City e-Solutions Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 557)

2017

Interim financial report

for the six months ended 30 June 2017

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2017 - unaudited

		Six months ended 30 June	
	Note	**2017**	**2016**
		HK$'000	*HK$'000*
Revenue	3	54,545	50,212
Cost of sales		(10,769)	(10,217)
Gross profit		43,776	39,995
Other net gains/(losses)	4	3,308	(17,645)
Administrative expenses	5	(82,178)	(52,646)
Loss from operating activities		(35,094)	(30,296)
Finance costs	6	(694)	(730)
Share of profit of a joint venture	7	–	19,492
Share of loss of associates		(499)	(481)
Loss before taxation		(36,287)	(12,015)
Income tax expense	8	(8)	(5,302)
Loss for the period	9	(36,295)	(17,317)
Attributable to:			
Equity shareholders of the Company		(29,100)	(17,255)
Non-controlling interests		(7,195)	(62)
Loss for the period		(36,295)	(17,317)
Earnings per share		*HK Cents*	*HK Cents*
Basic losses per share	10	(7.61)	(4.51)

The notes on pages 9 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 - unaudited

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Loss for the period	(36,295)	(17,317)
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	1,171	192
Exchange differences on monetary item forming net investment in a foreign operation	214	33
Total other comprehensive income for the period	1,385	225
Total comprehensive income for the period	(34,910)	(17,092)
Attributable to:		
Equity shareholders of the Company	(27,917)	(17,064)
Non-controlling interests	(6,993)	(28)
Total comprehensive income for the period	(34,910)	(17,092)

The notes on pages 9 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 - unaudited

	Note	**As at 30 June 2017** *HK$'000*	**As at 31 December 2016** *HK$'000*
Non-current assets			
Property, plant and equipment		45,844	42,647
Intangible assets		6,220	5,475
Goodwill		8,999	8,941
Available-for-sale financial assets		18,393	18,179
Interest in associates		6,299	8,491
Prepayments	12(c)	23,608	—
Total non-current assets		109,363	83,733
Current assets			
Trading securities		23,980	74,101
Trade and other receivables	12	156,413	29,854
Current tax recoverable		2,880	2,536
Cash and cash equivalents	13	216,647	339,945
Assets held for sale	17	1,482	—
		401,402	446,436
Current liabilities			
Trade and other payables	14	(23,241)	(27,928)
Interest-bearing borrowings	15	(770)	(719)
Loan from non-controlling interests	16	(22,439)	–
Provision for taxation		(11)	(180)
		(46,461)	(28,827)
Net current assets		354,941	417,609
Total assets less current liabilities		464,304	501,342
Non-current liabilities			
Deferred rent		(976)	–
Dividends received in excess of earnings from equity-method accounted joint venture		(219)	(209)
Interest-bearing borrowings	15	(28,776)	(28,982)
Loan from non-controlling interests	16	–	(2,908)
		(29,971)	(32,099)
NET ASSETS		434,333	469,243

	Note	**As at 30 June 2017** *HK$'000*	**As at 31 December 2016** *HK$'000*
CAPITAL AND RESERVES			
Share capital		382,450	382,450
Reserves		24,288	52,205
Total equity attributable to equity shareholders of the Company		406,738	434,655
Non-controlling interests		27,595	34,588
TOTAL EQUITY		434,333	469,243

The notes on pages 9 to 25 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 – unaudited

	Attributable to equity shareholders of the Company						
	Share Capital HK$'000	Capital Redemption Reserve HK$'000	Exchange Reserve HK$'000	Revenue Reserves HK$'000	Total HK$'000	Non-Controlling Interests HK$'000	Total Equity HK$'000
Balance at 1 January 2016	382,450	676	(593)	109,570	492,103	38,317	530,420
Changes in equity for the six months ended 30 June 2016:							
Loss for the period	–	–	–	(17,255)	(17,255)	(62)	(17,317)
Other comprehensive income							
Exchange differences on translation of financial statements of foreign operations	–	–	158	–	158	34	192
Exchange differences on monetary item forming net investment in a foreign operation	–	–	33	–	33	–	33
Total comprehensive income for the period	–	–	191	(17,255)	(17,064)	(28)	(17,092)
Balance at 30 June 2016	382,450	676	(402)	92,315	475,039	38,289	513,328
Balance at 1 January 2017	382,450	676	(491)	52,020	434,655	34,588	469,243
Changes in equity for the six months ended 30 June 2017:							
Loss for the period	–	–	–	(29,100)	(29,100)	(7,195)	(36,295)
Other comprehensive income							
Exchange differences on translation of financial statements of foreign operations	–	–	969	–	969	202	1,171
Exchange differences on monetary item forming net investment in a foreign operation	–	–	214	–	214	–	214
Total comprehensive income for the period	–	–	1,183	(29,100)	(27,917)	(6,993)	(34,910)
Balance at 30 June 2017	382,450	676	692	22,920	406,738	27,595	434,333

