for the three months ended 31 March 2016 was approximately HK\$17.3 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)

		Three months ended	
		31 March	
		2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>		
Revenue	2	23,330	21,178
Cost of sales		<u>(5,235)</u>	<u>(4,860)</u>
Gross profit		18,095	16,318
Other net losses	3	(10,094)	(3,178)
Administrative expenses	4	<u>(24,859)</u>	<u>(23,599)</u>
Loss from operating activities		(16,858)	(10,459)
Finance costs	5	(365)	(372)
Share of losses of a joint venture		(1,103)	(899)
Share of losses of associates		<u>(645)</u>	<u>(628)</u>
Loss before taxation		(18,971)	(12,358)
Income tax (expense)/credit		<u>(54)</u>	<u>2,651</u>
Loss for the period	6	<u><u>(19,025)</u></u>	<u><u>(9,707)</u></u>
 Attributable to :			
Equity shareholders of the Company		(17,316)	(8,039)
Non-controlling interests		<u>(1,709)</u>	<u>(1,668)</u>
Loss for the period		<u><u>(19,025)</u></u>	<u><u>(9,707)</u></u>
 Earnings per share			
Basic losses per share		<u><u>(4.53)</u></u>	<u><u>(2.10)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	As at	As at
	31 March	31 December
	2016	2015
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	42,759	43,351
Intangible assets	7,499	8,167
Goodwill	8,942	8,934
Available-for-sale financial assets	33,014	32,985
Long term bank deposits	3,800	3,797
Interest in associates	7,569	8,322
Deferred tax assets	10,190	10,183
Total non-current assets	113,773	115,739
Current assets		
Trading securities	76,017	87,498
Trade and other receivables	32,960	32,507
Short term bank deposits	5,979	5,974
Current tax recoverable	2,637	2,681
Cash and cash equivalents	361,970	365,481
	<u>479,563</u>	<u>494,141</u>
Current liabilities		
Trade and other payables	(30,818)	(29,461)
Interest-bearing borrowings	7 (853)	(899)
Provision for taxation	(23)	(22)
	<u>(31,694)</u>	<u>(30,382)</u>
Net current assets	<u>447,869</u>	<u>463,759</u>
Total assets less current liabilities	561,642	579,498
Non-current liabilities		
Dividends received in excess of earnings from equity-method accounted joint venture	(20,606)	(19,487)
Interest-bearing borrowings	7 (29,438)	(29,591)
	<u>(50,044)</u>	<u>(49,078)</u>
NET ASSETS	<u><u>511,598</u></u>	<u><u>530,420</u></u>
CAPITAL AND RESERVES		
Share capital	382,450	382,450
Reserves	<u>92,502</u>	<u>109,653</u>
Total equity attributable to equity shareholders of the Company	474,952	492,103
Non-controlling interests	<u>36,646</u>	<u>38,317</u>
TOTAL EQUITY	<u><u>511,598</u></u>	<u><u>530,420</u></u>

Notes:-

1. Accounting policies

The Group's unaudited consolidated financial results for the three months ended 31 March 2016 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 2016 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 2015, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out below.

The Hong Kong Institute of Certified Public Accountants 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 1, *Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to HKAS 27, *Equity method in separate financial statements*
- Amendments to HKFRS 10, *Sale or contribution of assets between an investor and its associate or joint venture*
- Amendments to HKFRS 11, *Accounting for acquisition of interests in joint operations*
- *Annual Improvements to HKFRSs 2012-2014 Cycle*

The adoption of the above amendments 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. Revenue

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
Revenue from external customers		
— Hospitality related services	21,674	20,030
Dividend income	900	—
Interest income	756	1,148
	<u>23,330</u>	<u>21,178</u>

3. Other net losses

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
Net realised and unrealised valuation (loss)/gain on trading securities	(7,464)	423
Net realised and unrealised exchange losses	(2,630)	(6,280)
Gain on striking-off a dormant subsidiary	—	2,779
Loss on disposal of property, plant and equipment	—	(100)
	<u>(10,094)</u>	<u>(3,178)</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	
	2016	2015
	HK\$'000	HK\$'000
Amortisation of capitalised transaction costs	31	31
Interest expenses on borrowings	<u>334</u>	<u>341</u>
	<u>365</u>	<u>372</u>

