



City e-Solutions Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 557)

2014

**Interim financial report
for the six months ended 30 June 2014**

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Turnover	3	51,382	52,795
Cost of sales		<u>(9,153)</u>	<u>(9,441)</u>
Gross profit		42,229	43,354
Other net gains	4	9,486	2,274
Administrative expenses	5	<u>(51,510)</u>	<u>(45,877)</u>
Profit/(Loss) from operating activities		205	(249)
Finance costs	6	(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)	7	<u>1,357</u>	<u>(574)</u>
Profit for the period	8	<u>1,166</u>	<u>253</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>1,166</u>	<u>253</u>
Earnings per share		HK cents	HK cents
Basic earnings per share	9	<u>0.01</u>	<u>0.30</u>

The notes on pages 9 to 24 form part of this interim financial report.

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	(16)	-
Total comprehensive income for the period	<u>1,130</u>	<u>(339)</u>
Attributable to:		
Equity shareholders of the Company	47	547
Non-controlling interests	1,083	(886)
Total comprehensive income for the period	<u>1,130</u>	<u>(339)</u>

The notes on pages 9 to 24 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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	11	32,746	34,467
Short term bank deposits		33,206	35,112
Current tax recoverable		3,341	3,721
Cash and cash equivalents	12	366,472	347,953
		<u>550,417</u>	<u>535,295</u>
Current liabilities			
Trade and other payables	13	(26,570)	(33,450)
Interest-bearing borrowings	14	(914)	(884)
		<u>(27,484)</u>	<u>(34,334)</u>
Net current assets		522,933	500,961
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	14	(30,788)	(31,229)
		<u>(47,898)</u>	<u>(32,861)</u>
NET ASSETS		614,966	613,836

	<i>Note</i>	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		186,633	186,586
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		569,083	569,036
Non-controlling interests		45,883	44,800
		<hr/>	<hr/>
TOTAL EQUITY		<u>614,966</u>	<u>613,836</u>

The notes on pages 9 to 24 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 – unaudited

Attributable to equity shareholders of the Company

	Share Capital <i>HK\$'000</i>	Capital Redemption Reserve <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Revenue Reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- Controlling Interests <i>HK\$'000</i>	Total Equity <i>HK\$'000</i>
Balance at 1 January 2013	382,450	676	3,016	166,446	552,588	46,113	598,701
Changes in equity for the six months ended 30 June 2013:							
Profit/(Loss) for the period	-	-	-	1,148	1,148	(895)	253
Other comprehensive income							
Exchange differences on translation of financial statements of foreign operations	-	-	(601)	-	(601)	9	(592)
Total comprehensive income for the period	-	-	(601)	1,148	547	(886)	(339)
Balance at 30 June 2013	<u>382,450</u>	<u>676</u>	<u>2,415</u>	<u>167,594</u>	<u>553,135</u>	<u>45,227</u>	<u>598,362</u>
Balance at 1 January 2014	382,450	676	2,295	183,615	569,036	44,800	613,836
Changes in equity for the six months ended 30 June 2014:							
Profit for the period	-	-	-	57	57	1,109	1,166
Other comprehensive income							
Exchange differences on translation of financial statements of foreign operations	-	-	6	-	6	(26)	(20)
Exchange differences on monetary item forming net investment in a foreign operation	-	-	(16)	-	(16)	-	(16)
Total comprehensive income for the period	-	-	(10)	57	47	1,083	1,130
Balance at 30 June 2014	<u>382,450</u>	<u>676</u>	<u>2,285</u>	<u>183,672</u>	<u>569,083</u>	<u>45,883</u>	<u>614,966</u>

The notes on pages 9 to 24 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities		(8,796)	22,963
Net cash generated from/(used in) investing activities		28,570	(39,517)
Net cash (used in)/generated from financing activities		<u>(1,707)</u>	<u>30,479</u>
Net increase in cash and cash equivalents		18,067	13,925
Cash and cash equivalents at 1 January		346,744	376,452
Effect of foreign exchange rates changes		<u>(67)</u>	<u>(2,938)</u>
Cash and cash equivalents at 30 June (Note A)		<u><u>364,744</u></u>	<u><u>387,439</u></u>