The notes on pages 9 to 25 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 - unaudited

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Operating activities		
Cash used in operations	(72,609)	(6,752)
Dividend received	779	1,460
Interest received	1,545	1,234
Tax paid	(309)	(85)
Net cash used in operating activities	(70,594)	(4,143)
Investing activities		
Dividends received from a joint venture and associate	—	132
Decrease in bank deposits	—	9,771
Investment in an associate	(1,792)	—
Payment for purchase of property, plant and equipment	(6,378)	(955)
Prepayments	(118,030)	—
Proceeds from sale of trading securities	52,662	1,622
Net cash (used in)/generated from investing activities	(73,538)	10,570
Financing activities		
Interest paid	(694)	(668)
Loan from non-controlling interests	19,513	—
Repayment of borrowings	(341)	(489)
Increase in cash pledged	(498)	(1,118)
Net cash generated from/(used in) financing activities	17,980	(2,275)

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Net (decrease)/increase in cash and cash equivalents	(126,152)	4,152
Cash and cash equivalents at 1 January	337,789	364,257
Effect of foreign exchange rates changes	2,356	(1,509)
Cash and cash equivalents at 30 June (Note A)	213,993	366,900

Note A:

Cash and cash equivalents at 30 June 2017 and 30 June 2016 comprise:

	Note	**As at 30 June 2017** *HK$'000*	**As at 30 June 2016** *HK$'000*
Deposits with banks and other financial institutions		189,913	327,405
Cash at bank and in hand		26,734	41,837
Cash and cash equivalents per consolidated statement of financial position		216,647	369,242
Less: Cash pledged for interest-bearing borrowings	13	(2,654)	(2,342)
Cash and cash equivalents per condensed consolidated cash flow statement		213,993	366,900

The notes on pages 9 to 25 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 29 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any 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 judgments, 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 included 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 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report has not been audited or reviewed by the auditors pursuant to International Standards on Auditing or International Standards on Review Engagements.

The interim financial report has been reviewed by the audit committee of the Company.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 622(3) and Part 3 of Schedule 6 to the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Recognition of deferred tax assets for unrealised losses*
- Amendments to HKFRS 12, *Disclosure of interests in other entities*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. 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 investments, unlisted marketable equity mutual funds held 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 NASDAQ Stock Market and The Philippines Stock Exchange, Inc. and investment portfolio in Hong Kong.

– Hospitality: This segment primarily derives the revenue from the provision of hotel management, hotel reservation, 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 reportable segment 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 assets, intangible assets, goodwill and current assets with the exception of 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, foreign exchange gain/loss, 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 resource allocation and assessment of segment performance for the period is set out below:

	Investment Holding		Hospitality		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June:						
Revenue from external customers	779	1,460	52,188	47,539	52,967	48,999
Interest income	1,567	1,135	11	78	1,578	1,213
Reportable segment revenue	2,346	2,595	52,199	47,617	54,545	50,212
Reportable segment (loss)/profit	(21,836)	(23,295)	(14,451)	11,280	(36,287)	(12,015)
Depreciation and amortisation	(154)	(1)	(2,588)	(3,393)	(2,742)	(3,394)
Net realised and unrealised valuation gain/(loss) on trading securities	2,486	(10,733)	–	–	2,486	(10,733)
Net realised and unrealised foreign exchange gain/(loss)	2,481	(6,912)	(62)	–	2,419	(6,912)
Additions to non-current assets	10	–	866	955	876	955
As at 30 June/31 December:						
Reportable segment assets	332,347	329,167	175,538	198,466	507,885	527,633
Reportable segment liabilities	5,030	5,002	71,391	55,744	76,421	60,746