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

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	1,034	783
Amortisation of intangible assets	676	674
Operating lease charges — rental of properties	955	729
Dividend and interest income	<u>(1,656)</u>	<u>(1,148)</u>

7. Interest-bearing borrowings

	As at 31 March 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Term loan (secured)	30,268	30,428
Finance lease liabilities	<u>23</u>	<u>62</u>
	<u>30,291</u>	<u>30,490</u>
Repayable:		
— Within 1 year	<u>853</u>	<u>899</u>
— After 1 year but within 2 years	908	873
— After 2 years but within 5 years	2,853	2,846
— After 5 years	<u>25,677</u>	<u>25,872</u>
	<u>29,438</u>	<u>29,591</u>
	<u>30,291</u>	<u>30,490</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\$37.5 million as at 31 March 2016;
- 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\$1.9 million as at 31 March 2016; and
- guarantee by Richfield Hospitality, Inc (“RHI”), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 31 March 2016, 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 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, which was due to expire on 1 March 2016, has been extended to 1 June 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\$289.5 million as at 31 March 2016.

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\$17.3 million for the Period as compared with a net loss attributable to the equity shareholders of the Company of HK\$8.0 million in the previous corresponding period, due mainly to the unrealised valuation losses from the Group's securities holding as at 31 March 2016.

The Group's Investment Holding segment recognised net realised and unrealised valuation loss of HK\$7.5 million from the Group's securities holding as at 31 March 2016. Net realised and unrealised foreign exchange loss of HK\$2.6 million was also recorded, which mainly arose from the Sterling Pound denominated securities holdings. Overall, total net realised and unrealised losses of HK\$10.1 million was recorded for the Period as compared with the total net realised and unrealised loss of HK\$5.9 million in the previous corresponding period. During the previous corresponding period, a one-off foreign exchange gain of HK\$2.8 million was realised from striking off a Group's dormant subsidiary. Consequently, the Group's Investment Holding segment reported a loss before tax of HK\$11.8 million for the Period as compared with a loss before tax of HK\$3.9 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\$2.4 million for the Period, down by HK\$0.4 million or 14.7% from HK\$2.8 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\$4.3 million for the Period as compared with a loss of HK\$5.4 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK\$6.1 million, higher from the previous corresponding period by HK\$0.2 million. The increase in revenue was offset by higher administrative expenses and resulted in a lower profit contribution of HK\$0.4 million as compared to HK\$0.3 million in the previous corresponding period.

The Group's 51% equity interest in Sceptre Hospitality Resources ("SHR"), a hospitality industry expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue amounting to HK\$13.3 million, up by HK\$2.3 million or 20.8% from HK\$11.0 million in the previous corresponding period. However, SHR incurred higher administrative expenses during the Period to support the revenue growth, resulting in a loss of HK\$1.5 million as compared with HK\$1.9 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\$1.1 million for the Period as compared with a share of loss of HK\$0.9 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 as compared to the previous corresponding period.

Consequently, the Group's Hospitality segment reported a loss before tax of HK\$7.1 million for the Period as compared with a loss before tax of HK\$8.4 million in the previous corresponding period.

The Group had not recognised deferred tax assets in respect of current tax losses as it is not probable that there will be sufficient future taxable profits against which these tax losses can be utilised. This resulted in an income tax charge of HK\$0.1 million for the Period, as compared to an income tax credit of HK\$2.7 million for the previous corresponding period.

The Group remains in regular consultation with its joint venture partners to respond to market interests in our investments.

As in the past, the Group continues to explore the growth of 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.

In reference to the announcements of the Company made on 15 and 29 April 2016 in relation to the possible disposal ("Possible Transaction") of interests held in the Company by City Developments Limited, a controlling shareholder of the Company, through its subsidiaries, the Board understands that no formal and legally binding sale and purchase agreement has been entered into in respect of the Possible Transaction up to the date of the last announcement on 29 April 2016. The Board has not received any further notification from City Developments Limited on the same as at the date of this announcement, and there is no assurance that a binding sale and purchase agreement will be entered. The Board understands that discussions are still in progress and the Possible Transaction may or may not proceed.

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, 10 May 2016

As at the date of this announcement, the Board is comprised of 8 directors, of which 3 are executive directors, namely Mr. Kwek Leng Beng, 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.