Note A:

Cash and cash equivalents at 30 June 2014 and 30 June 2013 comprises:

	<i>Note</i>	As at 30 June 2014 HK\$'000	As at 30 June 2013 HK\$'000
Deposits with banks and other financial institutions		246,054	239,110
Cash at bank and in hand		<u>120,418</u>	<u>149,764</u>
Cash and cash equivalents per consolidated statement of financial position		366,472	388,874
Less: Cash pledged for interest-bearing borrowings	14	<u>(1,728)</u>	<u>(1,435)</u>
Cash and cash equivalents per condensed consolidated cash flow statement		<u><u>364,744</u></u>	<u><u>387,439</u></u>

The notes on pages 9 to 24 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 12 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, 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 in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has 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. KPMG LLP’s independent review report to the Board of Directors is included on pages 25 and 26. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 February 2014.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new 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.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following two reportable segments based on the information that is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment:

- Investment holding: This segment relates to investments in listed equity and unlisted marketable equity mutual funds classified as trading securities and investment in an unlisted equity fund classified as available-for-sale financial assets. Currently, the Group's equity investment portfolio classified as trading securities includes equity securities listed on the London Stock Exchange, NASDAQ Stock Market and The Philippine Stock Exchange, Inc. and investment portfolio in the United States and Hong Kong.

- Hospitality: This segment primarily derives the revenue from the provision of hotel management, hotel reservation, and revenue management services, risk management services and procurement services to the hospitality industry as well as owning and managing hotels. Currently, the Group’s activities in this regard are mainly carried out in the United States.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group’s most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group’s senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets, goodwill and current assets with the exception of deferred tax assets and current tax recoverable. Segments liabilities include interest-bearing borrowings, trade and other payables and dividends received in excess of earnings from equity-method accounted joint venture.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group’s share of revenue and expense arising from the activities of the Group’s joint operation.

The measure used for reporting segment profit is “profit from operations”. In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, net realised and unrealised foreign exchange gain/loss, net realised and unrealised valuation gain/loss on trading securities and additions to non-current segment assets used by the segments in their operations.

(b) Information about profit or loss, assets and liabilities

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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>For the six months ended 30 June:</i>						
Revenue from external customers	3,070	1,513	47,245	49,623	50,315	51,136
Interest income	958	981	109	678	1,067	1,659
Reportable segment revenue	4,028	2,494	47,354	50,301	51,382	52,795
Reportable segment profit/(loss)	2,133	(624)	(2,324)	1,451	(191)	827
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

(c) Reconciliations of reportable segment assets and liabilities

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Assets		
Reportable segment assets	664,634	656,506
Deferred tax assets	22,373	20,804
Current tax recoverable	3,341	3,721
	<hr/>	<hr/>
Consolidated total assets	<u>690,348</u>	<u>681,031</u>
Liabilities		
Reportable segment liabilities	75,382	67,195
	<hr/>	<hr/>
Consolidated total liabilities	<u>75,382</u>	<u>67,195</u>

4. OTHER NET GAINS

	Six months ended 30 June	
	2014 HK\$'000	2013 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
	<hr/>	<hr/>
	<u>9,486</u>	<u>2,274</u>

5. 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.

6. FINANCE COSTS

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

7. INCOME TAX CREDIT/(EXPENSE)

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

8. PROFIT FOR THE PERIOD

Profit for the period is arrived at 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
Dividends and interest income	(4,137)	(3,172)
	<u> </u>	<u> </u>

9. 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.

10. DIVIDENDS

- a) Dividends 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) Dividends 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.

11. 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	852	411
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	736	1,054
Loans and receivables	27,283	25,843
Prepayments	5,463	8,624
	<u>32,746</u>	<u>34,467</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.