(c) Reconciliations of reportable segment assets and liabilities

	As at 30 June 2017 HK$'000	As at 31 December 2016 HK$'000
Assets		
Reportable segment assets	507,885	527,633
Current tax recoverable	2,880	2,536
Consolidated total assets	510,765	530,169
Liabilities		
Reportable segment liabilities	76,421	60,746
Provision for taxation	11	180
Consolidated total liabilities	76,432	60,926

4. OTHER NET GAINS/(LOSSES)

	Six months ended 30 June 2017 HK$'000	2016 HK$'000
Net realised and unrealised foreign exchange gain/(loss)	2,419	(6,912)
Net realised and unrealised valuation gain/(loss) on trading securities	2,486	(10,733)
Provision for diminution in value of investment in associate	(1,792)	–
Miscellaneous income	195	–
	3,308	(17,645)

5. ADMINISTRATIVE EXPENSES

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

6. FINANCE COSTS

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Amortisation of capitalised transaction costs	88	62
Interest expenses on borrowings	606	668
	694	730

7. SHARE OF PROFIT OF A JOINT VENTURE

The share of profit for six months ended 30 June 2016 was contributed by the Group's jointly-controlled entity, Richfield Syracuse Hotel Partners, LLC following its disposal of its Crowne Plaza Syracuse Hotel on 16 May 2016.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Current tax - Overseas		
Provision for the period	8	109
Deferred tax		
Origination and reversal of temporary differences	—	5,193
Income tax expense from continuing operations	8	5,302

The provision for Hong Kong Profits Tax is calculated at the rate of 16.5% (2016: 16.5%) of the estimated assessable profits for the period ended 30 June 2017. 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 2017, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK$67.6 million (31 December 2016: HK$73.3 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.

9. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	1,487	2,043
Amortisation of intangible assets	1,255	1,351
Operating lease charges – rental of properties	3,269	1,785
Dividend and interest income	(2,357)	(2,673)

10. EARNINGS PER SHARE

a) Basic losses per share

The calculation of basic losses per share is based on loss attributable to ordinary equity shareholders of the Company of HK$29.1 million (six months ended 30 June 2016: HK$17.3 million) and the weighted average number of ordinary shares of 382,449,524 (six months ended 30 June 2016: 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.

11. DIVIDENDS

a) Dividend attributable to the interim period

The directors of the Company (the "Directors") have resolved not to declare an interim dividend for the six months ended 30 June 2017 (2016: nil).

b) There were no dividends attributable to the previous financial year, approved and paid during the interim period of 2017 and 2016.

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are third-party trade receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date:

	As at 30 June 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Less than 1 month	10,079	10,130
1 to 3 months	8,071	9,205
3 to 12 months	2,480	827
Total third-party trade receivables, net of allowance for doubtful debts	20,630	20,162
Other receivables and deposits	11,121	3,230
Loans and receivables	31,751	23,392
Prepayments	124,662	6,462
	156,413	29,854

a) 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.

All trade and other receivables are expected to be recovered within one year.

b) Other receivables and deposits consists mainly of rental deposits.

c) Prepayments consist of the prepaid professional fee of HK$27 million and consideration paid for the acquisition of PRIP Communications Limited of HK$118 million.

13. CASH AND CASH EQUIVALENTS

	As at 30 June 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Deposits with banks and other financial institutions	189,913	272,167
Cash at bank and in hand	26,734	67,778
Cash and cash equivalents per consolidated statement of financial position	216,647	339,945
Less: Cash pledged for interest-bearing borrowings (Note 15)	(2,654)	(2,156)
Cash and cash equivalents available for use by the Group	213,993	337,789

14. TRADE AND OTHER PAYABLES

	As at 30 June 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Trade payables	6,259	4,986
Other payables and accrued charges	12,135	16,490
	18,394	21,476
Deferred income	4,847	6,452
	23,241	27,928

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date as of the reporting date:

	As at 30 June 2017 *HK$'000*	As at 31 December 2016 *HK$'000*
Due within 1 month or on demand	12,188	16,438
Due 1 to 3 months	3,077	1,040
Due 3 to 12 months	3,129	3,998
	18,394	21,476

15. INTEREST-BEARING BORROWINGS

	As at 30 June 2017 *HK$'000*	As at 31 December 2016 *HK$'000*
Bank loans - secured	29,546	29,701
Repayable:		
Within 1 year	770	719
After 1 year but within 2 years	813	785
After 2 years but within 5 years	2,690	2,609
After 5 years	25,273	25,588
	28,776	28,982
	29,546	29,701

Security

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$36.8 million as at 30 June 2017 (31 December 2016: HK$36.6 million);
- 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$2.7 million as at 30 June 2017 (31 December 2016: HK$2.2 million); and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 30 June 2017, 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 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 will expire on 6 May 2023.
- 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 will 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 ("covenants"). 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$136.7 million as at 30 June 2017 (31 December 2016: HK$167.7 million).

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.

16. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured and interest free. The loan is due for repayment in February 2018 and June 2018.

17. ASSETS HELD FOR SALE

On 12 June 2017, the Company's indirectly wholly owned subsidiary, Richfield Hospitality China Limited ("Richfield China") entered a share transfer agreement under which Richfield China agreed to sell 50% of its shares under Cosmic Hospitality China Limited, an associate of the Group at USD293,000. The expected time of its completion is in September 2017.

18. 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 at 30 June 2017	Fair value measurements as at 30 June 2017 categorised into			Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements								
Asset:								
Equity securities held for trading:								
– Listed	9,706	9,706	–	–	59,683	59,683	–	–
– Unlisted	14,274	–	–	14,274**	14,418	–	–	14,418**
	23,980	9,706	–	14,274	74,101	59,683	–	14,418

** The fair value of this unlisted held-for-trading equity securities is determined based on the net asset value of the fund, which had underlying unlisted investments categorised as Level 3 in the fair value hierarchy. The fair value of such underlying investments is determined based on inputs such as contractual agreements, current and projected operating performance, rounds of financing and third-party transactions, discounted cash flow analysis and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors.

During the six months ended 30 June 2017 and the year ended 31 December 2016, 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

	2017	2016
	HK$'000	*HK$'000*
At 1 January	14,418	13,932
Net unrealised (loss)/gain recognised in profit or loss	(144)	486
At 30 June/31 December	14,274	14,418

The gain or loss for the period recognised in profit or loss of the unlisted equity securities is presented in "other net gains/(losses)" 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 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Financial assets at fair value through profit or loss – Equity securities:		
Fair value	14,274	14,418
Effect on fair value:		
– Favourable change	143	144
– Unfavourable change	(143)	(144)

The favourable and unfavourable effects have been calculated based on a percentage change in the net asset value of the fund.

(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 2017 and 31 December 2016 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 less impairment loss of HK$18.4 million (31 December 2016: HK$18.2 million) because their 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 of this investment in the foreseeable future.

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

	As at 30 June 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Carrying amount	(29,546)	(29,701)
Fair value	(29,916)	(29,740)

19. COMMITMENTS

At 30 June 2017 and 31 December 2016, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	As at 30 June 2017 *HK$'000*	**As at 31 December 2016** *HK$'000*
Within 1 year	3,602	3,684
After 1 year but within 5 years	6,789	7,605
After 5 years	5,402	6,336
	15,793	17,625

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

20. MATERIAL RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2017	**2016**
	HK$'000	*HK$'000*
Dividend income received from previous fellow subsidiary*	779	560
Income received from provision of hospitality and other related services to previous fellow subsidiary*	–	5,211
Income received from provision of hospitality and other related services to a joint operation	338	779
Income received from provision of hospitality and other related services to a joint venture	–	56
Tax service fee paid to previous fellow subsidiary*	–	(272)
Corporate secretarial fee paid to the previous immediate holding company*	–	(350)
Accounting fee paid to previous fellow subsidiary*	–	(168)

* Following the completion of the sales of shares in the Company on 26 July 2016, City Development Limited ("CDL") and its subsidiaries ceased to have a controlling stake in the Company. As a result, Millennium & Copthorne Hotels plc, a subsidiary of CDL is no longer regarded as a related party (as defined in HKAS 24 Related Party Disclosures) of the Group.

21. CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a net loss attributable to the equity shareholders of the Company of approximately HK$29.1 million for the six months ended 30 June 2017 (the "Period") as compared with a net loss attributable to the equity shareholders of the Company of approximately HK$17.3 million in the previous corresponding period. The higher loss was due mainly to the higher administrative expenses incurred which was partially offset by the net realised and unrealised foreign exchange gain and valuation gain on trading securities for the Period.