12. CASH AND CASH EQUIVALENTS

	As at 30 June 2014 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>
Deposits with banks and other financial institutions	246,054	245,821
Cash at bank and in hand	<u>120,418</u>	<u>102,132</u>
Cash and cash equivalents per consolidated statement of financial position	366,472	347,953
Less: Cash pledged for interest-bearing borrowings (Note 14)	<u>(1,728)</u>	<u>(1,209)</u>
Cash and cash equivalents available for use by the Group	<u><u>364,744</u></u>	<u><u>346,744</u></u>

13. TRADE AND OTHER PAYABLES

	As at 30 June 2014 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>
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	4,787	9,067
	<u>26,570</u>	<u>33,450</u>

14. 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	278	357
	<u>31,702</u>	<u>32,113</u>
Repayable:		
Within 1 year	914	884
Between 1 and 5 years	2,696	4,573
After 5 years	28,092	26,656
	<u>31,702</u>	<u>32,113</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.

15. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of inputs used in the valuation techniques as follows:

- Level 1 valuations: fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: fair value measured using significant unobservable inputs.

	Fair value	Fair value measurements as			Fair value	Fair value measurements as		
	at 30 June 2014	at 30 June 2014 categorised into			at 31 December 2013	at 31 December 2013 categorised into		
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements								
Asset:								
Equity securities held for trading:								
- Listed	97,208	97,208	-	-	94,995	94,995	-	-
- Unlisted	17,444	1,658*	-	15,786	19,047	6,519*	-	12,528
	<u>114,652</u>	<u>98,866</u>	<u>-</u>	<u>15,786</u>	<u>114,042</u>	<u>101,514</u>	<u>-</u>	<u>12,528</u>

- * The unlisted equity securities relate to the Group's defined contribution plan. The plan invests in listed securities and hence the fair value of the plan follows the fair value of the underlying securities which can be measured using quoted price (unadjusted) in active markets.

During the period ended 30 June 2014 and the year ended 31 December 2013, there were no transfers between levels.

The movement in the Level 3 financial instruments measured at fair value is as follows:

Financial assets at fair value through profit or loss

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
At 1 January	12,528	7,668
Net unrealised gain recognised in profit or loss	<u>3,258</u>	<u>4,860</u>
At 30 June/31 December	<u><u>15,786</u></u>	<u><u>12,528</u></u>

The gain or loss for the period recognised in profit or loss of the unlisted equity securities is presented in “other net gains” in the consolidated statement of profit or loss.

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values. For fair value measurement in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

	As at 30 June 2014 <i>HK\$'000</i>	As at 31 December 2013 <i>HK\$'000</i>
<i>Financial assets at fair value through profit or loss – Equity securities:</i>		
Fair value	15,786	12,528
Effect on fair value:		
– Favourable change	32	20
– Unfavourable change	<u>(32)</u>	<u>(20)</u>

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated based on the recent fluctuation in the underlying equity prices of the equity investment which is determined to be 7% (2013: 4%).

- (b) Financial instruments not measured at fair value but for which the fair value is disclosed

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013 except for available-for-sale equity securities and fixed rate borrowings.

Fair value information has not been disclosed for the Group's available-for-sale equity securities that are carried at cost of HK\$33.0 million (31 December 2013: HK\$33.0 million) because fair value cannot be measured reliably. These equity securities represent the capital contribution in a fund that is not quoted on any market. The Group does not intend to dispose this investment in the foreseeable future.

The carrying amounts and fair values of the fixed rate borrowings are as follows:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Carrying amount	(31,702)	(32,113)
Fair value	<u>(31,961)</u>	<u>(35,995)</u>

16. COMMITMENTS

- (a) Operating lease commitments

At 30 June 2014 and 31 December 2013, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Within 1 year	1,318	1,515
After 1 year within 5 years	<u>1,445</u>	<u>2,843</u>
	<u>2,763</u>	<u>4,358</u>

The above leases run for an initial period between one to three years. One of the leases includes an option to renew the lease on expiry. The leases do not include contingent rental.

(b) 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.	-	160,778

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.

17. MATERIAL RELATED PARTY TRANSACTIONS

During the period, there were the following material related party transactions:

	Six months ended 30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income received from related company	3,070	1,513
Income received from provision of hospitality and other related services to related companies	2,182	2,000
Tax service fee paid to a related company	(202)	(202)
Corporate secretarial fee paid to the immediate holding company	(359)	(77)
Accounting fee paid to a related company	(184)	(187)

INDEPENDENT REVIEW REPORT

**To the Board of Directors of City e-Solutions Limited
(Incorporated in the Cayman Islands with limited liability)**

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 24 which comprises the consolidated statement of financial position of City e-Solutions Limited as of 30 June 2014 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG LLP

Public Accountants and Chartered Accountants

16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581
12 August 2014

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 rate 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.

Financial Position, Cash Flow and Borrowings

As at 30 June 2014, the Group's total assets stood at HK\$690.3 million, up from HK\$681.0 million as at 31 December 2013. The Group's net tangible assets per share remains at HK\$1.43 as at 30 June 2014, as compared to HK\$1.43 as at 31 December 2013.

The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollars.

For the period under review, net cash outflow from operating activities amounted to HK\$8.8 million. Cash flows from investing activities amounted to HK\$28.6 million, which was mainly due to distribution received from the Group's investment in a joint venture. Cash outflow from financing activities amounting to HK\$1.7 million was due to the payment of the term loan and attributable interest for the refinancing of Sheraton Chapel Hill Hotel.

Overall, there was an increase of HK\$18.0 million in net cash which resulted in the total Group's cash and cash equivalents of HK\$364.7 million as at 30 June 2014, up from HK\$346.7 million as at 31 December 2013.

Taking into account of the Group's bank borrowings of HK\$31.7 million, the Group was in a net cash position amounting to HK\$333.0 million as at 30 June 2014. Hence, the Group's gearing is zero, which is expressed as a percentage of current and non-current loans and borrowings less cash and cash equivalents over total equity attributable to equity shareholders of the Company.

As at 30 June 2014, the Group's bank borrowings amounted to HK\$31.7 million (31 December 2013: HK\$32.1 million), of which HK\$0.9 million was current, as recorded in the portion of short-term borrowing repayable within a period of one year, and HK\$30.8 million was non-current and will be repayable within a period of more than one year. The bank loans of the Group are secured over Sheraton Chapel Hill Hotel with a carrying amount of HK\$38.9 million and pledge of monies in specific bank accounts of HK\$1.7 million. In addition, as at 30 June 2014, the Group has fully complied with the financial covenants agreed with the financial institutions.

Treasury Activities

Majority of the Group's cash is held in United States dollar, Sterling Pound, Chinese Renminbi and Singapore dollar cash deposits. It is the Group's view to maximise returns to shareholders and hence a portion of its portfolio is held in various currencies. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees

As at 30 June 2014, the Group had a total of 66 employees including Directors but excluding employees from Sheraton Chapel Hill Hotel, down from 76 as at 31 December 2013. There were 60 employees from Sheraton Chapel Hill Hotel as at 30 June 2014.

The total payroll costs, including the Group's share of payroll costs for Sheraton Chapel Hill Hotel, were HK\$34.2 million as compared with HK\$32.2 million in the previous corresponding period. The increase in payroll costs can be mainly attributed to the employees for the Hospitality segment.

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 set out in the Corporate Governance Code ("CG Code") as 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 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.

DIRECTORS' INTERESTS IN SHARES

- (a) As at 30 June 2014, the interests of the Directors and Chief Executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("The Stock Exchange") pursuant to the Model Code were as follows:-

Name of Director

The Company	Nature of Interest	Number of Ordinary Shares of HK\$1.00 each
Kwek Leng Beng	personal	3,286,980
Kwek Leng Joo	personal	1,436,000
Gan Khai Choon	personal	1,041,100
Lawrence Yip Wai Lam	personal	520,550
Chan Bernard Charnwut	personal	53,850

City Developments Limited	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	397,226
Kwek Leng Joo	personal	65,461
Gan Khai Choon	personal	100,000
	family	25,000

City Developments Limited	Nature of Interest	Number of Preference Shares
Kwek Leng Beng	personal	144,445
Kwek Leng Joo	personal	100,000
Gan Khai Choon	personal	49,925
	family	25,738

Hong Leong Investment Holdings Pte. Ltd.	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	2,320
Kwek Leng Joo	personal	1,290
Gan Khai Choon	family	247