The Group's Investment Holding segment recorded net realised and unrealised valuation gain of approximately HK$2.5 million from the Group's trading securities as at 30 June 2017. Net realised and unrealised foreign exchange gain of approximately HK$2.4 million was also recorded, which mainly arose from the Renminbi denominated cash deposits into the functional currency of the Company. Overall, total net realised and unrealised gain of approximately HK$4.9 million was recorded for the Period as compared with the total net realised and unrealised loss of approximately HK$17.6 million in the previous corresponding period. The net realised and unrealised gain was offset by the higher administrative expenses of approximately HK$27.3 million for the Period as compared with that of approximately HK$8.2 million in the previous corresponding period. The higher administrative expenses mainly arose from the higher Directors' fee of approximately HK$11.7 million and professional fee of approximately HK$6.3 million compared with previous corresponding period. Consequently, the Group's Investment Holding segment reported a loss before tax of approximately HK$21.8 million for the Period as compared with a loss before tax of approximately HK$23.3 million in the previous corresponding period.

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, Inc. recorded lower management fee income of approximately HK$4.1 million for the Period, down by approximately HK$0.7 million from approximately HK$4.8 million in the previous corresponding period. The decrease in revenue was offset by lower administrative expenses and resulted in a loss before tax of approximately HK$1.6 million for the Period as compared with a loss before tax of approximately HK$6.7 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of approximately HK$11.3 million for the Period as compared with approximately HK$12.9 million from the previous corresponding period. The loss before tax of approximately HK$0.1 million for the Period as compared with a profit contribution of approximately HK$1.3 million in the previous corresponding period.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC ("SHR"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$35.0 million, up by approximately HK$5.9 million or 20% from approximately HK$29.1 million in the previous corresponding period. However, SHR incurred higher administrative expenses during the Period to support the revenue growth, resulting in an operating loss of approximately HK$12.2 million as compared with an operating loss of approximately HK$2.3 million in the previous corresponding period.

The Group also recognised share of loss from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of approximately HK$0.5 million for the Period, which is the same as previous corresponding period.

Consequently, the Group's Hospitality segment reported a loss before tax of approximately HK$14.5 million for the Period as compared with a profit before tax of approximately HK$11.3 million in the previous corresponding period.

As at 30 June 2017, the Group recorded an income tax expense of approximately HK$0.1 million for the Period, as compared to an income tax expense of approximately HK$5.3 million in the previous corresponding period.

Financial Position, Cash Flow and Borrowings

As at 30 June 2017, the Group's total assets stood at HK$510.8 million, down from HK$530.2 million as at 31 December 2016. The Group's net tangible assets per share increased to HK$1.22 as at 30 June 2017, increase from HK$1.10 as at 31 December 2016.

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, net cash outflow from operating activities amounted to HK$70.6 million. Net cash outflow from investing activities amounted to HK$73.5 million, which was mainly due to consideration paid for the acquisition of PRIP Communication Limited of HK$118 million, purchase of property, plant and equipment of HK$6.4 million and investment in an associate of HK$1.8 million, that was partially offset with the proceeds from sale of trading securities of HK$52.7 million during the Period. Cash flows from financing activities amounted to HK$18.0 million, which was due to loan from non-controlling interests amounted to HK$19.5 million partially offset with the payment of the term loan and attributable interest for the refinancing of Sheraton Chapel Hill Hotel of HK$1.0 million and an increase of monies placed in specific bank accounts that were pledged for the same loan by HK$0.5 million.

Overall, there was a decrease of HK$126.2 million in net cash which, together with exchange gain of HK$2.4 million, resulted in the Group's cash and cash equivalents of HK$214.0 million as at 30 June 2017, down from HK$337.8 million as at 31 December 2016.

Taking into account of the Group's bank borrowings of HK$29.5 million, the Group was in a net cash position amounting to HK$184.5 million as at 30 June 2017. Hence, the Group's gearing ratio 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 2017, the Group's bank borrowings amounted to HK$29.5 million (31 December 2016: HK$29.7 million), of which HK$0.7 million was current, as recorded in the portion of short-term borrowing repayable within a period of one year, and HK$28.8 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$36.8 million and pledge of monies in specific bank accounts of HK$2.7 million and a non-recourse carveout guarantee by RHI. In addition, as at 30 June 2017, 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 and Renminbi 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 2017, the Group had a total of 88 employees including Directors but excluding employees from Sheraton Chapel Hill Hotel, up from 83 as at 31 December 2016. There were 58 employees from Sheraton Chapel Hill Hotel as at 30 June 2017.