Name of Chief Executive Officer

Hong Leong Investment Holdings Pte. Ltd.	Nature of Interest	Number of Ordinary Shares
Sherman Kwek Eik Tse	personal	1,174

Name of Director

Millennium & Copthorne Hotels plc	Nature of Interest	Number of Ordinary Shares of 30 pence each
Lawrence Yip Wai Lam	personal	52,081

Millennium & Copthorne Hotels New Zealand Limited	Nature of Interest	Number of Ordinary Shares
Kwek Leng Beng	personal	3,000,000

Millennium & Copthorne Hotels New Zealand Limited	Nature of Interest	Number of Preference Shares
Kwek Leng Beng	personal	1,500,000

Note: Millennium & Copthorne Hotels New Zealand Limited is an indirect subsidiary of Millennium & Copthorne Hotels plc, a subsidiary of City Developments Limited. City Developments Limited is the holding company of the Company. The Directors of the Company consider Hong Leong Investment Holdings Pte. Ltd. to be the Company's ultimate holding company.

- (b) Pursuant to Millennium & Copthorne Hotels Long Term Incentive Plan (the “LTIP”) approved by shareholders of Millennium & Copthorne Hotels plc (“M&C”) on 4 May 2006, certain Directors were awarded Performance Share Award of ordinary shares of 30 pence each as follows:

Name of Director	Date Awarded	Number of Performance Shares	Vesting Date
Lawrence Yip Wai Lam	28/11/2011	19,301	28/11/2014
	16/08/2012	9,077	16/08/2015
	11/09/2013	6,490	11/09/2016
	04/04/2014	8,980	04/04/2017

Note: Under the terms of the LTIP, M&C is permitted to make both Performance Share Awards and Deferred Share Bonus Awards to an employee (including an executive director) of M&C or its subsidiaries.

- (c) Save as disclosed herein, as at 30 June 2014, none of the Directors and the chief executive officer of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the following corporations were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Number of Shares Held	<i>Notes</i>	Percentage Holding in the Company
eMpire Investments Limited	190,523,819		49.82%
City Developments Limited	200,854,743	(1)	52.52%
Hong Leong Holdings Limited	21,356,085		5.58%
Hong Leong Investment Holdings Pte. Ltd.	230,866,817	(2)	60.37%
Davos Investment Holdings Private Limited	230,866,817	(3)	60.37%
Kwek Leng Kee	230,866,817	(4)	60.37%
Farallon Capital Offshore Investors, Inc.	35,232,850	(5)	9.21%
Aberdeen Asset Management Asia Ltd	23,052,000		6.03%
Aberdeen Asset Management plc and its Associates (together "The AAM Group") on behalf of accounts managed by The AAM Group	23,052,000	(6)	6.03%
Noonday G.P. (U.S.), L.L.C.	22,321,306		5.84%

Notes:

- Of the 200,854,743 shares beneficially owned by wholly-owned subsidiaries of City Developments Limited ("CDL") representing approximately 52.52% of the issued share capital of the Company, 190,523,819 shares are held by eMpire Investments Limited.
- The interests of CDL and Hong Leong Holdings Limited in 200,854,743 shares and 21,356,085 shares respectively, are included in the aggregate number of shares disclosed.
- The deemed interest of Hong Leong Investment Holdings Pte. Ltd. in 230,866,817 shares, representing approximately 60.37% of the issued share capital of the Company, is included in the aggregate number of shares disclosed.
- Mr Kwek Leng Kee is deemed to have an interest in the 230,866,817 shares in which Davos Investment Holdings Private Limited ("Davos") is deemed to have an interest in, by virtue of his entitlement to exercise or control the exercise of one-third or more of the voting power at general meetings of Davos.
- Farallon Capital Offshore Investors, Inc. is interested in these shares in its capacity as the beneficial owner.
- Aberdeen Asset Management plc is interested in these shares in its capacity as the investment manager and includes shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc are interested.

Save as stated above, no person or corporation was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2014.

By Order of the Board
Kwek Leng Beng
Chairman

Hong Kong, 12 August 2014