The total payroll costs for the Period, including the Group's share of payroll costs for Sheraton Chapel Hill Hotel, were HK$50.8 million as compared with HK$30.2 million in the previous corresponding period. The increase in payroll costs is contributed by both the employees for the Hospitality segment and the directors for the Investment holding segment.

The Group has conducted a range of training programmes to strengthen employees' all round skills and knowledge, aiming to well-equip them to cope with its development in the ever-changing economy.

PROSPECTS

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

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 in order to reduce loss in the segment.

Besides the hospitality segment, the Group is exploring medical service sector.

China's plastic surgery industry is on a fast growth track. According to Zhongshang Industry Research Institute, the medical aesthetic industry in China had a turnover amounted to RMB51.1 billion in 2015 and maintained an annual growth rate over 20% in the past 4 years. With the further improvement of living standards and higher acceptance of medical beauty in general public, the medical aesthetic market in China will further expanded in the future. According to Changjiang Securities' research report, it is expected that the market size of the medical aesthetic industry in China will be amounted to RMB252.4 billion by 2025, which is nearly 5 times of the current market size and represents an enormous room for growth.

On 29 May 2017, the Company entered into a subscription and share purchase agreement with Sang Woo Lee ("Vendor 1") and Pyung Kim (together with Vendor 1, collectively as the "Vendors") and a target company ("PRIP Communications Limited" or "PRIP") pursuant to which (i) the Company conditionally agreed to purchase, and the Vendors agreed to sell the sale shares at the consideration of approximately US$11.04 million (equivalent to approximately HK$86.01 million); and the Company conditionally agree to subscribe and PRIP agreed to allot and issue 332,978 fully paid ordinary shares in the capital of PRIP (the "Subscription Shares") to the Company at a cash consideration of US$10.59 million (equivalent to approximately HK$82.55 million).

Subject to the fulfilment or waiver of the condition precedents, completion shall take place on or before 31 August 2017 by the following three phases until the Company effectively obtained approximately 51% of the enlarged issued share capital of PRIP and PRIP becomes a subsidiary of the Company: -

(i) For tranche one completion, 142,964 fully paid ordinary shares in the capital of PRIP be transferred to the Company upon receipt of an aggregate cash consideration of US$4,548,200 (equivalent to approximately HK$35.44 million) from the Company to the Vendors; upon which the Company shall obtain approximately 14.29% of the issue share capital of PRIP;

(ii) For tranche two completion, the Subscription Shares have been allotted and issued to the Company upon receipt of a cash consideration of US$10,593,229 (equivalent to approximately HK$82.55 million); upon which the Company shall obtain approximately 35.70% of the enlarged issued share capital of PRIP;

(iii) For tranche three completion, 203,975 fully paid ordinary shares in the capital of PRIP be transferred to the Company upon issuance of the 16,530,000 new shares at the issue price of approximately HK$3.06 to Sang Wong Lee; upon which the Company shall obtain approximately 51% of the enlarged issue share capital of PRIP.

On 29 May 2017, PRIP and Vendor 1 have also entered into a trademark transfer and license agreement pursuant to which Vendor 1 agreed to transfer the legal and beneficial title of certain trademarks to PRIP, and PRIP shall grant an exclusive license for the use of those trademarks to Vendor 1 for an agreed monthly royalty. In addition, PRIP also entered into a share purchase agreement with the father of Vendor 1 to purchase 100% of the issued shares of a Korean subsidiary (the "Korean Subsidiary"). PRIP has further entered into a service agreement whereby it shall provide certain marketing services related to plastic surgery and medical cosmetics to the Korean Subsidiary in return for certain service fees while the Korean Subsidiary entered into a service agreement whereby it shall provide certain procurement, marketing and management services related to plastic surgery and medical cosmetics to Vendor 1 in return for certain service fees.

In addition, China's test-tube baby industry is also rapidly growing. According to Investigation Report on Current Infertility in China prepared by China Population Association and National Family Planning Commission, the number of infertile couples has been increasing at an annual rate of 5% and around 50 million people were suffered from infertility in 2016. Assuming that approximately 5% of the 50 million infertile people (i.e. 2.50 million people) adopt reproductive technology and take artificial insemination every year with the introduction of the second child policy, the ratio of test-tube babies to patients is about 1:4, and each patient receives two cycles of artificial insemination/test-tube baby treatment, the number of cases received artificial insemination, test-tube baby treatment cycles and assisted reproduction treatment cycles in the country amounted to 1.25 million, 3.75 million and 5 million, respectively in a year. As each average treatment cycle for artificial insemination and test-tube babies costs RMB5,000 and RMB30,000, it can be estimated that the assisted reproductive technology market in China has a size of RMB118.0 billion while the provision of assisted reproduction treatment cycles could only satisfy 1.06 million cases for the country in 2016. There is a huge gap and great room for growth in the market.

On 19 July 2017, the Company entered into a legally binding strategic cooperation framework agreement (the "Framework Agreement") with a recognized expert in the field of assisted reproductive technologies (the "JV Partner"), in relation to a possible joint venture to engage in the provision of fertility clinical services in the United States (the "Possible Joint Venture"). Pursuant to the Framework Agreement, the parties agreed, among other things, that (i) the clinical facility to be established and operated by the Possible Joint Venture shall be situated in the United States, (ii) the Company will contribute 100% of the total investment amount for the Possible Joint Venture, and (iii) the JV Partner shall be responsible for assembling a team of medical practitioners including doctors and researchers for the healthcare facility and building up the marketing team. The Possible Joint Venture will thus allow the Company to tap the under-met increasing demand for assisted reproductive IVF services and realise a new revenue stream to improve profitability.

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio time to time to cope with the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different 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 (the "Audit Committee") comprise 3 independent non-executive Directors. The Audit Committee has reviewed the unaudited interim financial report of the Group for the Period with no disagreement.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the Period.

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 (the "Model Code") as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the Period.

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 Period.

SHARE AWARD SCHEME

On 9 December 2016, the Company adopted the share award scheme (the "Share Award Scheme") pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion.

The Board has resolved to award an aggregate of 37,862,500 shares of the Company to Mr. Jiang Yulin, the Chairman of the Board and an executive Director, on 9 December 2016. The aforesaid award to Mr. Jiang Yulin is subjected to approval at an extraordinary general meeting to be convened by the Company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

Except as disclosed in note 17 in the notes to the unaudited interim financial report, the Group had no material acquisitions and disposals of subsidiaries, associates and joint venture during the Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2017, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures 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 pursuant to the Model Code were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares Held	Percentage holding in the Company
Jiang Yulin	Beneficial owner/ Beneficial interest	37,862,500 *(Note)*	9.9%

Note: The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin, the chairman of the Board and an executive Director, on 9 December 2016. The aforesaid award to Mr. Jiang Yulin is subjected to approval at an extraordinary general meeting to be convened by the Company.

Save as disclosed herein, as at 30 June 2017, none of the Directors and the chief executives 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' INTERESTS IN SHARES

As at 30 June 2017, so far is known to any Directors or the chief executives of the Company, the following persons (excluding the Directors and the chief executives of the Company) 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	Capacity/Nature of Interest	Number of Shares Held	Percentage holding in the Company
Dong Jufeng *(Note)*	Interest of spouse/ Family interest	249,539,294	65.25%
Jia Tianjiang *(Note)*	Interest of controlled corporation/ Corporate interest	249,539,294	65.25%
China Tian Yuan Manganese Limited *(Note)*	Beneficial owner/ Beneficial interest	249,539,294	65.25%
Ningxia Tianyuan Manganese Industry Co., Ltd. *(Note)*	Interest of controlled corporation/ Corporate interest	249,539,294	65.25%

Note: China Tian Yuan Manganese Limited is a wholly owned subsidiary of Ningxia Tianyuan Manganese Industry Co., Ltd., a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, Ningxia Tianyuan Manganese Industry Co., Ltd., Mr. Jia Tianjiang and his spouse, Ms. Dong Jufeng, are deemed to be interested in the 249,539,294 shares of the Company held by China Tian Yuan Manganese Limited.

Save as stated above, no person (excluding the Directors and the chief executives of the Company) 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 2017.

By order of the Board
City e-Solutions Limited
Jiang Yulin
Chairman

Hong Kong, 29 August 2017